

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:

PIPELINE HEALTH SYSTEM, LLC., *et al.*,¹

Debtors.

)
) Chapter 11
)

) Case No. 22-90291 (MI)
)

) (Joint Administration Requested)
)

**DISCLOSURE STATEMENT FOR THE
JOINT CHAPTER 11 PLAN OF REORGANIZATION OF
PIPELINE HEALTH SYSTEM, LLC AND ITS DEBTOR AFFILIATES**

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Dated: October 3, 2022

¹ A complete list of each of the Debtors in these chapter 11 cases and the last four digits of their federal tax identification numbers may be obtained on the website of the Debtors' proposed claims and noticing agent at <http://dm.epiq11.com/PipelineHealth>. The Debtors' service address is 898 N. Pacific Coast Highway, Suite 700, El Segundo, California 90245.

THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF TEXAS, HOUSTON DIVISION. THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THE INFORMATION IN THIS DISCLOSURE STATEMENT IS SUBJECT TO CHANGE. THIS DISCLOSURE STATEMENT IS NOT AN OFFER TO SELL ANY SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY ANY SECURITIES.

IMPORTANT INFORMATION ABOUT THIS DISCLOSURE STATEMENT

This disclosure statement (as may be amended, supplemented, or otherwise modified from time to time, the “Disclosure Statement”) provides information regarding the *Joint Chapter 11 Plan of Reorganization of Pipeline Health System, LLC. and Its Debtor Affiliates* (as may be amended, supplemented, or otherwise modified from time to time, the “Plan”),² for which the Debtors will seek confirmation by the Bankruptcy Court. A copy of the Plan is attached hereto as Exhibit A and is incorporated herein by reference. The Debtors are providing the information in this Disclosure Statement to certain holders of Claims for purposes of soliciting votes to accept or reject the Plan.

The consummation and effectiveness of the Plan are subject to certain material conditions precedent described herein and set forth in Article X of the Plan. There is no assurance that the Bankruptcy Court will confirm the Plan or, if the Bankruptcy Court does confirm the Plan, that the conditions necessary for the Plan to become effective will be satisfied or, in the alternative, waived.

The Debtors urge each Holder of a Claim or Interest to consult with its own advisors with respect to any legal, financial, securities, tax, or business advice in reviewing this Disclosure Statement, the Plan, and each proposed transaction contemplated by the Plan.

The Debtors strongly encourage holders of Claims in Class 3 (ABL Claims) and Class 4 (Term Loan Claims) to read this Disclosure Statement (including the Risk Factors described in Article VIII hereof) and the Plan in their entirety before voting to accept or reject the Plan. Assuming the requisite acceptances to the Plan are obtained, the Debtors will seek the Bankruptcy Court’s approval of the Plan at the Confirmation Hearing.

RECOMMENDATION BY THE DEBTORS

EACH DEBTOR’S GOVERNING BODY HAS APPROVED THE TRANSACTIONS CONTEMPLATED BY THE PLAN AND DESCRIBED IN THIS DISCLOSURE STATEMENT, AND EACH DEBTOR BELIEVES THAT THE COMPROMISES CONTEMPLATED UNDER THE PLAN ARE FAIR AND EQUITABLE, MAXIMIZE THE VALUE OF EACH OF THE DEBTOR’S ESTATES, AND PROVIDE THE BEST AVAILABLE RECOVERY TO HOLDERS OF CLAIMS AND INTERESTS AT THIS TIME, EACH DEBTOR BELIEVES THAT THE PLAN AND RELATED RESTRUCTURING TRANSACTIONS REPRESENT THE BEST ALTERNATIVE FOR ACCOMPLISHING THE DEBTORS’ OVERALL RESTRUCTURING OBJECTIVES. EACH OF THE DEBTORS THEREFORE STRONGLY RECOMMENDS THAT ALL HOLDERS OF CLAIMS WHOSE VOTES ARE BEING SOLICITED SUBMIT BALLOTS TO ACCEPT THE PLAN BY RETURNING THEIR BALLOTS SO AS TO BE ACTUALLY RECEIVED BY THE SOLICITATION AGENT NO LATER THAN [●], 2022 AT 4:00 P.M., PREVAILING CENTRAL TIME PURSUANT TO THE INSTRUCTIONS SET FORTH HEREIN AND ON THE BALLOTS.

² Capitalized terms used but not otherwise defined in this Disclosure Statement have the meanings ascribed to such terms in the Plan.

SPECIAL NOTICE REGARDING SECURITIES LAWS

This Disclosure Statement has been prepared in accordance with section 1125 of the Bankruptcy Code and Bankruptcy Rule 3016(b) and is not necessarily prepared in accordance with federal or state securities laws or other similar laws. The securities to be issued on or after the Effective Date will not have been the subject of a registration statement filed with the United States Securities and Exchange Commission (the “SEC”) under the United States Securities Act of 1933 as amended (together with the rules and regulations promulgated thereunder, the “Securities Act”), any securities regulatory authority of any state under any state securities law (“Blue Sky Laws”), or any similar foreign regulatory agency. Each of the Disclosure Statement and the Plan has not been approved or disapproved by the SEC or any state regulatory authority and neither the SEC, any state regulatory authority, nor any federal regulatory authority has passed upon the accuracy or adequacy of the information contained in this Disclosure Statement or the Plan. Any representation to the contrary is a criminal offense.

Upon confirmation of the Plan, certain of the securities described in this Disclosure Statement will be issued without registration under the Securities Act, or similar federal, state, local, or foreign laws, in reliance on the exemption set forth in section 1145 of the Bankruptcy Code to the extent permitted under applicable law. Other securities may be issued pursuant to other applicable exemptions under the federal securities laws. To the extent exemptions from registration under section 1145 of the Bankruptcy Code or applicable federal securities law do not apply, the securities may not be offered or sold except pursuant to a valid exemption or upon registration under the Securities Act. Neither the Solicitation nor this Disclosure Statement constitutes an offer to sell or the solicitation of an offer to buy securities in any state or jurisdiction in which such offer or solicitation is not authorized.

DISCLAIMER

This Disclosure Statement contains summaries of certain provisions of the Plan and certain other documents and financial information. The information included in this Disclosure Statement is provided solely for the purpose of soliciting acceptances of the Plan and should not be relied upon for any purpose other than to determine whether and how to vote on the Plan. All holders of Claims entitled to vote to accept or reject the Plan are advised and encouraged to read this Disclosure Statement and the Plan in their entirety before voting to accept or reject the Plan. The Debtors believe that these summaries are fair and accurate. The summaries of the financial information and the documents that are attached to, or incorporated by reference in, this Disclosure Statement are qualified in their entirety by reference to such information and documents. In the event of any inconsistency or discrepancy between a description in this Disclosure Statement, on the one hand, and the terms and provisions of the Plan or the financial information and documents incorporated in this Disclosure Statement by reference, on the other hand, the Plan or the financial information and documents, as applicable, shall govern for all purposes.

Except as otherwise provided in the Plan or in accordance with applicable Law, the Debtors are under no duty to update or supplement this Disclosure Statement. The Bankruptcy Court's approval of this Disclosure Statement does not constitute a guarantee of the accuracy or completeness of the information contained herein or the Bankruptcy Court's endorsement of the merits of the Plan. The statements and financial information contained in this Disclosure Statement have been made as of the date specified. Holders of Claims or Interests reviewing the Disclosure Statement should not assume at the time of such review that there have been no changes in the facts set forth in this Disclosure Statement since the date of this Disclosure Statement. No Holder of a Claim or Interest should rely on any information, representations, or inducements that are not contained in or are inconsistent with the information contained in this Disclosure Statement, the documents attached to this Disclosure Statement, and the Plan. This Disclosure Statement does not constitute legal, business, financial, or tax advice. Any person or entity desiring any such advice should consult with their own advisors. Additionally, this Disclosure Statement has not been approved or disapproved by the SEC, any securities regulatory authority of any state, or any similar foreign regulatory authority.

All securities described herein are expected to be issued without registration under the Securities Act or any Blue Sky Laws and it is expected that the offer and issuance of the new equity will be exempt from registration under the Securities Act and Blue Sky Laws by reason of the applicability of section 1145(a)(1) of the Bankruptcy Code. To the extent that the Debtors rely on a private placement exemption from registration under the Securities Act for the offer and issuance of any securities, those securities will be subject to restrictions on transfer under the Securities Act and may only be resold or otherwise transferred pursuant to (a) an effective registration statement or (b) an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The financial information contained in or incorporated by reference into this Disclosure Statement has not been audited, except as specifically indicated otherwise. The Debtors' management, in consultation with the Debtors' advisors, has prepared the financial projections attached hereto as **Exhibit E** and described in this Disclosure Statement (the "**Financial Projections**"). The Financial Projections, while presented with numerical specificity, necessarily were based on a variety of estimates and assumptions that are inherently uncertain and may be beyond the control of the Debtors' management. Important factors that may affect actual results and cause the management forecasts not to be achieved include, but are not limited to, risks and uncertainties relating to the Debtors' businesses (including their ability to achieve strategic goals, objectives, and targets over applicable periods), industry performance, the regulatory environment, general business and economic conditions, and other factors. The Debtors caution that no representations can be made as to the accuracy of these projections or to their ultimate performance compared to the information contained in the forecasts or that the forecasted results will be achieved.

Therefore, the Financial Projections may not be relied upon as a guarantee or other assurance that the actual results will occur.

Regarding contested matters, adversary proceedings, and other pending, threatened, or potential litigation or other actions, this Disclosure Statement does not constitute, and may not be construed as, an admission of fact, liability, stipulation, or waiver by the Debtors or any other party, but rather as a statement made in the context of settlement negotiations in accordance with Rule 408 of the Federal Rules of Evidence and any analogous state or foreign laws or rules. As such, this Disclosure Statement shall not be admissible in any non-bankruptcy proceeding involving the Debtors or any other party in interest, nor shall it be construed to be conclusive advice on the tax, securities, financial, or other effects of the Plan to holders of Claims against, or Interests in, the Debtors or any other party in interest. Please refer to Article VIII of this Disclosure Statement, entitled “Risk Factors” for a discussion of certain risk factors that holders of Claims voting on the Plan should consider.

Except as otherwise expressly set forth herein, all information, representations, or statements contained herein have been provided by the Debtors. No person is authorized by the Debtors in connection with this Disclosure Statement, the Plan, or the Solicitation to give any information or to make any representation or statement regarding this Disclosure Statement, the Plan, or the Solicitation, in each case, other than as contained in this Disclosure Statement and the exhibits attached hereto or as otherwise incorporated herein by reference or referred to herein. If any such information, representation, or statement is given or made, it may not be relied upon as having been authorized by the Debtors.

This Disclosure Statement contains certain forward-looking statements, all of which are based on various estimates and assumptions. Such forward-looking statements are subject to inherent uncertainties and to a wide variety of significant business, economic, and competitive risks, including, but not limited to, those summarized herein. When used in this Disclosure Statement, the words “anticipate,” “believe,” “estimate,” “will,” “may,” “intend,” and “expect” and similar expressions generally identify forward-looking statements. Although the Debtors believe that their plans, intentions, and expectations reflected in the forward-looking statements are reasonable, they cannot be sure that they will be achieved. These statements are only predictions and are not guarantees of future performance or results. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by a forward-looking statement. All forward-looking statements attributable to the Debtors or persons or entities acting on their behalf are expressly qualified in their entirety by the cautionary statements set forth in this Disclosure Statement. Forward-looking statements speak only as of the date on which they are made. Except as required by Law, the Debtors expressly disclaim any obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

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EXHIBITS³

- EXHIBIT A Plan of Reorganization
- EXHIBIT B Corporate Organization Chart
- EXHIBIT C Disclosure Statement Order
- EXHIBIT D Liquidation Analysis
- EXHIBIT E Financial Projections

³ Each Exhibit is incorporated herein by reference.

I. INTRODUCTION

Pipeline Health Systems, LLC (“PHS”) and the other above-captioned debtors and debtors in possession (collectively, the “Debtors” or the “Company”), submit this Disclosure Statement, pursuant to section 1125 of the Bankruptcy Code, to holders of Claims against the Debtors in connection with the solicitation of votes for acceptance of the Plan, dated October 3, 2022.⁴ A copy of the Plan is attached hereto as **Exhibit A** and incorporated herein by reference.

THE DEBTORS BELIEVE THAT THE COMPROMISES CONTEMPLATED UNDER THE PLAN ARE FAIR AND EQUITABLE, MAXIMIZE THE VALUE OF THE DEBTORS’ ESTATES, AND PROVIDE THE BEST AVAILABLE RECOVERY TO STAKEHOLDERS. AT THIS TIME, THE DEBTORS BELIEVE THE PLAN REPRESENTS THE BEST AVAILABLE OPTION FOR SUCCESSFULLY COMPLETING THE CHAPTER 11 CASES. THE DEBTORS STRONGLY RECOMMEND THAT YOU VOTE TO ACCEPT THE PLAN.

II. PRELIMINARY STATEMENT

The Company is an independent, community-focused healthcare network that offers a wide range of medical services to the communities it serves, including maternity care, cancer treatment, behavioral health, rehabilitation, general surgery, and hospice care. Headquartered in El Segundo, California, the Company’s operations include seven “safety net” hospitals, three health clinics, and three medical group centers across California, Texas, and Illinois, with approximately 310 physicians and over 1,150 beds to serve patients, and a company-wide workforce of over 4,200. The Company’s healthcare facilities, which have served their respective communities for decades, include seven emergency departments, six general surgery departments, six orthopedic surgery departments, and five intensive or critical care departments. In the twelve-month span ending August 2022, the Company delivered more than 2,200 babies, performed more than 19,000 surgeries, provided emergency medical care in more than 179,000 visits, and provided other medical care in more than 328,000 office visits and 29,000 hospital admissions.

As a community hospital enterprise, most of the Company’s patients rely on Medicare, Medicaid, or other government programs for healthcare coverage. In 2020, approximately two-thirds of the Company’s patients relied on government programs for healthcare coverage. The Company thus relies significantly on government reimbursement payments and other governmental funding to fund operations. As a result, any decrease or delay in the amount or frequency of such payments and funding has a direct, adverse impact on the Company’s financial condition. In addition, the Company’s healthcare mission—to provide quality patient care in generally underserved communities—is cost intensive. Realizing this mission requires the Company to make significant capital expenditures to keep its healthcare facilities in good working order and to dedicate significant operating liquidity to facility staffing costs. The Company has, however, recently experienced a number of material funding delays in connection with governmental health coverage programs, which has placed the Debtors under significant financial strain.

The Company, like many other hospital operators, has faced significant headwinds since 2020, largely because of changing health trends related to the global COVID-19 pandemic. In the Company’s case, these headwinds have been compounded by various operational challenges. Most acutely, in the wake

⁴ Capitalized terms used but not defined in this Disclosure Statement have the meanings ascribed to such terms in the Plan. **The summary of the Plan provided herein is qualified in its entirety by reference to the Plan. In the case of any inconsistency between this Disclosure Statement and the Plan, the Plan will govern.**

of the COVID-19 pandemic, the Company's costs for nurses and other contract labor and medical supplies skyrocketed. The Debtors are also burdened by aging facilities which require extensive capital expenditures to maintain. In addition, the Debtors' underlying business has suffered from certain burdensome legacy contractual arrangements related to labor, services, goods, or technology services. Finally, as an operator of safety-net hospitals, the Company has historically relied on governmental reimbursement payments and other government funding. Recent delays and cuts to governmental funding sources have contributed to the significant strain on the Debtors' finances.

These factors have adversely impacted the Company's liquidity and overall financial condition. This is particularly true with respect to the Company's Illinois operations (collectively, the "Illinois Facilities"). The Illinois Facilities have required significant working capital and have posted large financial losses since they were acquired. In the twelve-month period ending in August 2022, the Illinois Facilities posted a net loss of approximately \$69.7 million on a consolidated basis.

Due to the financial state of the Illinois Facilities, the Company's California- and Texas- based healthcare operations have effectively subsidized the Illinois operations. This subsidization, however, has destabilized the Company's overall healthcare network. Adequately addressing the Company's financial difficulties with a goal to reach profitability again while maintaining a high level of patient care requires further financial investment and a sale of the Illinois Facilities.

Before commencing these chapter 11 cases, the Debtors negotiated a sale of the Illinois Facilities to Ramco Healthcare Holdings, LLC ("Ramco") who, in turn, planned to lease the premises to Michigan-based AUM Global Healthcare Management LLC doing business as Resilience Health ("Resilience" and, together with Ramco, the "Illinois Buyers") to continue operations. On July 19, 2022, certain entities of the Company and Ramco entered into a real estate asset purchase agreement (the "Chicago APA") whereby Ramco agreed to purchase the Illinois Facilities' underlying real estate for \$92 million, subject to standard closing conditions, including a financing contingency (such potential sale, the "Illinois Sale"). In addition to the real estate purchase, Resilience agreed to take the equity interests in the entities operating the Illinois Facilities pursuant to a membership-interest purchase agreement in exchange for the assumption of liabilities. On June 7, 2022, the Illinois Health Facilities and Services Review Board approved the Illinois Sale. Had the Illinois Sale closed, it would have materially increased the Debtors' liquidity—bringing in \$92 million and relieving the Company's Texas and California operations from continued subsidization of significant Illinois operating losses. The Illinois Sale was initially set to close on August 30, 2022.

To provide liquidity and bridge to closing of the sale, on August 11, 2022, the Company entered into certain amendments to the Main Facility (as defined herein) with the lenders thereunder (the "Term Loan Lenders") that provided for an additional \$30 million of committed funding (the "Bridge Financing Facility"). In the weeks following execution of the real estate purchase agreement, however, the Illinois Buyers indicated they were not able to close by the August 30 deadline, and on August 30, 2022, the Illinois Buyers terminated the Chicago APA. Since then, the Debtors and the Illinois Buyer and their respective advisors have continued to engage in discussions and negotiations regarding the Illinois Buyer's acquisition of the Illinois Facilities. The Debtors' cash position has continued to deteriorate following the failure to consummate the Illinois Sale.

In the intervening time, the Debtors negotiated with their prepetition Term Loan Lenders to draw upon substantially all of the \$30 million commitment for additional funding under the Bridge Financing Facility to fund operations. The collective \$30 million in critical pre-filing liquidity enabled the Debtors to finalize preparations for chapter 11 and avoid a value-destructive crash filing.

In parallel, the Debtors also explored additional financing options, canvassing the market and engaging in DIP financing negotiations with the Term Loan Lenders. As explained in the *Declaration of*

Jeffrey Finger in Support of the Debtors' DIP Financing Motion (the "DIP Declaration") filed contemporaneously herewith, the Debtors' market check ultimately did not receive any actionable proposals.⁵ The one proposal was offered by the ABL Lender (as defined herein), which would allow the Debtors to continue to access funding under the ABL Facility (as defined herein). I and the Debtors do not believe such proposal would provide sufficient additional liquidity to justify entering a debtor-in-possession agreement with the ABL Lender at this time. Instead, following hard-fought, arm's-length negotiations with the Term Loan Lenders, the Debtors secured commitments for an approximately \$110 million superpriority senior secured debtor-in-possession financing facility (the "DIP Facility"). The DIP Facility will provide \$40 million in new cash for the Debtors and an approximately \$70 million "roll up" of Term Loan Lenders, including the Bridge Financing Facility, as further described in the DIP Motion. This money will provide the Debtors with necessary liquidity to continue operations to fund the costs of the chapter 11 process while they work to implement a comprehensive operational and balance-sheet solution. The engagement with, and support from, the Term Loan Lenders with respect to prepetition liquidity, postpetition financing, and timing of these cases has been a critical element of the Debtors' efforts to preserve both value and hospital services for patients. The Plan places Claims and Interests into various Classes and specifies the treatment of each Class under the Plan, as summarized below:

- Class 1 (Other Secured Claims): Except to the extent that a Holder of an Allowed Other Secured Claim agrees in writing to less favorable treatment, in exchange for the full and final satisfaction, settlement, release, and discharge of its Other Secured Claim, each Holder of an Allowed Other Secured Claim shall receive, at the option of the applicable Debtor or Reorganized Debtor (with the consent of the DIP Lenders and Term Loan Lenders): (i) payment in full in Cash; (ii) Reinstatement of such Claim; or (iii) such other treatment rendering such Claim Unimpaired.
- Class 2 (Other Priority Claims): Except to the extent that a Holder of an Allowed Other Priority Claim agrees in writing to less favorable treatment, in exchange for the full and final satisfaction, settlement, release, and discharge of its Other Priority Claim, each Holder of an Allowed Other Priority Claim shall receive, at the option of the applicable Debtor or Reorganized Debtor (with the consent of the DIP Lenders and Term Loan Lenders) (i) payment in full in Cash; or (ii) such other treatment rendering such Claim Unimpaired.
- Class 3 (ABL Claims):
 - (i) If the Equitization Restructuring occurs, except to the extent that a Holder of an Allowed ABL Claim agrees in writing to less favorable treatment, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, each Allowed ABL Claim, each Holder of an Allowed ABL Claim shall receive its Pro Rata share of the Exit Facility.
 - (ii) If an Asset Sale Restructuring occurs, except to the extent that a Holder of an Allowed ABL Claim agrees to less favorable treatment, on the Effective Date, in full

⁵ The Debtors filed the *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Obtain Postpetition Financing and (B) Use Cash Collateral, (II) Granting Liens and Providing Superpriority Administrative Expense Claims, (III) Granting Adequate Protection to Prepetition Secured Parties, (IV) Modifying the Automatic Stay, (V) Scheduling a Final Hearing, and (VI) Granting Related Relief* (the "DIP Motion") contemporaneously with this First Day Declaration.

and final satisfaction, settlement, release, and discharge of, and in exchange for such Allowed ABL Claim, each Holder of an Allowed ABL Claim shall receive (A) in the event of a Credit Bid Sale that is a Plan Sale, its Pro Rata share of the Exit Facility; and (B) otherwise, its Pro Rata share of the Debtors' remaining Cash (if any) following (I) payment in full in Cash of all Allowed Claims that are senior to ABL Claims in priority of payment under the Bankruptcy Code; and (II) the funding of the Professional Fee Escrow Account and any wind-down reserves as set forth in the Wind Down Budget.

- Class 4 (Term Loan Claims):
 - (i) If the Equitization Restructuring occurs, on the Effective Date, each Holder of an Allowed Term Loan Claim shall receive its Pro Rata share of the Equitization Term Loan Equity Pool.
 - (ii) If the Asset Sale Restructuring occurs, except to the extent that a Holder of an Allowed Term Loan Claim agrees to less favorable treatment, on the Effective Date, in full and final satisfaction, settlement, release, and discharge of, and in exchange for such Allowed Term Loan Claim, each Holder of an Allowed Term Loan Claim shall receive (A) in the event of a Credit Bid Sale that is a Plan Sale, its Pro Rata share of the Credit Bid Distributions distributable under the Plan; and (B) otherwise, its Pro Rata share of the Debtors' remaining Cash (if any) following (I) payment in full in Cash of all Allowed Claims that are senior to Term Loan Claims in priority of payment under the Bankruptcy Code; and (II) the funding of the Professional Fee Escrow Account and any wind-down reserves as set forth in the Wind-Down Budget; *provided, however,* that any portion of such Holder's Allowed Term Loan Claim that is not fully satisfied pursuant to provisions (A) and (B) immediately above, shall still constitute an Allowed Term Loan Claim up to the value of any remaining Term Loan Collateral; and *provided, further,* that any portion of such Holder's Allowed Term Loan Claim that exceeds the value of such remaining Term Loan Collateral (if any) shall constitute a Term Loan Deficiency Claim and receive the treatment specified in Article III.B.5(b)(ii) of the Plan.
- Class 5 (General Unsecured Claims):
 - (i) If the Equitization Restructuring occurs, on the Effective Date, each General Unsecured Claim shall be discharged and released, and each Holder of a General Unsecured Claim shall not receive or retain any distribution, property, or other value on account of such General Unsecured Claim.
 - (ii) If the Asset Sale Restructuring occurs, except to the extent that a Holder of an Allowed General Unsecured Claim agrees in writing to less favorable treatment, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, each Allowed General Unsecured Claim, each Holder of an Allowed General Unsecured Claim shall receive the following treatment: (A) If the amount of Excess Sale Proceeds is greater than zero, each Holder an Allowed General Unsecured Claim shall receive its Pro Rata share of the Excess Sale Proceeds; and (B) otherwise, each General Unsecured Claim shall be discharged and released, and each Holder of a General Unsecured Claim shall not receive or retain any distribution, property, or other value on account of such General Unsecured Claim.

- Class 6 (Intercompany Claims): Subject to the Restructuring Transactions Memorandum, each Allowed Intercompany Claim shall be Reinstated, distributed, contributed, set off, settled, cancelled and released, or otherwise addressed at the option of the Reorganized Debtors (with the consent of the DIP Lenders and the Term Loan Lenders, other than in the event of an Asset Sale Restructuring that does not involve a Credit Bid Sale); *provided* that no distributions shall be made on account of any Intercompany Claims.
- Class 7 (Intercompany Interests): Subject to the Restructuring Transactions Memorandum, each Intercompany Interest shall be Reinstated, distributed, contributed, set off, settled, cancelled and released, or otherwise addressed at the option of the Reorganized Debtors (with the consent of the DIP Lenders and the Term Loan Lenders, other than in the event of an Asset Sale Restructuring that does not involve a Credit Bid).
- Class 8 (Existing Parent Interests): On the Effective Date, and without the need for any further corporate or limited liability company action or approval of any board of directors, board of managers, members, shareholders or officers of any Debtor or Reorganized Debtor, as applicable, all Existing Parent Interests shall be cancelled, released, and extinguished without any distribution, and will be of no further force or effect, and each Holder of an Existing Parent Interest shall not receive or retain any distribution, property, or other value on account of such Existing Parent Interest.
- Class 9 (Section 510(b) Claims): On the Effective Date, all Section 510(b) Claims shall be discharged and released, and each Holder of a Section 510(b) Claim shall not receive or retain any distribution, property, or other value on account of its Section 510(b) Claim.

The Debtors believe that the Plan and the Restructuring Transactions contemplated thereby provide Holders of Claims and Holders of Interests with the best available recovery and are essential to ensure continuity of quality patient care at the Company's healthcare facilities. Accordingly, the Debtors strongly recommend that Holders of Claims entitled to vote to accept or reject the Plan vote to accept the Plan.

III. QUESTIONS AND ANSWERS REGARDING THIS DISCLOSURE STATEMENT AND PLAN

A. What is chapter 11?

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. In addition to permitting debtor rehabilitation, chapter 11 promotes equality of treatment for creditors and similarly situated equity interest holders, subject to the priority of distributions prescribed by the Bankruptcy Code.

The commencement of a chapter 11 case creates an estate that comprises all of the legal and equitable interests of the debtor as of the date the chapter 11 case is commenced. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

Consummating a chapter 11 plan is the principal objective of a chapter 11 case. A bankruptcy court's confirmation of a plan binds the debtor, any person acquiring property under the plan, any creditor or equity interest holder of the debtor, and any other entity as may be ordered by the bankruptcy court. Subject to certain limited exceptions, the order issued by a bankruptcy court confirming a plan provides for the treatment of the debtor's liabilities in accordance with the terms of the confirmed plan.

B. Why are the Debtors sending me this Disclosure Statement?

The Debtors are seeking to obtain Bankruptcy Court approval of the Plan. Before soliciting acceptances of the Plan, section 1125 of the Bankruptcy Code requires the Debtors to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the Plan and to share such disclosure statement with all Holders of Claims and Interests whose votes on the Plan are being solicited. This Disclosure Statement is being submitted in accordance with these requirements.

C. Am I entitled to vote on the Plan?

Your ability to vote on, and your distribution under, the Plan, if any, depends on what type of Claim or Interest you hold and whether you held that Claim or Interest as of the Voting Record Date (as defined herein). Each category of holders of Claims or Interests, as set forth in Article III of the Plan pursuant to section 1122(a) of the Bankruptcy Code, is referred to as a “Class.” Each Class’s respective voting status is set forth below:

Class	Claims and Interests	Status	Voting Rights
Class 1	Other Secured Claims	Unimpaired	Not Entitled to Vote (Deemed to Accept)
Class 2	Other Priority Claims	Unimpaired	Not Entitled to Vote (Deemed to Accept)
Class 3	ABL Claims	Impaired	Entitled to Vote
Class 4	Term Loan Claims	Impaired	Entitled to Vote
Class 5	General Unsecured Claims	Impaired	Not Entitled to Vote (Deemed to Reject)
Class 6	Intercompany Claims	Unimpaired / Impaired	Not Entitled to Vote (Deemed to Accept or Reject)
Class 7	Intercompany Interests	Unimpaired / Impaired	Not Entitled to Vote (Deemed to Accept or Reject)
Class 8	Existing Parent Interests	Impaired	Not Entitled to Vote (Deemed to Reject)
Class 9	Section 510(b) Claims	Impaired	Not Entitled to Vote (Deemed to Reject)

D. What is the Equitization Restructuring under the Plan?

The Equitization Restructuring under the Plan entails Restructuring Transactions that include, among other things, the full or partial equitization of DIP Claims and the full equitization Term Loan Claims. The Equitization Restructuring is an alternative to an Asset Sale Restructuring.

E. What is an Asset Sale Restructuring under the Plan?

An Asset Sale Restructuring under the Plan entails Restructuring Transactions that include, among other things, the disposition of some or all of the Debtors’ assets through one or more Asset Sales, together with a waterfall distribution of the net cash proceeds (if any) and wind-down of the post-sale Estates, all as provided in the Plan. An Asset Sale Restructuring is an alternative to an Equitization Restructuring. If the Debtors determine to pursue an Asset Sale Restructuring, the Debtors will file an Asset Sale Election Notice. If an Asset Sale Restructuring occurs, a Plan Administrator may be appointed.

F. How do I vote for or against the Plan?

Detailed instructions regarding how to vote on the Plan are contained on the ballots that will be distributed to Holders of Claims that are entitled to vote on the Plan. For your vote to be counted, the ballot or master ballot containing your vote and returned by your nominee, or the “pre-validated” ballot provided by your nominee for direct return by you must be properly completed, executed, and delivered as directed, so that the master ballot or pre-validated ballot containing your vote is **actually received** by the Debtors’ solicitation agent, Epiq Corporate Restructuring LLC, (the “Solicitation Agent”) **on or before the Voting Deadline, as ordered by the Bankruptcy Court.** See Article IX of this Disclosure Statement, entitled, “Solicitation and Voting,” which begins on page 52 for more information.

G. Why is the Bankruptcy Court holding a Confirmation Hearing?

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan and recognizes that any party in interest may object to Confirmation of the Plan. The Confirmation Hearing will be scheduled by the Bankruptcy Court, and all parties in interest will be served notice of the time, date, and location of the Confirmation Hearing once scheduled. The Confirmation Hearing may be adjourned from time to time without further notice.

H. What is the purpose of the Confirmation Hearing?

The confirmation of a plan by a bankruptcy court binds the debtor, any issuer of securities under a plan, any person acquiring property under a plan, any creditor or equity interest holder of a debtor, and any other person or entity as may be ordered by the bankruptcy court in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain limited exceptions, the order issued by the bankruptcy court confirming a plan discharges a debtor from any debt that arose before the confirmation of such plan and provides for the treatment of such debt in accordance with the terms of the confirmed plan.

I. What is the effect of the Plan on the Debtors’ ongoing businesses?

The Debtors are reorganizing under chapter 11 of the Bankruptcy Code. As a result, the occurrence of the Effective Date means that the Debtors’ businesses will ***not*** be liquidated or forced to close. Following Confirmation, the Plan will be consummated on the Effective Date, which is a date that is the first Business Day after the Confirmation Date on which (1) no stay of the Confirmation Order is in effect and (2) all conditions to Consummation have been satisfied or waived (*see* Article X of the Plan). On or after the Effective Date, and unless otherwise provided in the Plan, the Reorganized Debtors may operate their businesses and, except as otherwise provided by the Plan, may use, acquire, or dispose of property and compromise or settle any Claims, Interests, or Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules. Additionally, upon the Effective Date, all actions contemplated by the Plan will be deemed authorized and approved.

J. What will I receive from the Debtors if the Plan is consummated?

The following chart provides a summary of the anticipated recovery to holders of Claims or Interests under the Plan. Any estimates of Claims or Interests in this Disclosure Statement may vary from the final amounts Allowed by the Bankruptcy Court. Your ability to receive distributions under the Plan depends upon the ability of the Debtors to obtain Confirmation and meet the conditions necessary to consummate the Plan.

THE PROJECTED RECOVERIES SET FORTH IN THE TABLE BELOW ARE ESTIMATES ONLY AND THEREFORE ARE SUBJECT TO CHANGE. FOR A COMPLETE

DESCRIPTION OF THE DEBTORS' CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS, REFERENCE SHOULD BE MADE TO THE ENTIRE PLAN.

SUMMARY OF EXPECTED RECOVERIES ⁶				
Class	Claim/Equity Interest	Treatment of Claim/Equity Interest	Projected Amount of Claims (in millions)	Projected Recovery Under the Plan
1	Other Secured Claims	Except to the extent that a Holder of an Allowed Other Secured Claims agrees in writing to less favorable treatment, in exchange for the full and final satisfaction, settlement, release, and discharge of its Other Secured Claim, each Holder of an Allowed Other Secured Claim shall receive, at the option of the applicable Debtor or Reorganized Debtor (with the consent of the DIP Lenders and Term Loan Lenders): (i) payment in full in Cash; (ii) Reinstatement of such Claim; or (iii) such other treatment rendering such Claim Unimpaired.	[•]	[•]
2	Other Priority Claims	Except to the extent that a Holder of an Allowed Other Priority Claim agrees in writing to less favorable treatment, in exchange for the full and final satisfaction, settlement, release, and discharge of its Other Priority Claim, each Holder of an Allowed Other Priority Claim shall receive, at the option of the applicable Debtor or Reorganized Debtor (with the consent of the DIP Lenders and Term Loan Lenders) (i) payment in full in Cash; or (ii) such other treatment rendering such Claim Unimpaired.	[•]	[•]
3	ABL Claims	(i) If the Equitization Restructuring occurs, except to the extent that a Holder of an Allowed ABL Claim agrees in writing to less favorable treatment, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, each Allowed ABL Claim, each Holder of an Allowed ABL Claim shall receive its Pro Rata share of the Exit Facility. (ii) If an Asset Sale Restructuring occurs, except to the extent that a Holder of an Allowed ABL Claim agrees to less favorable treatment, on the Effective Date, in full and final satisfaction, settlement, release, and discharge of, and in exchange for such Allowed ABL Claim, each Holder of an Allowed ABL Claim shall receive (A) in the event of a Credit Bid Sale that is a Plan Sale, its Pro Rata share of the Exit Facility; and (B) otherwise, its Pro Rata share of the Debtors' remaining Cash (if any) following (I) payment in full in Cash of all Allowed Claims that are senior to ABL Claims in priority of payment under the Bankruptcy Code; and (II) the funding of the Professional Fee Escrow Account and any wind-down reserves as set forth in the Wind-Down Budget.	[•]	[•]

⁶ The projected recoveries set forth in this table may change based upon changes in the amount of Claims that are Allowed as well as other factors related to the Debtors' business operations and general economic conditions.

SUMMARY OF EXPECTED RECOVERIES ⁶				
Class	Claim/Equity Interest	Treatment of Claim/Equity Interest	Projected Amount of Claims (in millions)	Projected Recovery Under the Plan
4	Term Loan Claims	(i) If the Equitization Restructuring occurs, on the Effective Date, each Holder of an Allowed Term Loan Claim shall receive its Pro Rata share of the Equitization Term Loan Equity Pool. (ii) If the Asset Sale Restructuring occurs, except to the extent that a Holder of an Allowed Term Loan Claim agrees to less favorable treatment, on the Effective Date, in full and final satisfaction, settlement, release, and discharge of, and in exchange for such Allowed Term Loan Claim, each Holder of an Allowed Term Loan Claim shall receive (A) in the event of a Credit Bid Sale that is a Plan Sale, its Pro Rata share of the Credit Bid Distributions distributable under the Plan; and (B) otherwise, its Pro Rata share of the Debtors' remaining Cash (if any) following (I) payment in full in Cash of all Allowed Claims that are senior to Term Loan Claims in priority of payment under the Bankruptcy Code; and (II) the funding of the Professional Fee Escrow Account and any wind-down reserves as set forth in the Wind-Down Budget; <i>provided, however</i>, that any portion of such Holder's Allowed Term Loan Claim that is not fully satisfied pursuant to provisions (A) and (B) immediately above, shall still constitute an Allowed Term Loan Claim up to the value of any remaining Term Loan Collateral; and <i>provided, further</i>, that any portion of such Holder's Allowed Term Loan Claim that exceeds the value of such remaining Term Loan Collateral (if any) shall constitute a Term Loan Deficiency Claim and receive the treatment specified in Article III.B.5(b)(ii) of the Plan.	[•]	[•]
5	General Unsecured Claims	If the Equitization Restructuring occurs, on the Effective Date, each General Unsecured Claim shall be discharged and released, and each Holder of a General Unsecured Claim shall not receive or retain any distribution, property, or other value on account of such General Unsecured Claim. If the Asset Sale Restructuring occurs, except to the extent that a Holder of an Allowed General Unsecured Claim agrees in writing to less favorable treatment, in full and final satisfaction, settlement, release, and discharge of, and in exchange for, each Allowed General Unsecured Claim, each Holder of an Allowed General Unsecured Claim shall receive the following treatment: (A) If the amount of Excess Sale Proceeds is greater than zero, each Holder an Allowed General Unsecured Claim shall receive its Pro Rata share of the Excess Sale Proceeds; and (B) otherwise, each General Unsecured Claim shall be discharged and released, and each Holder of a General Unsecured Claim shall not receive or retain any distribution, property, or other value on account of such General Unsecured Claim.	[•]	[•]

SUMMARY OF EXPECTED RECOVERIES ⁶				
Class	Claim/Equity Interest	Treatment of Claim/Equity Interest	Projected Amount of Claims (in millions)	Projected Recovery Under the Plan
6	Intercompany Claims	Subject to the Restructuring Transactions Memorandum, each Allowed Intercompany Claim shall be Reinstated, distributed, contributed, set off, settled, cancelled and released, or otherwise addressed at the option of the Reorganized Debtors (with the consent of the DIP Lenders and the Term Loan Lenders, other than in the event of an Asset Sale Restructuring that does not involve a Credit Bid Sale); <i>provided</i> that no distributions shall be made on account of any Intercompany Claims.	[•]	[•]
7	Intercompany Interests	Subject to the Restructuring Transactions Memorandum, each Intercompany Interest shall be Reinstated, distributed, contributed, set off, settled, cancelled and released, or otherwise addressed at the option of the Reorganized Debtors (with the consent of the DIP Lenders and the Term Loan Lenders, other than in the event of an Asset Sale Restructuring that does not involve a Credit Bid).	[•]	[•]
8	Existing Parent Interests	On the Effective Date, and without the need for any further corporate or limited liability company action or approval of any board of directors, board of managers, members, shareholders or officers of any Debtor or Reorganized Debtor, as applicable, all Existing Parent Interests shall be cancelled, released, and extinguished without any distribution, and will be of no further force or effect, and each Holder of an Existing Parent Interest shall not receive or retain any distribution, property, or other value on account of such Existing Parent Interest.	[•]	[•]
9	Section 510(b) Claims	On the Effective Date, all Section 510(b) Claims shall be discharged and released, and each Holder of a Section 510(b) Claim shall not receive or retain any distribution, property, or other value on account of its Section 510(b) Claim.	[•]	[•]

K. What will I receive from the Debtors if I hold an Allowed Administrative Claim, DIP Claim, or a Priority Tax Claim?

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims, DIP Claims, Professional Claims, and Priority Tax Claims have not been classified and, thus, are excluded from the Classes of Claims or Interests set forth in Article III of the Plan.

1. Administrative Claims.

Unless otherwise agreed to by the holder of an Allowed Administrative Claim and the Debtors or the Reorganized Debtors, as applicable, and with respect to any non-ordinary course Allowed Administrative Claims, with the consent of the DIP Lenders and the Term Loan Lenders, or as otherwise provided for under the Plan, to the extent an Allowed Administrative Claim has not already been paid in full or otherwise satisfied during the Chapter 11 Cases, each Holder of an Allowed Administrative Claim (other than holders of Professional Fee Claims, DIP Claims and Claims for fees and expenses pursuant to section 1930 of chapter 123 of title 28 of the United States Code) will receive in full and final satisfaction of its Administrative Claim an amount of Cash equal to the amount of such Allowed Administrative Claim in accordance with the following: (1) if an Administrative Claim is Allowed on or prior to the Effective

Date, on the Effective Date or as soon as reasonably practicable thereafter (or, if not then due, when such Allowed Administrative Claim is due or as soon as reasonably practicable thereafter); (2) if such Administrative Claim is not Allowed as of the Effective Date, no later than thirty (30) days after the date on which an order Allowing such Administrative Claim becomes a Final Order, or as soon as reasonably practicable thereafter; (3) if such Allowed Administrative Claim is based on liabilities incurred by the Debtors in the ordinary course of their business after the Petition Date in accordance with the terms and conditions of the particular transaction giving rise to such Allowed Administrative Claim without any further action by the holders of such Allowed Administrative Claim; (4) at such time and upon such terms as may be agreed upon by such holder and the Debtors or the Reorganized Debtors, as applicable; or (5) at such time and upon such terms as set forth in an order of the Bankruptcy Court.

Except as otherwise provided in Article II.A of the Plan, and except with respect to Administrative Claims that are Professional Fee Claims and DIP Claims, requests for payment of Administrative Claims must be Filed with the Bankruptcy Court and served on the Debtors pursuant to the procedures specified in the Confirmation Order and / or the notice of entry of the Confirmation Order no later than the Administrative Claims Bar Date. **Holders of Administrative Claims that are required to, but do not, File and serve a request for payment of such Administrative Claims by such date shall be forever barred, estopped, and enjoined from asserting such Administrative Claims against the Debtors, their Estates or their property and such Administrative Claims shall be deemed discharged as of the Effective Date without the need for any objection from the Debtors or Reorganized Debtors or any notice to or action, order or approval of the Bankruptcy Court or any other Entity.** Objections to such requests, if any, must be Filed with the Bankruptcy Court and served on the Debtors and the requesting party no later than sixty days after the Effective Date. Notwithstanding the foregoing, no request for payment of an Administrative Claim need be Filed with the Bankruptcy Court with respect to an Administrative Claim previously Allowed.

2. DIP Claims.

As of the Effective Date, the DIP Claims shall be Allowed and deemed to be Allowed Claims in the full amount outstanding under the DIP Credit Agreement. Upon the satisfaction of the Allowed DIP Claims in accordance with the terms of the Sale Order and the Asset Purchase Agreement and the Plan, as applicable, or other such treatment as contemplated by Article II.B of the Plan on the Effective Date, all Liens and security interests granted to secure the DIP Claims shall be automatically terminated and of no further force and effect without any further notice to or action, order, or approval of the Bankruptcy Court or any other Entity.

In the event that the Equitization Restructuring occurs, at its election, and except to the extent that a Holder of an Allowed DIP Claim agrees to less favorable treatment, on the Effective Date, in full and final satisfaction, settlement, release, and discharge of, and in exchange for such Allowed DIP Claim, each Holder of an Allowed DIP Claim shall receive, its Pro Rata share of the Equitization DIP Equity Pool; *provided* that each such Holder, in its discretion, may elect to instead receive, in respect of some or all of the aggregate amount of such Holder's Allowed DIP Claim (as agreed by the Debtors, the DIP Lenders, and the Term Loan Lenders), a share of the Takeback Facility in an amount equal to that amount (if any) of such Holder's Allowed DIP Claim as to which such election is made. Such election shall be made by the delivery of written notice to the Debtors and their legal and financial Professionals no later than the date determined by the Debtors and the DIP Lenders determined by the Debtors and the DIP Lenders.

If the Asset Sale Restructuring occurs, except to the extent that a Holder of an Allowed DIP Claim agrees to less favorable treatment, on the Effective Date, in full and final satisfaction, settlement, release, and discharge of, and in exchange for such Allowed DIP Claim, each Holder of an Allowed DIP Claim

shall receive (A) in the event of a Credit Bid Sale, its Pro Rata share of the Credit Bid Distributions distributable under the Plan; and (B) otherwise, payment in full in Cash of its Allowed DIP Claim.

3. Professional Fee Claims.

Professional Fee Claims will be satisfied as set forth in Article II.C of the Plan, as summarized herein.

(a) Final Fee Applications and Payment of Professional Claims.

All final requests for payment of Professional Fee Claims for services rendered and reimbursement of expenses incurred prior to the Confirmation Date must be Filed no later than forty-five days after the Effective Date. The Bankruptcy Court shall determine the Allowed amounts of such Professional Fee Claims after notice and a hearing in accordance with the procedures established by the Bankruptcy Court. The Reorganized Debtors shall pay Professional Fee Claims in Cash in the amount the Bankruptcy Court allows, including from the Professional Fee Escrow Account. The Reorganized Debtors will establish the Professional Fee Escrow Account in trust for the Professionals and fund such account with Cash equal to the Professional Fee Amount on the Effective Date.

(b) Professional Fee Escrow Account.

On the Effective Date, the Reorganized Debtors shall establish and fund the Professional Fee Escrow Account with Cash equal to the Professional Fee Amount, which shall be funded by the Reorganized Debtors using Cash on hand. The Professional Fee Escrow Account shall be maintained in trust solely for the Professionals. Such funds shall not be considered property of the Estates of the Debtors or the Reorganized Debtors. The amount of Allowed Professional Fee Claims shall be paid in Cash to the Professionals by the Reorganized Debtors from the Professional Fee Escrow Account as soon as reasonably practicable after such Professional Fee Claims are Allowed. When such Allowed Professional Fee Claims have been paid in full, any remaining amount held in the Professional Fee Escrow Account shall promptly be paid to the Reorganized Debtors without any further action or order of the Bankruptcy Court.

(c) Professional Fee Amount.

Professionals shall reasonably estimate their unpaid Professional Fee Claims and other unpaid fees and expenses incurred in rendering services to the Debtors before and as of the Effective Date, and shall deliver such estimate to the Debtors no later than five (5) days before the anticipated Effective Date; *provided* that such estimate shall not be deemed to limit the amount of the fees and expenses that are the subject of each Professional's final request for payment in these Chapter 11 Cases. If a Professional does not provide an estimate, the Debtors or Reorganized Debtors may estimate the unpaid and unbilled fees and expenses of such Professional.

(d) Post-Confirmation Fees and Expenses.

Except as otherwise specifically provided in the Plan, from and after the Confirmation Date, the Debtors shall, in the ordinary course of business and without any further notice to or action, order, or approval of the Bankruptcy Court, pay in Cash the reasonable and documented legal, professional, or other fees and expenses related to implementation of the Plan and Consummation incurred by the Debtors. Upon the Confirmation Date, any requirement that Professionals comply with sections 327 through 331, 363, and 1103 of the Bankruptcy Code in seeking retention or compensation for services rendered after such date shall terminate, and the Debtors may employ and pay any Professional in the ordinary course of business without any further notice to or action, order, or approval of the Bankruptcy Court.

4. Priority Tax Claims.

Priority Tax Claims will be satisfied as set forth in Article II.D of the Plan, as summarized herein. Except to the extent that a holder of an Allowed Priority Tax Claim agrees to a less favorable treatment, in full and final satisfaction, settlement, release, and discharge of and in exchange for each Allowed Priority Tax Claim, each Holder of such Allowed Priority Tax Claim shall be treated in accordance with the terms set forth in section 1129(a)(9)(C) of the Bankruptcy Code.

5. Restructuring Expenses.

On the Effective Date, the Debtors or the Reorganized Debtors shall pay in full in Cash any outstanding Restructuring Expenses without the requirement for the filing of retention applications, fee applications, or any other applications in the Chapter 11 Cases and without any requirement for further notice or Bankruptcy Court review or approval.

L. Are any regulatory approvals required to consummate the Plan?

The Debtors are continuing to analyze whether regulatory approvals are required to consummate the Plan. To the extent any such regulatory approvals or other authorizations, consents, rulings, or documents are necessary to implement and effectuate the Plan, it is a condition precedent to the Effective Date that they be obtained. In the case of an Asset Sale Restructuring a filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (and expiration or early termination of the waiting period thereunder) may be required as a condition precedent to any Asset Sale that exceeds the applicable size of the transaction threshold.

M. What happens to my recovery if the Plan is not confirmed or does not go effective?

In the event that the Plan is not confirmed or does not go effective, there is no assurance that the Debtors will be able to reorganize their businesses. It is possible that any alternative may provide holders of Claims and Interests with less than they would have received pursuant to the Plan. For a more detailed description of the consequences of an extended chapter 11 case, or of a liquidation scenario, *see Article X.B* of this Disclosure Statement, entitled “Best Interests of Creditors/Liquidation Analysis,” which begins on page 54, and the Liquidation Analysis attached hereto as **Exhibit D**.

N. If the Plan provides that I get a distribution, do I get it upon Confirmation or when the Plan goes effective, and what is meant by “Confirmation,” “Effective Date,” and “Consummation?”

“Confirmation” of the Plan refers to approval of the Plan by the Bankruptcy Court. Confirmation of the Plan does not guarantee that you will receive the distribution indicated under the Plan. After Confirmation of the Plan by the Bankruptcy Court, there are conditions that need to be satisfied or waived so that the terms of the Plan can go in effect. Initial distributions to Holders of Allowed Claims and Interests will only be made on the date the Plan becomes effective—the “Effective Date”—or as soon as reasonably practicable thereafter, as specified in the Plan. *See Article X* of this Disclosure Statement, entitled “Confirmation of the Plan,” which begins on page 53, for a discussion of the conditions precedent to consummation of the Plan.

O. What are the sources of Cash and other consideration required to fund the Plan?

The Debtors shall fund distributions under the Plan pursuant to the Equitization Restructuring, as applicable, with: (1) the issuance of the New Common Equity; (2) the issuance of or borrowings under the Exit Facility and the Takeback Facility (if applicable); and (3) Cash on hand, as applicable.

The Debtors shall fund distributions under the Plan pursuant to the Asset Sale Restructuring with, as applicable: (a) Cash on hand; and (b) Cash or non-Cash consideration received by the Debtors in any Asset Sale consummated pursuant to the Asset Sale Restructuring.

P. Are there risks to owning the New Common Equity upon emergence from chapter 11?

Yes. See Article VIII of this Disclosure Statement, entitled “Risk Factors,” which begins on page 35.

Q. Is there potential litigation related to the Plan?

Parties in interest may object to the approval of this Disclosure Statement and may object to Confirmation of the Plan as well, which objections potentially could give rise to litigation. See Article VIII.C.18 of this Disclosure Statement, entitled “The Reorganized Debtors May Be Adversely Affected by Potential Litigation, Including Litigation Arising Out of the Chapter 11 Cases,” which begins on page 51.

In the event that it becomes necessary to confirm the Plan over the rejection of certain Classes, the Debtors may seek confirmation of the Plan notwithstanding the dissent of such rejecting Classes. The Bankruptcy Court may confirm the Plan pursuant to the “cramdown” provisions of the Bankruptcy Code, which allow the Bankruptcy Court to confirm a plan that has been rejected by an impaired Class if it determines that the Plan satisfies section 1129(b) of the Bankruptcy Code. See Article X.E of this Disclosure Statement, entitled “Confirmation Without Acceptance by All Impaired Classes,” which begins on page 55.

R. How will the preservation of the Causes of Action affect my recovery under the Plan?

The Plan provides for the retention of all Causes of Action other than those that are expressly waived, relinquished, exculpated, released, compromised, or settled.

In accordance with section 1123(b) of the Bankruptcy Code, but subject to Article IX of the Plan or pursuant to a Final Order (including the DIP Order), and any applicable Asset Purchase Agreement, each Reorganized Debtor, as applicable, shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action of the Debtors, whether arising before or after the Petition Date, including any actions specifically enumerated in the Schedule of Retained Causes of Action, and the Reorganized Debtors’ rights to commence, prosecute, or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date, other than the Causes of Action released by the Debtors pursuant to the releases and exculpations contained in the Plan, including in Article IX of the Plan or pursuant to a Final Order (including the DIP Order), or as assigned and transferred pursuant to any applicable Asset Purchase Agreement, which, in each case, shall be deemed released and waived by the Debtors and the Reorganized Debtors as of the Effective Date.

The Reorganized Debtors may pursue such retained Causes of Action, as appropriate, in accordance with the best interests of the Reorganized Debtors. **No Entity (other than the Released Parties) may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement**

to any Causes of Action against it as any indication that the Debtors or the Reorganized Debtors, as applicable, will not pursue any and all available Causes of Action of the Debtors against it. Except as specifically released or as assigned or transferred under the Plan or pursuant to a Final Order (including the DIP Order) or as assigned or transferred pursuant to any applicable Asset Purchase Agreement, the Debtors and the Reorganized Debtors expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan, including Article IX of the Plan or pursuant to a Final Order (including the DIP Order), or as assigned and transferred under any applicable Asset Purchase Agreement. Unless otherwise agreed upon in writing by the parties to the applicable Causes of Action, all objections to the Schedule of Retained Causes of Action must be Filed with the Bankruptcy Court on or before thirty days after the Effective Date. Any such objection that is not timely Filed shall be disallowed and forever barred, estopped, and enjoined from assertion against any Reorganized Debtor, without the need for any objection or responsive pleading by the Reorganized Debtors or any other party in interest or any further notice to or action, order, or approval of the Bankruptcy Court. The Reorganized Debtors may settle any such objection without any further notice to or action, order, or approval of the Bankruptcy Court. If there is any dispute regarding the inclusion of any Causes of Action on the Schedule of Retained Causes of Action that remains unresolved by the Debtors or Reorganized Debtors, as applicable, and the objection party for thirty days, such objection shall be resolved by the Bankruptcy Court. Unless any Causes of Action of the Debtors against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Final Order (including the DIP Order), the Reorganized Debtors expressly reserve all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation.

The Reorganized Debtors reserve and shall retain such Causes of Action of the Debtors notwithstanding the rejection or repudiation of any Executory Contract or Unexpired Lease during the Chapter 11 Cases or pursuant to the Plan. In accordance with section 1123(b)(3) of the Bankruptcy Code, and except as expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or pursuant to a Final Order (including the DIP Order), any Causes of Action that a Debtor may hold against any Entity shall vest in the Reorganized Debtors, except as otherwise expressly provided in the Plan, including Article IX of the Plan. The applicable Reorganized Debtors, through their authorized agents or representatives, shall retain and may exclusively enforce any and all such Causes of Action. The Reorganized Debtors shall have the exclusive right, authority, and discretion to determine and to initiate, file, prosecute, enforce, abandon, settle, compromise, release, withdraw, or litigate to judgment any such Causes of Action and to decline to do any of the foregoing without the consent or approval of any third party or further notice to or action, order, or approval of the Bankruptcy Court.

S. Will there be releases and exculpation granted to parties in interest as part of the Plan?

Yes. The Plan proposes that the Releasing Parties will provide releases the Released Parties.

“Releasing Parties” means, each of, and in each case in its capacity as such: (a) the Debtors; (b) the Reorganized Debtors; (c) the ABL Lender; (d) each Term Loan Lender; (e) each DIP Lender; (f) all Holders of Claims; (g) all Holders of Interests; (h) each current and former Affiliate of each Entity in clause (a) through the following clause (i); and (i) each Related Party of each Entity in clause (a) through this clause (i); provided that, in each case, an Entity shall not be a Releasing Party if such Entity: (x) elects to opt out of the releases contained in Article IX.D of the Plan; or (y) timely files with the Bankruptcy Court on the docket of the Chapter 11 Cases an objection to the releases contained in Article IX.D of the Plan that is not resolved before Confirmation.

“Released Parties” means, each of, and in each case in its capacity as such: (a) the Debtors; (b) the Reorganized Debtors; (c) the ABL Lender; (d) each Term Loan Lender; (e) each DIP Lender; (f) all Holders of Interests; (g) each current and former Affiliate of each Entity in clause (a) through the following clause (h); and (h) each Related Party of each Entity in clause (a) through this clause (h); provided that, in each case, an Entity shall not be a Released Party if such Entity: (x) elects to opt out of the releases contained in Article IX.D of the Plan; or (y) timely files with the Bankruptcy Court on the docket of the Chapter 11 Cases an objection to the releases contained in Article IX.D of the Plan that is not resolved before Confirmation.

The Plan provides an exculpation for the Exculpated Parties.

“Exculpated Parties” means, collectively, and in each case in its capacity as such: (a) each of the Debtors; (b) the independent directors of any Debtor; and (c) with respect to each of the foregoing Entities in clauses (a) and (b), each of the Related Parties of such Entity.

The Debtors believe that the releases and exculpations in the Plan are necessary and appropriate and meet the requisite standard under applicable law. The releases in the Plan are subject to investigation by the disinterested managers of PHS’s board of managers, with the assistance of independent counsel. The Debtors intend to present evidence at the Confirmation Hearing to demonstrate the basis for and propriety of the Plan’s release and exculpation provisions. The release and exculpation provisions contained in the Plan are copied in pertinent part below.

IMPORTANTLY, THE FOLLOWING PARTIES ARE INCLUDED IN THE DEFINITION OF “RELEASING PARTIES” AND WILL BE DEEMED TO HAVE EXPRESSLY, UNCONDITIONALLY, GENERALLY, INDIVIDUALLY, AND COLLECTIVELY RELEASED AND DISCHARGED ALL CLAIMS AND CAUSES OF ACTION AGAINST THE DEBTORS AND THE RELEASED PARTIES: ALL HOLDERS OF CLAIMS OR INTERESTS THAT (X) ABSTAIN FROM VOTING ON THE PLAN, (Y) VOTE TO REJECT THE PLAN OR ARE DEEMED TO REJECT THE PLAN, OR (Z) ARE DEEMED TO ACCEPT THE PLAN, IN EACH CASE THAT DOES NOT VALIDLY OPT OUT OF THE RELEASES CONTAINED IN THE PLAN. THE RELEASES ARE AN INTEGRAL ELEMENT OF THE PLAN.

1. Release of Liens.

Except as otherwise provided in the Plan, the Confirmation Order, or in any contract, instrument, release, or other agreement or document amended or created pursuant to the Plan, on the Effective Date and concurrently with the applicable distributions made pursuant to the Plan and, in the case of a Secured Claim, satisfaction in full of the portion of the Secured Claim that is Allowed as of the Effective Date, except for Other Secured Claims that the Debtors elect to Reinstate in accordance with the Plan, all mortgages, deeds of trust, Liens, pledges, or other security interests against any property of the Estates shall be fully released and discharged, and all of the right, title, and interest of any holder of such mortgages, deeds of trust, Liens, pledges, or other security interests shall revert to the Reorganized Debtors and their successors and assigns. Any holder of such Secured Claim (and the applicable agents for such holder (including the DIP Agent or Term Loan Agent)) shall be authorized and directed, at the sole cost and expense of the Reorganized Debtors, to release any collateral or other property of any Debtor (including any cash collateral and possessory collateral) held by such holder (and the applicable agents for such holder (including the DIP Agent or Term Loan Agent)), and to take such actions as may be reasonably requested by the Reorganized Debtors to evidence the release of such Liens and/or security interests, including the execution, delivery, and filing or recording of such releases. The presentation or filing of the Confirmation Order to or with any federal, state, provincial, or local agency, records office, or department shall

constitute good and sufficient evidence of, but shall not be required to effect, the termination of such Liens.

To the extent that any holder of a Secured Claim that has been satisfied or discharged in full pursuant to the Plan, or any agent for such holder, has filed or recorded publicly any Liens and/or security interests to secure such holder's Secured Claim, then as soon as practicable on or after the Effective Date, such holder (or the agent for such holder) shall take any and all steps requested by the Debtors or the Reorganized Debtors that are necessary or desirable to record or effectuate the cancellation and/or extinguishment of such Liens and/or security interests, including the making of any applicable filings or recordings, and the Reorganized Debtors shall be entitled to make any such filings or recordings on such holder's behalf.

On the Effective Date, concurrently with the consummation of an Asset Sale Restructuring that is consummated as a Plan Sale and except as set forth in the Asset Purchase Agreement, the assets sold in such Asset Sale Restructuring shall be transferred to and vest in the Purchaser free and clear of all Liens, Claims, charges, interests or other encumbrances pursuant to sections 363(f) and 1141(c) of the Bankruptcy Code and in accordance with the terms of the Sale Order (which may be the Confirmation Order), the Plan and the Asset Purchase Agreement, as applicable.

2. Releases by the Debtors.

Effective as of the Effective Date, pursuant to section 1123(b) of the Bankruptcy Code, for good and valuable consideration, including the obligations of the Debtors under the Plan and the contributions and services of the Released Parties in facilitating the expeditious reorganization of the Debtors and implementation of the restructuring contemplated by the Plan, the adequacy of which is hereby confirmed, on and after the Effective Date, each Released Party is conclusively, absolutely, unconditionally, irrevocably, and forever released and discharged by each and all of the Debtors, the Reorganized Debtors, and their Estates, in each case on behalf of themselves and their respective successors, assigns, and representatives (including any Plan Administrator that may be appointed), and any and all other Entities who may purport to assert any claim or Cause of Action, directly or derivatively, by, through, for, or because of the foregoing Entities, from any and all Claims, Interests, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims, asserted or assertable on behalf of any of the Debtors or their Estates, whether known or unknown, foreseen or unforeseen, matured or unmatured, existing or hereafter arising, in law, equity, contract, tort, or otherwise, that the Debtors, the Reorganized Debtors, their Estates or their Affiliates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim against, or Interest in, a Debtor or other Entity, based on or relating to (including the formulation, preparation, dissemination, negotiation, entry into, or filing of, as applicable), or in any manner arising from, in whole or in part, the Debtors (including the management, ownership, or operation thereof), the purchase, sale, or rescission of the purchase or sale of any security of the Debtors or the Reorganized Debtors, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, the Debtors' in- or out-of-court restructuring efforts, the decision to file the Chapter 11 Cases, any intercompany transactions, the Chapter 11 Cases, the Plan (including the Plan Supplement), the Disclosure Statement, the DIP Facility, the DIP Documents, the Exit Facility, the Exit Facility Credit Agreement, the Takeback Facility (if applicable), the Takeback Facility Documents (if applicable), the ABL Credit Agreement, the Term Loan Credit Agreement, the pursuit of Confirmation and Consummation, the pursuit of Asset Sales, the administration and implementation of the Plan, including the issuance or distribution of Securities pursuant to the Plan, or the distribution of property under the Plan or any other related agreement, but not, for the avoidance of doubt, any

legal opinion effective as of the Effective Date requested by any Entity regarding any transaction, contract, instrument, document, or other agreement contemplated by the Plan, or upon any other act, omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date. Notwithstanding anything to the contrary in the foregoing, the releases set forth above do not release (1) any obligations arising on or after the Effective Date of any party or Entity under the Plan, any Restructuring Transaction, or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan as set forth in the Plan; or (2) any retained Causes of Action.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the Debtor Release, which includes by reference each of the related provisions and definitions contained in the Plan, and further, shall constitute the Bankruptcy Court's finding that the Debtor Release is: (1) in exchange for the good and valuable consideration provided by the Released Parties, including the Released Parties' contributions to facilitating the Restructuring Transactions and implementing the Plan; (2) a good faith settlement and compromise of the Claims released by the Debtor Release; (3) in the best interests of the Debtors and all Holders of Claims and Interests; (4) fair, equitable, and reasonable; (5) given and made after due notice and opportunity for hearing; and (6) a bar to any of the Debtors, the Reorganized Debtors, or the Debtors' Estates asserting any Claim or Cause of Action of any kind whatsoever released pursuant to the Debtor Release.

3. Releases by the Releasing Parties.

Effective as of the Effective Date, in exchange for good and valuable consideration, including the obligations of the Debtors under the Plan and the contributions and services of the Released Parties in facilitating the expeditious reorganization of the Debtors and implementation of the restructuring contemplated by the Plan, pursuant to section 1123(b) of the Bankruptcy Code, in each case except for Claims arising under, or preserved by, the Plan, to the fullest extent permissible under applicable Law, each Releasing Party (other than the Debtors or the Reorganized Debtors), in each case on behalf of itself and its respective successors, assigns, and representatives, and any and all other entities who may purport to assert any Claim, Cause of Action, directly or derivatively, by, through, for, or because of a Releasing Party, is deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released and discharged each Debtor, Reorganized Debtor, and each other Released Party from any and all claims, interests, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, including any derivative claims, asserted or assertable on behalf of any of the Debtors, their Estates or their Affiliates, that such Entity would have been legally entitled to assert (whether individually or collectively), based on or relating to (including the formulation, preparation, dissemination, negotiation, entry into, or filing of, as applicable), or in any manner arising from, in whole or in part, the Debtors (including the management, ownership or operation thereof), the purchase, sale, or rescission of the purchase or sale of any security of the Debtors or the Reorganized Debtors, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, the Debtors' in- or out of court restructuring efforts, the decision to file the Chapter 11 Cases, any intercompany transactions, the Chapter 11 Cases, the Plan (including the Plan Supplement), the Disclosure Statement, the DIP Facility, the DIP Documents, the Exit Facility, the Exit Facility Credit Agreement, the Takeback Facility (if applicable), the Takeback Facility Documents (if applicable), the ABL Credit Agreement, the Term Loan Credit Agreement, the pursuit of Confirmation and Consummation, the pursuit of Asset Sales, the administration and implementation of the Plan, including the issuance or distribution of Securities pursuant to the Plan, or the distribution of property under the Plan or any other related

agreement, but not, for the avoidance of doubt, any legal opinion effective as of the Effective Date requested by any Entity regarding any transaction, contract, instrument, document, or other agreement contemplated by the Plan, or upon any other act, omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date. Notwithstanding anything to the contrary in the foregoing, the releases set forth above do not release any obligations arising on or after the Effective Date of any party or Entity under the Plan, any Restructuring Transaction, or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan as set forth in the Plan.

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the Third-Party Release, which includes by reference each of the related provisions and definitions contained in this Plan, and, further, shall constitute the Bankruptcy Court's finding that the Third-Party Release is: (1) consensual; (2) essential to the confirmation of the Plan; (3) given in exchange for the good and valuable consideration provided by the Released Parties, including the Released Parties' contributions to facilitating the Restructuring Transactions and implementing the Plan; (4) a good faith settlement and compromise of the Claims released by the Third-Party Release; (e) in the best interests of the Debtors and their Estates; (5) fair, equitable, and reasonable; (6) given and made after due notice and opportunity for hearing; and (7) a bar to any of the Releasing Parties asserting any claim or Cause of Action of any kind whatsoever released pursuant to the Third-Party Release.

4. Exculpation.

Effective as of the Effective Date, to the fullest extent permissible under applicable law and without affecting or limiting either the Debtor Release or the Third-Party Release, and except as otherwise specifically provided in the Plan, no Exculpated Party shall have or incur, and each Exculpated Party is released and exculpated from any Cause of Action or any claim arising from the Petition Date through the Effective Date related to any act or omission in connection with, relating to, or arising out of, the Chapter 11 Cases, the formulation, preparation, dissemination, negotiation, entry into, or filing of, as applicable the Chapter 11 Cases, the Disclosure Statement, the Plan (including the Plan Supplement), the DIP Documents (including with respect to the DIP Facility and DIP Roll-Up Loans), the Exit Facility Credit Agreement, or any Restructuring Transaction, contract, instrument, release, or other agreement or document created or entered into in connection with the Disclosure Statement or the Plan, the filing of the Chapter 11 Cases, the pursuit of Confirmation, the pursuit of Consummation, the administration and implementation of the Plan, including the issuance of Securities pursuant to the Plan, or the distribution of property under the Plan or any other related agreement (excluding, for the avoidance of doubt, providing any legal opinion effective as of the Effective Date requested by any Entity regarding any transaction, contract, instrument, document, or other agreement contemplated by the Plan), except for claims related to any act or omission that is determined in a Final Order to have constituted actual fraud, willful misconduct, or gross negligence, but in all respects such Entities shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities pursuant to the Plan. The Exculpated Parties have, and upon Consummation of the Plan shall be deemed to have, participated in good faith and in compliance with the applicable laws with regard to the solicitation of votes and distribution of consideration pursuant to the Plan and, therefore, are not, and on account of such distributions shall not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or such distributions made pursuant to the Plan. Notwithstanding the foregoing, the exculpation shall not release any obligation or liability of any Entity for any post-Effective Date obligation under the Plan or any document, instrument or agreement (including those set forth in the Plan Supplement) executed to implement the Plan.

For more detail, see Article IX of the Plan, entitled “Settlement, Release, Injunction, and Related Provisions,” which is incorporated herein by reference.

T. Does the Plan contain any injunctions?

Yes. Article IX.F of the Plan sets forth the below injunction provision:

Except as otherwise expressly provided in the Plan, or for obligations issued or required to be paid pursuant to the Plan or the Confirmation Order, all Entities who have held, hold, or may hold claims or interests that have been released, discharged, or are subject to exculpation are permanently enjoined, from and after the Effective Date, from taking any of the following actions against, as applicable, the Debtors, the Reorganized Debtors, the Exculpated Parties, or the Released Parties: (1) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such claims or interests; (2) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against such Entities on account of or in connection with or with respect to any such claims or interests; (3) creating, perfecting, or enforcing any encumbrance of any kind against such Entities or the property or the estates of such Entities on account of or in connection with or with respect to any such claims or interests; (4) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due from such Entities or against the property of such Entities on account of or in connection with or with respect to any such claims or interests unless such holder has Filed a motion requesting the right to perform such setoff on or before the Effective Date, and notwithstanding an indication of a claim or interest or otherwise that such holder asserts, has, or intends to preserve any right of setoff pursuant to applicable law or otherwise; and (5) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such claims or interests released or settled pursuant to the Plan.

U. How will undeliverable distributions and unclaimed property be treated under the Plan?

In the event that any distribution to any holder of Allowed Claims or Allowed Interests (as applicable) is returned as undeliverable, no further distribution to such holder shall be made unless and until the Distribution Agent is notified in writing of the then-current address of such holder, at which time all currently-due, missed distributions shall be made to such holder as soon as reasonably practicable thereafter without interest; *provided* that such distributions shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of one year from the Effective Date. After such date, all unclaimed property or interests in property shall revert to the Reorganized Debtors automatically and without need for a further order by the Bankruptcy Court (notwithstanding any applicable federal, provincial, or state escheat, abandoned, or unclaimed property laws to the contrary), and the Claim of any holder of Claims and Interests to such property or Interest in property shall be discharged and forever barred.

V. Are there minimum disbursement restrictions?

No fractional shares of New Common Equity shall be distributed and no Cash shall be distributed in lieu of such fractional amounts. When any distribution pursuant to the Plan on account of an Allowed Claim or Allowed Interest (as applicable) would otherwise result in the issuance of a number of shares of New Common Equity that is not a whole number, the actual distribution of shares of New Common Equity shall be calculated to one decimal place and rounded up or down to the closest whole number of shares of New Common Equity (with a half-share of New Common Equity or greater rounded up and less than a half-share of New Common Equity rounded down). The total number of authorized shares of New

Common Equity to be distributed to holders of Allowed Claims hereunder shall be adjusted as necessary to account for the foregoing rounding. Neither the Reorganized Debtors nor the Distribution Agent shall have any obligation to make a distribution that consists of less than one share of New Common Equity or is less than one hundred dollars (\$100) to any holder of an Allowed Claim.

W. Will any party have significant influence over the corporate governance and operations of the Reorganized Debtors?

In the event of an Equitization Restructuring, on the Effective Date, the terms of the current members of the board of managers of PHS shall expire, and the new directors and officers of the Reorganized Debtors shall be appointed. In such event, assuming that the Effective Date occurs, holders of New Common Equity representing a substantial percentage of outstanding shares of the New Common Equity may be in a position to influence matters requiring approval by the holders of shares of New Common Equity, including, among other things, the election of directors and the approval of a change of control of the Reorganized Debtors.

X. What steps did the Debtors take to evaluate alternatives to a chapter 11 filing?

Prior to the Petition Date, the Debtors evaluated numerous potential alternatives to address their financial and operational issues, including potential out-of-court transactions. In parallel, the Debtors also developed and implemented various turnaround initiatives. As described in the First Day Declaration, following due consideration of the Company's financial and operational situation, each Debtor determined in its business judgment that a holistic chapter 11 restructuring was the best option to ensure the realization of the Company's healthcare mission while also maximizing Estate value.

Y. Who do I contact if I have additional questions with respect to this Disclosure Statement or the Plan?

If you have any questions regarding this Disclosure Statement or the Plan, please contact the Debtors' Solicitation Agent via one of the following methods:

By regular mail, overnight mail, or hand delivery at:

Pipeline Health System, LLC Ballot Processing
c/o Epiq Corporate Restructuring, LLC
10300 SW Allen Boulevard,
Beaverton, OR 97005

By electronic mail at:

[●]

By telephone (toll free) at:

(800) 764-6401 (toll free) or (503) 520-4447 (international) and request to speak with a member of the Solicitation Team

Copies of the Plan, this Disclosure Statement, and any other publicly filed documents in the Chapter 11 Cases are available upon written request to the Solicitation Agent at the address above or by downloading the exhibits and documents from the website of the Solicitation Agent at <http://dm.epiq11.com/PipelineHealth> (free of charge) or the Bankruptcy Court's website at <http://www.txs.uscourts.gov> (for a fee).

Z. Do the Debtors recommend voting in favor of the Plan?

Yes. The Debtors believe that the Plan provides for a larger distribution to the Debtors' stakeholders than would otherwise result from any other available alternative. The Debtors believe that the Plan offers a comprehensive, value-maximizing solution to the Debtors' financial and operational issues and is the best interests of the Debtors' stakeholders and that any other alternatives (to the extent they exist) fail to realize or recognize the value inherent under the Plan.

AA. Who Supports the Plan?

The Plan, which remains subject to further negotiation, is supported by the Debtors, the DIP Lenders, and Term Loan Lenders.

IV. THE DEBTORS' DIP FACILITY AND PLAN

A. The DIP Facility.

To fund the administration of the Chapter 11 Cases, certain Term Loan Lenders and/or one or more of their respective affiliates (in their capacity as proposed DIP lenders the "DIP Lenders") have committed, subject to Bankruptcy Court approval, to provide the DIP Facility. If the Equitization Restructuring occurs, at its election, each DIP Lender would receive its Pro Rata share of the Equitization DIP Equity Pool (subject to an election to receive a share of the Takeback Facility as provided in the Plan). If the Asset Sale Restructuring occurs, each DIP Lenders would receive, (1) in the event of a Credit Bid Sale, its Pro Rata share of the Credit Bid Distributions distributable under the Plan, and (2) otherwise, payment in full in Cash of its Allowed DIP Claim.

B. The Plan.

The Plan contemplates the following key terms, among others described herein and therein:

1. General Settlement of Claims and Interests.

As discussed in detail in the Disclosure Statement and as otherwise provided in the Plan, without limiting the scope of any releases provided or that may be provided pursuant to the Final DIP Order, pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, and in consideration for the classification, distributions, releases, and other benefits provided under the Plan, upon the Effective Date, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims and Interests and controversies resolved pursuant to the Plan (to the extent such controversies have not already been compromised and settled in accordance with the terms and conditions of the Interim DIP Order or the Final DIP Order), including, but not limited to (1) any challenge to the amount, validity, perfection, enforceability, priority, or extent of the DIP Claims, the ABL Claims, the Term Loan Claims, the Section 510(b) Claims, the Existing Parent Interests, the Intercompany Claims, the Intercompany Interests, and the General Unsecured Claims, and (2) any claim to avoid, subordinate, or disallow any of the DIP Claims, the ABL Claims, the Term Loan Claims, the Section 510(b) Claims, the Existing Parent Interests, the Intercompany Claims, the Intercompany Interests, and the General Unsecured Claims, whether under any provision of chapter 5 of the Bankruptcy Code on any equitable theory (including equitable subordination, equitable disallowance, or unjust enrichment) or otherwise. The Plan shall be deemed a motion to approve the good faith compromise and settlement of all such Claims, Interests, and controversies pursuant to Bankruptcy Rule 9019, and the entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of such compromise and settlement under section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, as well as a finding by the Bankruptcy Court that such settlement and compromise is fair,

equitable, reasonable, and in the best interests of the Debtors and their Estates. Subject to Article IV of the Plan, all distributions made to holders of Allowed Claims and Allowed Interests (as applicable) in any Class are intended to be and shall be final.

2. Restructuring Transactions.

On or before the Effective Date, the applicable Debtors or the Reorganized Debtors shall enter into and shall take any actions as may be necessary or appropriate to affect the Restructuring Transactions, including as set forth in the Restructuring Term Sheet and Restructuring Transaction Memorandum. The actions to implement the Restructuring Transactions shall include: (1) the execution and delivery of appropriate agreements or other documents of merger, amalgamation, consolidation, restructuring, conversion, disposition, transfer, arrangement, continuance, dissolution, sale, purchase, or liquidation containing terms that are consistent with the terms of the Plan and that satisfy the applicable requirements of applicable law and any other terms to which the applicable Entities may agree; (2) the execution and delivery of appropriate instruments of transfer, assignment, assumption, or delegation of any asset, property, right, liability, debt, or obligation on terms consistent with the terms of the Plan and having other terms for which the applicable parties agree; (3) the filing of appropriate certificates or articles of incorporation, formation, reincorporation, merger, consolidation, conversion, amalgamation, arrangement, continuance, or dissolution pursuant to applicable Law; (4) the issuance of the New Common Equity, as applicable; (5) the execution and delivery of the New Organizational Documents of each Reorganized Debtor; and (6) all other actions that the applicable Reorganized Debtors determine to be necessary or advisable, including making filings or recordings that may be required by applicable law in connection with the Plan. The Confirmation Order shall, and shall be deemed to, pursuant to sections 363 and 1123 of the Bankruptcy Code, authorize, among other things, all of the foregoing and all actions as may be necessary or appropriate to effect any transaction described in, contemplated by, or necessary to effectuate the Plan, including any and all actions required to be taken under applicable non-bankruptcy Law. On the Effective Date or as soon as reasonably practicable thereafter, the Reorganized Debtors, as applicable, shall issue all securities, notes, instruments, certificates, and other documents required to be issued pursuant to the Restructuring Transactions.

3. Reorganized Debtors.

On the Effective Date, the New Board shall be established, and the Reorganized Debtors shall adopt their New Organizational Documents. The Reorganized Debtors shall be authorized to adopt any other agreements, documents, and instruments and to take any other actions contemplated under the Plan as necessary to consummate the Plan. Cash payments to be made pursuant to the Plan will be made by the Debtors or Reorganized Debtors. The Debtors and Reorganized Debtors will be entitled to transfer funds between and among themselves as they determine to be necessary or appropriate to enable the Debtors or Reorganized Debtors, as applicable, to satisfy their obligations under the Plan. Except as set forth herein, any changes in intercompany account balances resulting from such transfers will be accounted for and settled in accordance with the Debtors' historical intercompany account settlement practices and will not violate the terms of the Plan.

From and after the Effective Date, the Reorganized Debtors, subject to any applicable limitations set forth in any post-Effective Date agreement, shall have the right and authority without further order of the Bankruptcy Court to raise additional capital and obtain additional financing, subject to the New Organizational Documents, as the boards of directors of the applicable Reorganized Debtors deem appropriate.

4. Sources of Consideration for Plan Distributions.

The Debtors and the Reorganized Debtors, as applicable, shall fund distributions under the Plan with: (1) the issuance of the New Common Equity; (2) the issuance of or borrowings under the Exit Facility and the Takeback Facility (if applicable); and (3) Cash on hand, if the Equitization Restructuring occurs.

(a) Issuance of the New Common Equity.

The issuance of the New Common Equity, pursuant to the Equitization Restructuring, by the Reorganized Debtors (as set forth in the Restructuring Transactions Memorandum) shall be authorized without the need for any further corporate action or without any further action by holders of Claims or Interests. Reorganized Debtors shall be authorized to issue a certain number of shares of New Common Equity as required under the Plan and pursuant to the New Organizational Documents.

On the Effective Date, the Debtors or Reorganized Debtors, as applicable, shall issue all Securities, notes, instruments, certificates, and other documents required to be issued pursuant to the Plan. All of the shares of New Common Equity issued or authorized to be issued pursuant to the Plan shall be duly authorized, validly issued, fully paid, and non-assessable. Each distribution and issuance referred to in Article VI of the Plan shall be governed by the terms and conditions set forth in the Plan applicable to such distribution or issuance and by the terms and conditions of the instruments evidencing or relating to such distribution or issuance, which terms and conditions shall bind each Entity receiving such distribution or issuance. Any Entity's acceptance of New Common Equity shall be deemed as its agreement to the New Organizational Documents, as the same may be amended or modified from time to time following the Effective Date in accordance with their respective terms, and each such Entity will be bound thereby in all respects.

On the Effective Date or as soon as reasonably practicable thereafter, the New Common Equity will be distributed in accordance with the Plan. The New Common Equity will not be registered under the Securities Act or listed on any exchange as of the Effective Date.

5. Corporate Existence.

Except as otherwise provided in the Plan or any agreement, instrument, or other document incorporated in the Plan or the Plan Supplement, each Debtor shall continue to exist after the Effective Date as a separate corporate entity, limited liability company, partnership, or other form, as the case may be, with all the powers of a corporation, limited liability company, partnership, or other form, as the case may be, pursuant to the applicable law in the jurisdiction in which each applicable Debtor is incorporated or formed and pursuant to the respective certificate of incorporation and bylaws (or other formation documents) in effect prior to the Effective Date, except to the extent such certificate of incorporation and bylaws (or other formation documents) are amended, amended and restated, or replaced under the Plan or otherwise, including pursuant to the New Organizational Documents, in each case, consistent with the Plan, and to the extent such documents are amended in accordance therewith, such documents are deemed to be amended, amended and restated, or replaced pursuant to the Plan and require no further action or approval (other than any requisite filings required under applicable state, provincial, or federal law). After the Effective Date, the respective certificate of incorporation and bylaws (or other formation documents) of one or more of the Reorganized Debtors may be amended or modified on the terms therein without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules. After the Effective Date, one or more of the Reorganized Debtors may be disposed of, dissolved, wound down, or liquidated without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules.

6. Vesting of Assets in the Reorganized Debtors.

Except as otherwise provided in the Confirmation Order or in the Plan (including the Restructuring Transactions Memorandum and Article IX of the Plan), on the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, all property in each Estate, all Causes of Action, and any property acquired by any of the Debtors pursuant to the Plan shall vest in each respective Reorganized Debtor, free and clear of all Liens, Claims, charges, other encumbrances, and interests. On and after the Effective Date, except as otherwise provided in the Plan, including Article IX of the Plan, each Reorganized Debtor may operate its business and may use, acquire, or dispose of property, enter into transactions, agreements, understandings or arrangements, whether in or other than in the ordinary course of business and execute, deliver, implement and fully perform any and all obligations, instruments, documents and papers or otherwise in connection with any of the foregoing, and compromise or settle any Claims, Interests, or Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules in all respects.

7. Cancellation of Existing Securities and Agreements.

On the Effective Date, except as otherwise provided in the Plan and the Confirmation Order, all notes, instruments, certificates, credit agreements, indentures, and other documents evidencing Claims or Interests shall be cancelled and the obligations of the Debtors thereunder or in any way related thereto shall be deemed satisfied in full, cancelled, discharged, and of no force or effect. Holders of or parties to such cancelled instruments, Securities, and other documentation will have no rights arising from or relating to such instruments, Securities, and other documentation, or the cancellation thereof, except the rights, distributions, and treatment provided for pursuant to the Plan or the Confirmation Order.

Notwithstanding anything to the contrary herein, but subject to any applicable provisions of Article VI of the Plan and the Confirmation Order, the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement (including, in each case, all documents ancillary thereto), shall continue in effect to: (1) permit holders of Claims under the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement to receive their respective Plan Distributions, if any; (2) permit the Reorganized Debtors and the Distribution Agent, as applicable, to make Plan Distributions on account of the Allowed Claims under the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement, as applicable; (3) permit each of the Agents/Trustees under the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement to seek indemnification, compensation, and/or reimbursement of fees and expenses through the exercise of charging liens, to the extent provided for in the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement; and (4) permit each of the Agents/Trustees to appear and be heard in the Chapter 11 Cases or in any proceeding in the Bankruptcy Court. Except as provided in the Plan (including Article VI of the Plan) or the Confirmation Order, on the Effective Date, the Agents/Trustees and their respective agents, successors, and assigns shall be automatically and fully discharged of all of their duties and obligations associated with the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement, as applicable. To the extent cancelled in accordance with this paragraph, the commitments and obligations (if any) of the lenders of the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement to extend any further or future credit or financial accommodations to any of the Debtors, any of their respective subsidiaries, or any of their respective successors or assigns under the DIP Credit Agreement, the ABL Credit Agreement, the Exit Facility Credit Agreement, and the Term Loan Credit Agreement, as applicable, shall fully terminate and be of no further force or effect on the Effective Date.

8. Corporate Action.

Upon the Effective Date, all actions contemplated under the Plan, regardless of whether taken before, on, or after the Effective Date, shall be deemed authorized and approved in all respects, as applicable, including: (a) consummation of the Asset Sale; and (b) all other actions contemplated under the Plan (whether to occur before, on, or after the Effective Date). All matters provided for in the Plan or deemed necessary or desirable by the Debtors before, on, or after the Effective Date involving the corporate structure of the Debtors or the Reorganized Debtors, and any corporate action required by the Debtors or the Reorganized Debtors in connection with the Plan or corporate structure of the Debtors or Reorganized Debtors, shall be deemed to have occurred and shall be in effect on the Effective Date, without any requirement of further action by the security holders, directors, managers, or officers of the Debtors or the Reorganized Debtors. Before, on, or after the Effective Date, the appropriate officers of the Debtors or the Reorganized Debtors, as applicable, shall be authorized to issue, execute, and deliver the agreements, documents, securities, and instruments contemplated under the Plan (or necessary or desirable to effect the transactions contemplated under the Plan) in the name of and on behalf of the Reorganized Debtors. The authorizations and approvals contemplated by Article IV.F. of the Plan shall be effective notwithstanding any requirements under non-bankruptcy law.

9. New Organizational Documents.

On or immediately prior to the Effective Date, the New Organizational Documents shall be automatically adopted by the applicable Reorganized Debtors. To the extent required under the Plan or applicable non-bankruptcy law, each of the Reorganized Debtors will file its New Organizational Documents with the applicable authorities in its respective jurisdiction of organization. The New Organizational Documents will prohibit the issuance of non-voting equity Securities, to the extent required under section 1123(a)(6) of the Bankruptcy Code.

After the Effective Date, the Reorganized Debtors may amend and restate their respective New Organizational Documents in accordance with the terms thereof, and the Reorganized Debtors may file such amended certificates or articles of incorporation, bylaws, or such other applicable formation documents, and other constituent documents as permitted by the laws of their respective jurisdictions of incorporation or formation and the New Organizational Documents.

10. Indemnification Obligations.

Consistent with applicable law, all indemnification provisions in place as of the Effective Date (whether in the by-laws, certificates of incorporation or formation, limited liability company agreements, other organizational documents, board resolutions, indemnification agreements, employment contracts, or otherwise) for current and former directors, officers, managers, employees, attorneys, accountants, investment bankers, and other professionals of the Debtors, as applicable, shall (i) not be discharged, impaired, or otherwise affected in any way, including by the Plan, the Plan Supplement, or the Confirmation Order, (ii) remain intact, in full force and effect, and irrevocable, (iii) not be limited, reduced or terminated after the Effective Date, and (iv) survive the effectiveness of the Plan on terms no less favorable to such current and former directors, officers, managers, employees, attorneys, accountants, investment bankers, and other professionals of the Debtors than the indemnification provisions in place prior to the Effective Date irrespective of whether such indemnification obligation is owed for an act or event occurring before, on or after the Petition Date. All such obligations shall be deemed and treated as executory contracts to be assumed by the Debtors under the Plan and shall continue as obligations of the Reorganized Debtors. Any Claim based on the Debtors' obligations under the Plan shall not be a Disputed Claim or subject to any objection, in either case, for any reason, including by reason of section 502(e)(1)(B) of the Bankruptcy Code.

11. Directors and Officers of the Reorganized Debtors.

As of the Effective Date, the terms of the current members of the board of managers of PHS shall expire and the new directors and officers of the Reorganized Debtors shall be appointed. Corporate governance for Reorganized Debtors, including charters, bylaws, operating agreements, or other organization documents, as applicable, shall be consistent with section 1123(a)(6) of the Bankruptcy Code and the New Organizational Documents.

12. Effectuating Documents; Further Transactions.

On and after the Effective Date, the Reorganized Debtors, and their respective officers, directors, members, and managers (as applicable), are authorized to and may issue, execute, deliver, file, or record such contracts, Securities, instruments, releases, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement, and further evidence the terms and conditions of the Plan and the Securities issued pursuant to the Plan in the name of and on behalf of the Reorganized Debtors, without the need for any approvals, authorization, or consents except for those expressly required pursuant to the Plan.

13. Section 1146 Exemption.

To the fullest extent permitted by section 1146(a) of the Bankruptcy Code, any transfers (whether from a Debtor to a Reorganized Debtor or to any other Person) of property under the Plan or pursuant to: (1) the issuance, distribution, transfer, or exchange of any debt, equity Security, or other interest in the Debtors or the Reorganized Debtors; (2) the Restructuring Transactions; (3) the creation, modification, consolidation, termination, refinancing, and/or recording of any mortgage, deed of trust, or other security interest, or the securing of additional indebtedness by such or other means; (4) the making, assignment, or recording of any lease or sublease; or (5) the making, delivery, or recording of any deed or other instrument of transfer under, in furtherance of, or in connection with, the Plan, including any deeds, bills of sale, assignments, or other instrument of transfer executed in connection with any transaction arising out of, contemplated by, or in any way related to the Plan (including in connection with a Plan Sale), shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, real estate transfer tax, personal property transfer tax, sales or use tax, mortgage recording tax, Uniform Commercial Code filing or recording fee, regulatory filing or recording fee, or other similar tax or governmental assessment, and upon entry of the Confirmation Order, the appropriate state or local governmental officials or agents shall forego the collection of any such tax or governmental assessment and accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax, recordation fee, or governmental assessment. All filing or recording officers (or any other Person with authority over any of the foregoing), wherever located and by whomever appointed, shall comply with the requirements of section 1146(a) of the Bankruptcy Code, shall forego the collection of any such tax or governmental assessment, and shall accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment.

14. Director and Officer Liability Insurance.

After the Effective Date, none of the Reorganized Debtors shall terminate or otherwise reduce the coverage under any D&O Liability Insurance Policies (including any “tail policy”) in effect on or after the Petition Date, with respect to conduct or events occurring prior to the Effective Date, and all directors and officers of the Debtors who served in such capacity at any time prior to the Effective Date shall be entitled to the full benefits of any such policy for the full term of such policy, to the extent set forth therein, regardless of whether such directors and officers remain in such positions after the Effective Date.

15. Management Incentive Plan.

All existing equity incentive plans of the Debtors shall be terminated as of the Effective Date. On or after the Effective Date, the New Board shall adopt and implement the Management Incentive Plan.

16. Employee and Retiree Benefits.

Unless otherwise provided herein, and subject to Article V of the Plan, the Reorganized Debtors, with the prior written consent (which consent may be given via email) of the DIP Lenders and Term Loan Lenders, shall: (a) assume all employment agreements, indemnification agreements, or other agreements with current and former members of any Governing Body, employees, officers, directors, or managers of the Debtors; or (b) enter into new agreements with such persons on terms and conditions acceptable to the Reorganized Debtors and such person. Notwithstanding the foregoing, pursuant to section 1129(a)(13) of the Bankruptcy Code, from and after the Effective Date, all retiree benefits (as such term is defined in section 1114 of the Bankruptcy Code), if any, shall continue to be paid in accordance with applicable law.

17. Preservation of Causes of Action.

In accordance with section 1123(b) of the Bankruptcy Code, but subject to Article IX of the Plan or pursuant to a Final Order (including the DIP Order), and any applicable Asset Purchase Agreement, each Reorganized Debtor, as applicable, shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action of the Debtors, whether arising before or after the Petition Date, including any actions specifically enumerated in the Schedule of Retained Causes of Action, and the Reorganized Debtors' rights to commence, prosecute, or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date, other than the Causes of Action released by the Debtors pursuant to the releases and exculpations contained in the Plan, including in Article IX of the Plan or pursuant to a Final Order (including the DIP Order), or as assigned and transferred pursuant to any applicable Asset Purchase Agreement, which, in each case, shall be deemed released and waived by the Debtors and the Reorganized Debtors as of the Effective Date.

The Reorganized Debtors may pursue such retained Causes of Action, as appropriate, in accordance with the best interests of the Reorganized Debtors. **No Entity (other than the Released Parties) may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement to any Causes of Action against it as any indication that the Debtors or the Reorganized Debtors, as applicable, will not pursue any and all available Causes of Action of the Debtors against it. Except as specifically released or as assigned or transferred under the Plan or pursuant to a Final Order (including the DIP Order) or as assigned or transferred pursuant to any applicable Asset Purchase Agreement, the Debtors and the Reorganized Debtors expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan, including Article IX of the Plan or pursuant to a Final Order (including the DIP Order), or as assigned and transferred pursuant to any applicable Asset Purchase Agreement. Unless otherwise agreed upon in writing by the parties to the applicable Causes of Action, all objections to the Schedule of Retained Causes of Action must be Filed with the Bankruptcy Court on or before thirty days after the Effective Date. Any such objection that is not timely Filed shall be disallowed and forever barred, estopped, and enjoined from assertion against any Reorganized Debtor, without the need for any objection or responsive pleading by the Reorganized Debtors or any other party in interest or any further notice to or action, order, or approval of the Bankruptcy Court. The Reorganized Debtors may settle any such objection without any further notice to or action, order, or approval of the Bankruptcy Court. If there is any dispute regarding the inclusion of any Causes of Action on the Schedule of Retained Causes of Action that remains unresolved by the Debtors or Reorganized Debtors, as applicable, and the objection party for thirty days, such objection shall be resolved by the Bankruptcy Court. Unless any**

Causes of Action of the Debtors against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Final Order (including the DIP Order), the Reorganized Debtors expressly reserve all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation.

The Reorganized Debtors reserve and shall retain such Causes of Action of the Debtors notwithstanding the rejection or repudiation of any Executory Contract or Unexpired Lease during the Chapter 11 Cases or pursuant to the Plan. In accordance with section 1123(b)(3) of the Bankruptcy Code, and except as expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or pursuant to a Final Order (including the DIP Order), any Causes of Action that a Debtor may hold against any Entity shall vest in the Reorganized Debtors, except as otherwise expressly provided in the Plan, including Article IX of the Plan. The applicable Reorganized Debtors, through their authorized agents or representatives, shall retain and may exclusively enforce any and all such Causes of Action. The Reorganized Debtors shall have the exclusive right, authority, and discretion to determine and to initiate, file, prosecute, enforce, abandon, settle, compromise, release, withdraw, or litigate to judgment any such Causes of Action and to decline to do any of the foregoing without the consent or approval of any third party or further notice to or action, order, or approval of the Bankruptcy Court.

V. THE DEBTORS' CORPORATE HISTORY, STRUCTURE, AND BUSINESS OVERVIEW

A. The Company's Corporate History.

The Company can trace its roots back to January 2009, when a group of investors purchased the Memorial Hospital of Gardena and East Los Angeles Doctors Hospital in California, both of which were underperforming financially, under Avanti Healthcare Holdings, LLC ("Avanti"), which was not a subsidiary of the Company Parent at that time. After finding success with their initial investment, the group later acquired Community Hospital of Huntington Park in 2010. In 2010, a California law went into effect that provided additional funding to safety net hospitals, which provided a much-needed boost to Avanti's finances. In 2011, Avanti acquired the Community Hospital of Huntington Park, completing Avanti's acquisition of the four now-Company hospitals in California.

In January 2019, the Founders formed PHS and, along with the Sponsors, recapitalized their interests in Avanti to become minority equity holders in Avanti. In February 2019, the Company closed on its purchase of three hospital facilities in the greater Chicago area. In March 2019, the Company acquired what is now White Rock Medical Center in Dallas, Texas. In December 2019, the Founders bought out the other investors of Avanti and integrated Avanti's four facilities in Los Angeles into the Company's structure. Contemporaneously, the Company acquired all equity of Avanti and the real estate underlying the facilities in Chicago, and the Sponsors acquired the majority of the equity of PHS, coming to hold more than 70% of its equity.

B. The Debtors' Corporate Structure, and Operations.

1. Corporate Structure.

Since its inception, the Company has grown through strategic investments, acquisitions, and project-style financing, all of which are reflected in the Company's corporate structure. PHS, the parent entity of the other Debtors, is a holding company. Pipeline Health System Holdings, LLC ("PHS Holdings") is a direct subsidiary of PHS and is incorporated under the laws of Delaware. PHS

Holdings, in turn, directly or indirectly owns thirty-one subsidiaries. The Company's complete corporate organization chart is attached hereto as **Exhibit C**.

2. The Debtors' Operations.

The Debtors are a diversified multi-specialty healthcare network that delivers physician and patient-oriented services to underserved communities. They are often the only available medical care in the area, making the Company an absolutely vital partner to each community. The Debtors own the Weiss Memorial Hospital, and the West Suburban Medical. The White Rock Medical Center, the Coast Plaza Hospital, the Community Hospital of Huntington Park, the East Los Angeles Doctors Hospital, and the Memorial Hospital of Gardena are leased under the California Finance Lease. The White Rock Medical Center is leased under the Texas Finance Lease. Together, the Debtors have more than 1,150 hospital beds available to the communities they serve. Each of the Debtors' hospitals have an emergency department and offer a combination of services in specialties that may include cardiology, critical care, imaging and radiology, orthopedics (including orthopedic surgery), pulmonary care, general surgery, rehabilitation, and women's health.

The Company generates revenue from patients, third-party payors (including health insurance and government programs), and others. In general, patients are responsible for deductibles related to third-party payors, which vary in amount. The communities their hospitals serve rely heavily on government assistance for medical care, as opposed to private insurance carriers who often pay higher fees. As a capital and liquidity-intensive business with high overhead costs, any bureaucratic or political delays of funding has negative consequences. The Debtors have agreements with various insurance plans to provide medical services to subscribing participants under which the company receives monthly capitation payments based on the number of participants. All capitation contracts have a single performance obligation that constitutes a stand ready obligation to provide certain healthcare services to subscribing patients for the duration of the contract. The Company also has traditional payor agreements with managed care providers.

In the twelve-month period ending in August 2022, the Debtors' total revenue was approximately \$3.65 billion, but operating revenue was approximately \$683.96 million after accounting for adjustments, denials, and bad debt. In that same period, the Debtors' EBIDAR was approximately \$77.26 million and net loss was approximately \$271.55 million. Over the same time, the Debtors' operating expenses were approximately \$761.25 million, approximately \$419.73 million of which (more than 55% of operating expenses) were attributable to labor costs.

3. The Debtors' Workforce.

As of the Petition Date, the Debtors employ approximately 4,200 employees, including approximately 3,000 full-time employees and approximately 1,200 part time employees. The Debtors' workforce also includes temporary staff, engaged through various staffing agencies, who fulfill various hospital-level or corporate operational functions on a short- or long-term basis, depending on the Debtors' specific needs at any given time. The Company's workforce is essential to its ordinary-course hospital operations and overall healthcare mission and the orderly administration of these chapter 11 cases.

C. The Debtors' Prepetition Capital Structure.

As more fully set forth in the DIP Declaration, twenty-four of the Debtors are jointly obligated parties on outstanding secured debt consisting of amounts due under the ABL Facility (as defined herein) and the Term Loan Facility. As of the Petition Date, the Debtors have approximately \$603.64 million in aggregate outstanding principal amount of prepetition financial obligations:

Prepetition Financial Obligations	Approximate Outstanding Principal Amount
Term Loan Facility	\$297.66 million
Term Loan Facility – Delayed Draw (Bridge Facility)	\$30.67 million
ABL Facility	\$29.01 million
Capital Leases - Equipment	\$7.90 million
Texas Finance Lease	\$21.27 million
California Finance Lease	\$217.45 million
Total	\$603.85 million

1. The Term Loan Facility.

On January 28, 2019, certain of the Debtors entered into a secured term loan credit facility under the Main Facility (as defined in the First Day Declaration). The Main Facility has an interest rate of 10.0% (cash) or 12.5% (PIK), matures on January 28, 2025, and is secured by substantially all assets of the obligors, subject to intercompany arrangements. As of the date hereof, approximately \$297.6 million of the principal amount of the Main Facility remains outstanding.

During August and September 2022, the Debtors and Term Loan Lenders agreed to amend the Main Facility such that the Debtors received a commitment of \$30 million in additional funding (the “Bridge Facility” and, together with the Main Facility, the “Term Loan Facility”). The Term Loan Facility is secured by substantially all assets of the obligors, subject to intercompany arrangements. As of the date hereof, \$30.67 million of the Bridge Facility remains outstanding.

2. The ABL Facility.

On December 30, 2019, certain of the Debtors entered into a \$55 million secured revolving credit facility senior secured credit facility (the “ABL Facility”). The ABL Facility accrues interest at a rate equal to 10.00% per year and is secured by first- or second-priority liens on and security interests in substantially all of the ABL Facility obligors’ property (with lien priority determined by an Term Loan Facility-ABL Facility intercreditor agreement).

3. Property Financing.

On July 6, 2021, certain Pipeline entities entered as lessees in a sale-leaseback arrangement under that certain master lease agreement, dated July 6, 2021 (the “California Property Financing”) with certain affiliates of Medical Properties Trust, Inc., a real estate trust focused on developing net-leased hospital facilities. The California Property Financing purported to lease back such real estate so that the Debtors could continue its operations for a term of 20 years, subject to extensions. Entry into the California Property Financing arrangement was intended to pay off debt, lower interest rates, and providing capital support for the organization with a focus on repairing aging building infrastructure. With respect to the operations in Texas, on March 1, 2018, certain Debtor entities entered into a lease arrangement under that certain lease with GMR East Dallas Hospital, LLC (the “Texas Property Financing” and, together with the California Property Financing, the “Property Financing”) in connection with the building and land in connection with the White Rock Medical Center and providing for annual minimum rent of \$1.43 million. The Texas Property Financing is set to expire on February 28, 2038 after two consecutive 10-year terms.

4. PHS Common Equity.

As of the Petition Date, the Sponsors collectively hold approximately 70.6% of PHS's common equity.⁷ The remainder of PHS's common equity is held by non-Debtor Pipeline Hospital Holdings, LLC. PHS's common equity is not listed on a national securities exchange.

VI. EVENTS LEADING TO THE CHAPTER 11 FILINGS

A. Challenges Facing the Debtors' Business.

The Debtors' main challenges leading to these chapter 11 cases are four-fold. First, given the Debtors' reliance on funding from government sources, recent delays or decreases in such funding have placed significant strain on the Company's finances. Second, the Company's enterprise has been burdened by high fixed costs associated with certain legacy arrangements related to labor, services, goods or technology services. In addition, the Debtors' aging facilities require extensive capital expenditures to maintain and improve the facilities. Third, in the wake of the COVID-19 pandemic, which itself caused a tightening in the healthcare labor market and disrupted supply chains, the Company's costs for medical labor, supplies, medications, and medical devices have sharply increased. Fourth, preexisting cash flow problems at the Chicago Facilities have only worsened, putting a strain on the Company's operations nationwide. These four challenges together put the Company in an unsustainable financial and operational position, as further detailed in the First Day Declaration.

B. The Debtors' Approach to Addressing Financial Issues.

In response to growing liquidity issues, in 2020, the Company implemented several performance and operational improvement strategies, such as cost containment, contract outsourcing, and efficient resource utilization. In addition, the Company reassessed its business development strategies by, among other things, refocusing its branding towards densely populated areas.

On April 27, 2021, the Company initially retained Ankura to provide certain financial advisory services related to the Illinois Facilities. This engagement ended in July 2021, and on May 2, 2022, the Company re-engaged Ankura to provide turnaround-related services. On August 24, 2022, Ankura and the Company signed another amended engagement letter, which provided for, among other things, the appointment and services of an Ankura managing director as Chief Transformation Officer and a pivot to restructuring-oriented services.

The Company retained Kirkland & Ellis LLP ("Kirkland") August 12, 2022, in connection with restructuring advice, and on September 19, 2022, retained Jefferies LLC ("Jefferies") to provide investment banking services in connection with postpetition financing and marketing and sales processes.

⁷ The "Sponsors" are DFP OpCo, LLC, which holds approximately 34.4% of the Common Units, and Deerfield PH Holdings IV, L.P., which holds approximately 36.2% of the Common Units.

VII. MATERIAL DEVELOPMENTS AND ANTICIPATED EVENTS OF THE CHAPTER 11 CASES

A. First Day Relief.

On the Petition Date, along with their voluntary petitions for relief under chapter 11 of the Bankruptcy Code (the “Petitions”), the Debtors filed several motions (the “First Day Motions”) designed to facilitate the administration of the Chapter 11 Cases and minimize disruption to the Debtors’ operations, by, among other things, easing the strain on the Debtors’ relationships with employees, vendors, and customers following the commencement of the Chapter 11 Cases.

A brief description of each of the First Day Motions and evidence in support thereof is set forth in the *Declaration of Russell A. Perry, Chief Transformation Officer of Pipeline Health System, LLC, in Support of the Chapter 11 Petitions and First Day Motions* filed contemporaneously herewith (the “First Day Declaration”). The First Day Motions, and all orders for relief granted in the Chapter 11 Cases, can be viewed free of charge at <http://dm.epiq11.com/PipelineHealth>.

B. Proposed Case Timeline.

To ensure that the Debtors’ Chapter 11 Cases proceed in a structured and expeditious manner towards confirmation, the Debtors committed to certain case milestones in connection with the DIP Facility. Subject to Court approval, the Debtors intend to solicit votes to accept or reject the Plan and proceed in accordance with the following timeline, which is consistent with the milestones and Bankruptcy Code:

<u>Event</u>	<u>Date</u>
Voting Record Date	[•]
Solicitation Deadline	[•]
Plan Supplement Deadline	[•]
Publication Deadline	[•]
Voting Deadline	[•]
Plan Objection Deadline	[•]
Deadline to File Voting Report	[•]
Confirmation Hearing	[•]

C. Corporate Structure Upon Emergence.

Except in the event of an Asset Sale Restructuring, or as otherwise provided in the Plan or any agreement, instrument, or other document incorporated in the Plan or the Plan Supplement, each Debtor shall continue to exist after the Effective Date as a separate corporation, limited liability company, partnership, or other form, as the case may be, with all the powers of a corporation, limited liability company, partnership, or other form, as the case may be, pursuant to the applicable Law in the jurisdiction in which each applicable Debtor is incorporated or formed and pursuant to the respective certificate of incorporation and bylaws (or other analogous governing documents) in effect prior to the Effective Date,

except to the extent such certificate of incorporation and bylaws (or other analogous governing documents) are amended under the Plan or otherwise, in each case, consistent with the Plan, and to the extent such documents are amended in accordance therewith, such documents are deemed to be amended pursuant to the Plan and require no further action or approval.

VIII. RISK FACTORS

Holders of Claims and Interests should read and consider carefully the risk factors set forth below before voting to accept or reject the Plan. Although there are many risk factors discussed below, these factors should not be regarded as constituting the only risks present in connection with the Debtors' businesses or the Plan and its implementation.

A. Bankruptcy Law Considerations.

The occurrence or non-occurrence of any or all of the following contingencies, and any others, could affect distributions available to holders of Allowed Claims and Interests under the Plan but will not necessarily affect the validity of the vote of the Impaired Classes to accept or reject the Plan or necessarily require a re-solicitation of the votes of holders of Claims and Interests in such Impaired Classes.

1. The Asset Sale Restructuring May Not Occur.

The Debtors' Plan is premised on the occurrence of either the Equitization Restructuring Transaction or an Asset Sale Restructuring. There is no assurance that the Asset Sale Restructuring will occur.

2. Parties in Interest May Object to the Plan's Classification of Claims and Interests.

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an equity interest in a particular class only if such claim or equity interest is substantially similar to the other claims or equity interests in such class. The Debtors believe that the classification of the Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code because the Debtors created Classes of Claims and Interests each encompassing Claims or Interests, as applicable, that are substantially similar to the other Claims or Interests, as applicable, in each such Class. Nevertheless, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

3. The Conditions Precedent to the Effective Date of the Plan May Not Occur.

As more fully set forth in Article X of the Plan, the Confirmation Date and the Effective Date of the Plan are subject to a number of conditions precedent. If such conditions precedent are not met or waived, the Confirmation Date or the Effective Date will not take place.

4. The Debtors May Fail to Satisfy Vote Requirements.

If votes are received in number and amount sufficient to enable the Bankruptcy Court to confirm the Plan, the Debtors intend to seek, as promptly as practicable thereafter, Confirmation of the Plan. In the event that sufficient votes are not received, the Debtors may seek Confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code with respect to any rejecting Class of Claims, or may seek to confirm an alternative chapter 11 plan or transaction. There can be no assurance that the terms of any such alternative chapter 11 plan or other transaction would be similar or as favorable to the holders of Interests

and Allowed Claims as those proposed in the Plan, and the Debtors do not believe that any such transaction exists or is likely to exist that would be more beneficial to the Estates than the Plan.

5. The Debtors May Not Be Able to Secure Confirmation of the Plan.

Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation of a chapter 11 plan, and requires, among other things, a finding by the Bankruptcy Court that: (a) such plan “does not unfairly discriminate” and is “fair and equitable” with respect to any non-accepting classes; (b) confirmation of such plan is not likely to be followed by a liquidation or a need for further financial reorganization unless such liquidation or reorganization is contemplated by the plan; and (c) the value of distributions to non-accepting holders of claims or equity interests within a particular class under such plan will not be less than the value of distributions such holders would receive if the debtors were liquidated under chapter 7 of the Bankruptcy Code.

There can be no assurance that the requisite acceptances to confirm the Plan will be received. Even if the requisite acceptances are received, there can be no assurance that the Bankruptcy Court will confirm the Plan. A non-accepting holder of an Allowed Claim might challenge either the adequacy of this Disclosure Statement or whether the balloting procedures and voting results satisfy the requirements of the Bankruptcy Code or Bankruptcy Rules. Even if the Bankruptcy Court determines that this Disclosure Statement, the balloting procedures, and voting results are appropriate, the Bankruptcy Court could still decline to confirm the Plan if it finds that any of the statutory requirements for Confirmation are not met. If a chapter 11 plan of reorganization is not confirmed by the Bankruptcy Court, it is unclear whether the Debtors will be able to reorganize their business and what, if anything, holders of Interests and Allowed Claims against them would ultimately receive.

The Debtors, subject to the terms and conditions of the Plan, reserve the right to modify the terms and conditions of the Plan as necessary for Confirmation. Any such modifications could result in less favorable treatment of any non-accepting class of Claims or Interests, as well as any class junior to such non-accepting class, than the treatment currently provided in the Plan. Such a less favorable treatment could include a distribution of property with a lesser value than currently provided in the Plan or no distribution whatsoever under the Plan.

In addition, at the outset of the Chapter 11 Cases, the Bankruptcy Code provides the Debtors with the exclusive right to propose the Plan and prohibits creditors and others from proposing a plan. If the Bankruptcy Court terminates that right, however, or the exclusivity period expires, there could be a material adverse effect on the Debtors’ ability to achieve confirmation of the Plan in order to achieve the Debtors’ stated goals.

6. Nonconsensual Confirmation.

In the event that any impaired class of claims or interests does not accept a chapter 11 plan, a bankruptcy court may nevertheless confirm a plan at the proponents’ request if at least one impaired class (as defined under section 1124 of the Bankruptcy Code) has accepted the plan (with such acceptance being determined without including the vote of any “insider” in such class), and, as to each impaired class that has not accepted the plan, the bankruptcy court determines that the plan “does not discriminate unfairly” and is “fair and equitable” with respect to the dissenting impaired class(es). The Debtors believe that the Plan satisfies these requirements, and the Debtors may request such nonconsensual Confirmation in accordance with subsection 1129(b) of the Bankruptcy Code. Nevertheless, there can be no assurance that the Bankruptcy Court will reach this conclusion. In addition, the pursuit of nonconsensual Confirmation or Consummation of the Plan may result in, among other things, increased expenses relating to professional compensation.

7. Continued Risk Upon Confirmation.

Even if the Plan is consummated, the Debtors will continue to face a number of risks, including certain risks that are beyond their control, such as further deterioration or other changes in economic conditions, changes in the industry, potential revaluing of their assets due to chapter 11 proceedings, and increasing expenses. *See Article VIII.C* of this Disclosure Statement, entitled “Risks Related to the Debtors’ and the Reorganized Debtors’ Businesses,” which begins on page 43. Some of these concerns and effects typically become more acute when a case under the Bankruptcy Code continues for a protracted period without indication of how or when the case may be completed. As a result of these risks and others, there is no guarantee that a chapter 11 plan of reorganization reflecting the Plan will achieve the Debtors’ stated goals.

Furthermore, even if the Debtors’ debts are reduced and/or discharged through the Plan, the Debtors may need to raise additional funds through public or private debt or equity financing or other various means to fund the Debtors’ businesses after the completion of the proceedings related to the Chapter 11 Cases. Adequate funds may not be available when needed or may not be available on favorable terms.

8. The Chapter 11 Cases May Be Converted to Cases under Chapter 7 of the Bankruptcy Code or One or More of the Chapter 11 Cases May Be Dismissed.

If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the debtor in a chapter 11 case, the Bankruptcy Court may convert a chapter 11 bankruptcy case to a case under chapter 7 of the Bankruptcy Code. In such event, a chapter 7 trustee would be appointed or elected to liquidate the debtor’s assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in significantly smaller distributions being made to creditors than those provided for in a chapter 11 plan because of (a) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time, rather than reorganizing or selling the business as a going concern at a later time in a controlled manner, (b) additional administrative expenses involved in the appointment of a chapter 7 trustee, and (c) additional expenses and Claims, some of which would be entitled to priority, that would be generated during the liquidation, including Claims resulting from the rejection of Unexpired Leases and other Executory Contracts in connection with cessation of operations.

Additionally, if the Bankruptcy Court finds that the Debtors have incurred substantial or continuing loss or diminution to the estate and lack of a reasonable likelihood of rehabilitation of the Debtors or the ability to effectuate substantial consummation of a confirmed plan, or otherwise determines that cause exists, the Bankruptcy Court may dismiss one or more of the Chapter 11 Cases. In such event, the Debtors would be unable to confirm the Plan with respect to the applicable Debtor or Debtors, which may ultimately result in significantly smaller distributions to creditors than those provided for in the Plan.

9. The Debtors May Object to the Amount or Classification of a Claim or Interest.

Except as otherwise provided in the Plan, the Debtors reserve the right to object to the amount or classification of any Claim or Interest under the Plan. The estimates set forth in this Disclosure Statement cannot be relied upon by any holder of a Claim where such Claim is subject to an objection. Any holder of a Claim that is subject to an objection thus may not receive its expected share of the estimated distributions described in this Disclosure Statement.

10. Contingencies Could Affect Distributions Available to Holders of Allowed Claims Under the Plan.

The distributions available to holders of Allowed Claims under the Plan can be affected by a variety of contingencies, including, without limitation, whether the Bankruptcy Court orders certain Allowed Claims to be subordinated to other Allowed Claims. The occurrence of any and all such contingencies, which could affect distributions available to holders of Allowed Claims under the Plan, will not affect the validity of the vote taken by the Impaired Classes to accept or reject the Plan or require any sort of revote by the Impaired Classes.

The estimated Claims and creditor recoveries set forth in this Disclosure Statement are based on various assumptions, and the actual Allowed amounts of Claims may significantly differ from the estimates. Should one or more of the underlying assumptions ultimately prove to be incorrect, the actual Allowed amounts of Claims may vary from the estimated Claims contained in this Disclosure Statement. Moreover, the Debtors cannot determine with any certainty at this time, the number or amount of Claims that will ultimately be Allowed. Such differences may materially and adversely affect, among other things, the percentage recoveries to holders of Allowed Claims under the Plan.

11. Releases, Injunctions, and Exculpations Provisions May Not Be Approved.

Article IX of the Plan provides for certain releases, injunctions, and exculpations, including a release of liens and third-party releases that may otherwise be asserted against the Debtors, Reorganized Debtors, or Released Parties, as applicable. The releases, injunctions, and exculpations provided in the Plan are subject to objection by parties in interest and may not be approved. If the releases are not approved, certain Released Parties may withdraw their support for the Plan.

The releases provided to the Released Parties and the exculpation provided to the Exculpated Parties are necessary to the success of the Debtors' reorganization because the Released Parties and Exculpated Parties have made significant contributions to the Debtors' reorganizational efforts that are important to the success of the Plan and have agreed to make further contributions, including by agreeing to massive reductions in the amounts of their claims against the Debtors' estates and facilitating a critical source of post-emergence liquidity, but only if they receive the full benefit of the Plan's release and exculpation provisions. The Plan's release and exculpation provisions are an inextricable component of the Plan.

12. The Debtors Cannot Predict the Amount of Time Spent in Bankruptcy for the Purpose of Implementing the Plan, and a Lengthy Bankruptcy Proceeding Could Disrupt the Debtors' Businesses, as Well as Impair the Prospect for Reorganization on the Terms Contained in the Plan.

Although the Debtors propose to complete the process of obtaining Confirmation and Consummation of the Plan within one hundred twenty days from the Petition Date, the process could last considerably longer if, for example, Confirmation is contested or the conditions to Confirmation or Consummation are not satisfied or waived.

While the Debtors have made efforts to minimize the length of the Chapter 11 Cases, it is impossible to predict with certainty the amount of time that the Debtors may spend in bankruptcy, and the Debtors cannot be certain that the Plan will be confirmed. Even if confirmed on a timely basis, a bankruptcy proceeding to confirm the Plan could itself have an adverse effect on the Debtors' businesses. There is a risk, due to uncertainty about the Debtors' futures that, among other things:

- employees could be distracted from performance of their duties or more easily attracted to other career opportunities; and
- suppliers, vendors, or other business partners could terminate their relationship with the Debtors or demand financial assurances or enhanced performance, any of which could impair the Debtors' prospects and ability to generate stable, recurring cash flows from long-term contracts with established customers.

Lengthy Chapter 11 Cases also would involve additional expenses, putting strain on the Debtors' liquidity position, and divert the attention of management from the operation of the Debtors' businesses.

The disruption that the bankruptcy process would have on the Debtors' businesses could increase with the length of time it takes to complete the Chapter 11 Cases. If the Debtors are unable to obtain Confirmation of the Plan on a timely basis, because of a challenge to the Plan or otherwise, the Debtors may be forced to operate in bankruptcy for an extended period of time while they try to develop a different plan of reorganization that can be confirmed. A protracted bankruptcy case could increase both the probability and the magnitude of the adverse effects described above.

13. Risk of Non-Occurrence of the Effective Date.

Although the Debtors believe that the Effective Date may occur quickly after the Confirmation Date, there can be no assurance as to such timing or as to whether the Effective Date will, in fact, occur. As more fully set forth in Article X of the Plan, the Effective Date of the Plan is subject to a number of conditions precedent. If such conditions precedent are waived or not met, the Effective Date will not take place.

B. Risks Related to Recoveries under the Plan.

1. The Reorganized Debtors May Not Be Able to Achieve Their Projected Financial Results.

The Reorganized Debtors may not be able to achieve their projected financial results. The Financial Projections (as defined herein) set forth in this Disclosure Statement represent the Debtors' management team's best estimate of the Debtors' future financial performance, which is necessarily based on certain assumptions regarding the anticipated future performance of the Reorganized Debtors' operations, as well as the United States and world economies in general, and the industry segments in which the Debtors operate in particular. While the Debtors believe that the Financial Projections contained in this Disclosure Statement are reasonable, there can be no assurance that they will be realized. If the Reorganized Debtors do not achieve their projected financial results, the value of the New Common Equity may be negatively affected and the Reorganized Debtors may lack sufficient liquidity to continue operating as planned after the Effective Date. Moreover, the financial condition and results of operations of the Reorganized Debtors from and after the Effective Date may not be comparable to the financial condition or results of operations reflected in the Debtors' historical financial statements.

2. A Liquid Trading Market for the Shares of New Common Equity May Not Develop.

The New Common Equity will be a new issuance of securities, and there is no established trading market for those securities. An active trading market for the securities may never develop, or if developed, may not be sustained. The Debtors do not intend to apply for the New Common Equity to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation system. The liquidity of

any market for shares of New Common Equity will depend upon, among other things, the number of holders of shares of New Common Equity, Reorganized Debtors' financial performance, and the market for similar securities, none of which can be determined or predicted. Accordingly, there can be no assurance that an active trading market for the New Common Equity will develop, nor can any assurance be given as to the liquidity or prices at which such securities might be traded. In the event an active trading market does not develop, the ability to transfer or sell New Common Equity may be substantially limited. The lack of an active market may also impair your ability to sell your New Common Equity at the time you wish to sell them or at a price you consider reasonable. The lack of an active market may also reduce the market price of your shares of New Common Equity. Accordingly, you may be required to bear the financial risk of your ownership of the New Common Equity indefinitely.

3. Certain of the New Common Equity Issued Under the Plan May Not Be Resold or Otherwise Transferred Unless They Are Registered Under the Securities Act or an Exemption from Registration Applies.

Upon the Effective Date, the issuance of New Common Equity will not be registered under the Securities Act or any state securities laws.

To the extent that shares of the New Common Equity issued under the Plan are covered by section 1145(a)(1) of the Bankruptcy Code, such securities may be resold by the holders thereof without registration under the Securities Act unless the holder is an "underwriter," as defined in section 1145(b) of the Bankruptcy Code with respect to such securities; *provided, however*, such rights or shares of such New Common Equity will not be freely tradeable if, at the time of transfer, the holder is an "affiliate" of the Reorganized Debtors as defined in Rule 144(a)(1) under the Securities Act or had been such an "affiliate" within 90 days of such transfer. Such affiliate holders would only be permitted to sell such securities without registration if they are able to comply with an applicable exemption from registration, including Rule 144 under the Securities Act. Resales by holders of Claims who receive New Common Equity pursuant to the Plan that are deemed to be "underwriters" would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or applicable Law. Such holders would only be permitted to sell such securities without registration if they are able to comply with an applicable exemption from registration, including Rule 144 under the Securities Act.

To the extent that securities issued pursuant to the Plan are not covered by section 1145(a)(1) of the Bankruptcy Code, such securities shall be issued pursuant to section 4(a)(2) under the Securities Act and will be deemed "restricted securities" that may not be sold, exchanged, assigned, or otherwise transferred unless they are registered, or an exemption from registration applies, under the Securities Act. Holders of such restricted securities may not be entitled to have their restricted securities registered and will be required to agree not to resell them except in accordance with an available exemption from registration under the Securities Act.

Under Rule 144 of the Securities Act, the resale of restricted securities is permitted if certain conditions are met, and these conditions vary depending on whether the holder of the restricted securities is an "affiliate" of the issuer, as defined in Rule 144. A non-affiliate who has not been an affiliate of the issuer during the preceding ninety days may resell restricted securities after a one-year holding period. An affiliate may also resell restricted securities after a one-year holding period but only if certain current public information regarding the issuer is available at the time of the sale and only if the affiliate also complies with the volume, manner of sale, and notice requirements of Rule 144. Since the Reorganized Debtors do not plan to list any of their securities on a national stock exchange, there can be no assurance that there will be current public information available about the issuer of the New Common Equity.

Holders of New Common Equity who are deemed to be “underwriters” under Section 1145(b) of the Bankruptcy Code will also be subject to restrictions under the Securities Act on their ability to resell those securities. Resale restrictions are discussed in more detail in Article XI to this Disclosure Statement, entitled “Certain Securities Law Matters,” which begins on page 55.

The Reorganized Debtors do not intend to register or apply to list the New Common Equity on a national securities exchange. The Debtors make no representation regarding the right of any holder of New Common Equity to freely resell the New Common Equity. For additional information, see Article XI to this Disclosure Statement, entitled “Certain Securities Law Matters,” which begins on page 56.

4. Holders of the New Common Equity May Not Have Access to the Same Level of Information Available to Holders of Registered Securities.

The New Common Equity will not be registered under the Securities Act or any state securities laws. As a result, the Reorganized Debtors will not be subject to the reporting requirements of the Securities Act or the Exchange Act, and the information available to holders of the New Common Equity may be less than would be required if the New Common Equity were registered. Such a reduced availability of information could impair your ability to evaluate your ownership and the marketability of the New Common Equity.

5. Certain Significant Holders of Shares of New Common Equity May Have Substantial Influence Over the Reorganized Debtors Following the Effective Date.

Assuming that the Effective Date occurs, holders of Claims who receive distributions representing a substantial percentage of the outstanding shares of the New Common Equity may be in a position to influence matters requiring approval by the holders of shares of New Common Equity, including, among other things, the election of directors and the approval of a change of control of the Reorganized Debtors. The holders may have interests that differ from those of the other holders of shares of New Common Equity and may vote in a manner adverse to the interests of other holders of shares of New Common Equity. This concentration of ownership may facilitate or may delay, prevent, or deter a change of control of the Reorganized Debtors and consequently impact the value of the shares of New Common Equity. In addition, a holder of a significant number of shares of New Common Equity may sell all or a large portion of its shares of New Common Equity within a short period of time, which sale may adversely affect the trading price of the shares of New Common Equity. A holder of a significant number of shares of New Common Equity may, on its own account, pursue acquisition opportunities that may be complementary to the Reorganized Debtors’ businesses, and as a result, such acquisition opportunities may be unavailable to the Reorganized Debtors. Such actions by holders of a significant number of shares of New Common Equity may have a material adverse impact on the Reorganized Debtors’ businesses, financial condition, and operating results.

6. Certain Tax Implications of the Plan.

Holders of Allowed Claims should carefully review Article XII of this Disclosure Statement entitled “Certain U.S. Federal Income Tax Consequences of the Plan” which begins on page 58, to determine how the tax implications of the Plan and the Chapter 11 Cases may affect the Debtors, the Reorganized Debtors, and Holders of Claims, as well as certain tax implications of owning and disposing of the consideration to be received pursuant to the Plan.

7. The Debtors May Not Be Able to Accurately Report Their Financial Results.

The Debtors have established internal controls over financial reporting. However, internal controls over financial reporting may not prevent or detect misstatements or omissions in the Debtors' financial statements because of their inherent limitations, including the possibility of human error, and the circumvention or overriding of controls or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If the Debtors fail to maintain the adequacy of their internal controls, the Debtors may be unable to provide financial information in a timely and reliable manner within the time periods required under the terms of the agreements governing the Debtors' indebtedness. Any such difficulties or failure could materially adversely affect the Debtors' business, results of operations, and financial condition. Further, the Debtors may discover other internal control deficiencies in the future and/or fail to adequately correct previously identified control deficiencies, which could materially adversely affect the Debtors' businesses, results of operations, and financial condition.

8. Contingencies Could Affect Allowed Claims Classes

The distributions available to Holders of Allowed Claims under the Plan can be affected by a variety of contingencies, including, without limitation, whether the Bankruptcy Court orders certain Allowed Claims to be subordinated to other Allowed Claims.

The estimated Claims and creditor recoveries set forth in this Disclosure Statement are based on various assumptions, and the actual Allowed amounts of Claims may significantly differ from the estimates. Should one or more of the underlying assumptions ultimately prove to be incorrect, the actual Allowed amounts of Claims may vary from the estimated Claims contained in this Disclosure Statement. Moreover, the Debtors cannot determine with any certainty at this time the number or amount of Claims that will ultimately be Allowed. Such differences may materially and adversely affect, among other things, the percentage recoveries to Holders of Allowed Claims under the Plan.

C. Risks Related to the Debtors' and the Reorganized Debtors' Businesses.

1. The Reorganized Debtors May Not Be Able to Generate Sufficient Cash to Service All of Their Indebtedness.

The Reorganized Debtors' ability to make scheduled payments on, or refinance their debt obligations, depends on the Reorganized Debtors' financial condition and operating performance, which are subject to prevailing economic, industry, and competitive conditions and to certain financial, business, legislative, regulatory, and other factors beyond the Reorganized Debtors' control. The Reorganized Debtors may be unable to maintain a level of cash flow from operating activities sufficient to permit the Reorganized Debtors to pay the principal, premium, if any, and interest and/or fees on their indebtedness, including, without limitation, anticipated borrowings under the Exit Facility upon emergence.

2. The Debtors Will Be Subject to the Risks and Uncertainties Associated with the Chapter 11 Cases.

For the duration of the Chapter 11 Cases, the Debtors' ability to operate, develop, and execute a business plan, and continue as a going concern, will be subject to the risks and uncertainties associated with bankruptcy. These risks include the following: (a) ability to develop, confirm, and consummate the Restructuring Transactions specified in the Plan; (b) ability to obtain Bankruptcy Court approval with respect to motions filed in the Chapter 11 Cases from time to time; (c) ability to maintain relationships with suppliers, vendors, service providers, customers, employees, and other third parties; (d) ability to maintain

contracts that are critical to the Debtors' operations; (e) ability of third parties to seek and obtain Bankruptcy Court approval to terminate contracts and other agreements with the Debtors; (f) ability of third parties to seek and obtain Bankruptcy Court approval to terminate or shorten the exclusivity period for the Debtors to propose and confirm a chapter 11 plan, to appoint a chapter 11 trustee, or to convert the Chapter 11 Cases to chapter 7 proceedings; and (g) the actions and decisions of the Debtors' creditors and other third parties who have interests in the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

These risks and uncertainties could affect the Debtors' businesses and operations in various ways. For example, negative events associated with the Chapter 11 Cases could adversely affect the Debtors' relationships with suppliers, service providers, customers, employees, and other third parties, which in turn could adversely affect the Debtors' operations and financial condition. Also, the Debtors will need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, which may limit the Debtors' ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with the Chapter 11 Cases, the Debtors cannot accurately predict or quantify the ultimate impact of events that occur during the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

3. Operating in Bankruptcy for a Long Period of Time May Harm the Debtors' Businesses.

The Debtors' future results will be dependent upon the successful confirmation and implementation of a plan of reorganization. A long period of operations under Bankruptcy Court protection could have a material adverse effect on the Debtors' businesses, financial condition, results of operations, and liquidity. So long as the proceedings related to the Chapter 11 Cases continue, senior management will be required to spend a significant amount of time and effort dealing with the reorganization instead of focusing exclusively on business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the success and growth of the Debtors' businesses. In addition, the longer the proceedings related to the Chapter 11 Cases continue, the more likely it is that customers and suppliers will lose confidence in the Debtors' ability to reorganize their businesses successfully and will seek to establish alternative commercial relationships.

So long as the Chapter 11 Cases continue, the Debtors may be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 Cases. If the Chapter 11 Cases last longer than anticipated, the Debtors will require additional debtor-in-possession financing to fund the Debtors' operations. If the Debtors are unable obtain such financing in those circumstances, the chances of successfully reorganizing the Debtors' businesses may be seriously jeopardized, the likelihood that the Debtors will instead be required to liquidate or sell their assets may be increased, and, as a result, creditor recoveries may be significantly impaired.

Furthermore, the Debtors cannot predict the ultimate amount of all settlement terms for the liabilities that will be subject to a plan of reorganization. Even after a plan of reorganization is approved and implemented, the Reorganized Debtors' operating results may be adversely affected by the possible reluctance of prospective lenders and other counterparties to do business with a company that recently emerged from bankruptcy protection.

4. Financial Results May Be Volatile and May Not Reflect Historical Trends.

During the Chapter 11 Cases, the Debtors expect that their financial results will continue to be volatile as asset impairments, asset dispositions, restructuring activities and expenses, contract terminations and rejections, and/or claims assessments may significantly impact the Debtors' consolidated financial

statements. As a result, the Debtors' historical financial performance likely will not be indicative of their financial performance after the Petition Date.

In addition, if the Debtors emerge from chapter 11, the amounts reported in subsequent consolidated financial statements may materially change relative to historical consolidated financial statements, including as a result of revisions to the Debtors' operating plans pursuant to a plan of reorganization. The Debtors also may be required to adopt "fresh start" accounting in accordance with Accounting Standards Codification 852 ("Reorganizations") in which case their assets and liabilities will be recorded at fair value as of the fresh start reporting date, which may differ materially from the recorded values of assets and liabilities on the Debtors' consolidated balance sheets. The Debtors' financial results after the application of fresh start accounting also may be different from historical trends. The Financial Projections contained in **Exhibit E** hereto do not currently reflect the impact of fresh start accounting, which may have a material impact on the Financial Projections.

The Financial Projections are based on assumptions that are an integral part of the projections, including Confirmation and Consummation of the Plan in accordance with its terms, the anticipated future performance of the Debtors, industry performance, general business and economic conditions, and other matters, many of which are beyond the control of the Debtors and some or all of which may not materialize.

The Financial Projections set forth in this Disclosure Statement represent the best estimate of the future financial performance of the Debtors based on currently known facts and assumptions about future operations as well as the United States and world economies in general, and the relevant industries in which the Debtors operate. The actual financial results may differ significantly from the projections. If the Debtors do not achieve their projected financial results, then the value of the Debtors' debt or equity issued pursuant to the Plan may experience a decline and the Debtors may lack sufficient liquidity to continue operating as planned after the Effective Date. There are numerous factors and assumptions inherent in estimating the Debtors' future financial results, many of which are beyond the Debtors' control.

5. The Debtors' Substantial Liquidity Needs May Impact Debtors' Ability to Operate.

The Debtors' business requires sufficient liquidity to ensure that the Debtors' properties and operations are maintained. If the Debtors' cash flow from operations remains depressed or decreases, the Debtors may not have the ability to expend the capital necessary to improve or maintain their current operations, resulting in decreased revenues over time.

The Debtors face uncertainty regarding the adequacy of their liquidity and capital resources. In addition to the Cash necessary to fund ongoing operations, the Debtors have incurred significant Professional fees and other costs in connection with the Chapter 11 Cases and expect to continue to incur significant Professional fees and costs throughout the remainder of the Chapter 11 Cases. The Debtors cannot guarantee that Cash on hand, cash flow from operations, and Cash provided by the DIP Facility will be sufficient to continue to fund their operations and allow the Debtors to satisfy obligations related to the Chapter 11 Cases until the Debtors are able to emerge from bankruptcy protection.

The Debtors' liquidity, including the ability to meet ongoing operational obligations, will be dependent upon, among other things: (a) their ability to comply with the terms and condition of the DIP Order; (b) their ability to maintain adequate Cash on hand; (c) their ability to develop, confirm, and consummate the Plan or other alternative restructuring transaction; and (d) the cost, duration, and outcome of the Chapter 11 Cases. The Debtors' ability to maintain adequate liquidity depends, in part, upon industry conditions and general economic, financial, competitive, regulatory, and other factors beyond the Debtors' control. In the event that Cash on hand, cash flow from operations, and Cash provided under the DIP

Facility are not sufficient to meet the Debtors' liquidity needs, the Debtors may be required to seek additional financing. The Debtors can provide no assurance that additional financing would be available or, if available, offered to the Debtors on acceptable terms. The Debtors' access to additional financing is, and for the foreseeable future likely will continue to be, extremely limited if it is available at all. The Debtors' long-term liquidity requirements and the adequacy of their capital resources are difficult to predict at this time.

6. Reimbursement Rates Paid by Federal or State Healthcare Programs or Commercial Insurance and Other Managed Care Payors May be Reduced, The Debtors May be Unable to Maintain Favorable Contract Terms with Payors or Comply with The Debtors' Payor Contract Obligations, or Insurance Coverage May Otherwise be Restricted, and, As A Result, The Debtors' Net Operating Revenues May Decline.

The Debtors generate a significant portion of net patient revenues from the Medicare and Medicaid programs, including Medicare and Medicaid managed care plans. Healthcare expenditures continue to increase and state governments continue to face budgetary shortfalls. Driven by these financial factors and ongoing health reform efforts, federal and state governments have made, and continue to make, significant changes in the Medicare and Medicaid programs, including changes in payment methodologies, reductions in reimbursement payment levels and reductions to payments made to providers under state supplemental payment programs. Some of these changes have already occurred, and could re-occur in the future, limiting the amount of payments the Debtors receive for their services.

In addition, governmental and commercial payors, as well as other third parties from whom the Debtors receive payment for the Debtors' services, attempt to control healthcare costs by, for example, requiring hospitals to discount payments for their services in exchange for exclusive or preferred participation in their benefit plan networks, restricting coverage through utilization reviews, reducing coverage of inpatient services and shifting coverage of care to outpatient settings when possible, requiring prior authorizations for non-emergency services and implementing alternative payment models. The ability of commercial payors to control healthcare costs using these measures may be enhanced by the increasing consolidation of private health insurance companies and managed care companies and vertical integration of health insurers with healthcare providers. Cost-reduction strategies by large employer groups and their affiliates may also limit the Debtors' ability to negotiate favorable terms in the Debtors' contracts and otherwise intensify competitive pressure. Furthermore, the Debtors' contracts with payors require the Debtors to comply with a number of terms related to the provision of services and billing for services. If the Debtors are unable to negotiate increased reimbursement rates, maintain existing reimbursement rates or other favorable contract terms, effectively respond to payor cost controls or comply with the terms of the Debtors' payor contracts, the payments the Debtors receive for their services may be reduced or the Debtors may be involved in disputes with payors and experience payment denials, both prospectively and retroactively.

7. Changes to Medicaid Supplemental Payment Programs May Adversely Affect the Debtors' Revenues, Results of Operations and Cash Flows.

Medicaid state supplemental payments to providers are separate from and in addition to those made under a state's standard Medicaid program. For example, federal law requires state Medicaid programs to make DSH payments to hospitals that serve significant numbers of Medicaid and uninsured patients. The Affordable Care Act and subsequent legislation provide for reductions in Medicaid DSH payments. Reductions in Medicaid DSH payments and the funding of similar programs could have an adverse effect on the Debtors' revenues and results of operations.

Supplemental payment programs are being reviewed by certain state agencies, and some states have made or may make waiver requests to CMS to replace existing supplemental payment programs. These reviews and waiver requests may result in restructuring of such programs and could cause reductions in or elimination of the payments.

8. The Debtors May Experience Delayed Payments of Medicare and Medicaid Reimbursements or Incur Additional Costs and May be Required to Repay Amounts Already Paid to the Debtors under These Programs.

The Debtors are subject to routine post-payment inquiries, investigations and audits of the claims they submit to Medicare and Medicaid for reimbursement for their healthcare services provided to covered patients. The number and parameters of claims subject to these post-payment reviews may increase as a result of federal and state governmental healthcare cost-containment initiatives, including enhanced medical necessity reviews for Medicare patients admitted as inpatients to hospitals for certain procedures. Furthermore, CMS contracts with Recovery Audit Contractors (“RACs”) to perform a post-payment targeted review process. The claims review strategies used by RACs generally include a review of high dollar claims, including inpatient hospital claims. As a result, a large majority of the total payment adjustments determined by RACs relate to hospital claims. In addition, CMS employs Medical Integrity Contractors (“MICs”) to perform post-payment audits of Medicaid claims to identify potential overpayments. State Medicaid agencies and other private third-party contractors have also increased their review activities. Third-party audits or investigations of Medicare or Medicaid claims could result in increases or decreases in the Debtors’ revenues to be recognized in periods subsequent to when the related healthcare services were performed, which could have an adverse effect on the Debtors’ results of operations.

9. A Material Portion of The Debtors’ Revenues Are Concentrated in a Few States which Makes the Debtors Particularly Sensitive to Regulatory and Economic Changes in Those States.

The Debtors’ revenues are particularly sensitive to regulatory and economic changes in the states of California, Illinois, and Texas, where the Debtors generate a significant portion of their revenues. Accordingly, any change in the current demographic, economic, competitive or regulatory conditions in this state could have an adverse effect on the Debtors’ business, results of operations, financial condition and cash flows. Changes to the state Medicaid and other governmental payor programs in California, Illinois, and Texas, including reductions in reimbursement rates or delays in timing of reimbursement payments, could also have an adverse effect on the Debtors’ business, results of operations, financial condition and cash flows.

10. If The Debtors Are Unable to Effectively Compete for Patients, Local Residents in The Markets Where the Debtors Operate Hospitals May Choose to Use Other Hospitals and Healthcare Providers for Medical Treatment.

The U.S. healthcare industry is highly competitive among hospitals and other healthcare providers for patients and physician affiliations. The Debtors’ facilities generally face competition for patients from other facilities, including facilities that may have more comprehensive specialty care service lines, more advanced medical equipment and technology, more extensive medical research capabilities and greater access to medical education programs. Patients who receive medical treatment from another facility may subsequently shift their preferences to that facility for future healthcare services. The Debtors also face competition from other specialty care providers, including outpatient surgery, orthopedic, oncology and diagnostic centers that are not affiliated with the Debtors. The Debtors also face competition from municipal and not-for-profit hospitals. If the Debtors are unable to compete effectively with other

healthcare providers, local residents may seek healthcare services from providers other than the Debtors' hospitals and affiliated outpatient service facilities.

11. The Emergence (or Reemergence) of a Pandemic, Epidemic or Outbreak of An Infectious Disease in the Markets in Which The Debtors Operate Hospitals, or Which Otherwise Impacts the Debtors' Healthcare Facilities, Could Adversely Impact the Debtors' Business.

If a pandemic, epidemic, outbreak of an infectious disease, or other public health crisis were to affect any or all of the markets in which the Debtors operate hospitals, the Debtors' business and results of operations could be adversely affected. Such a crisis could diminish the public's trust in healthcare facilities, especially hospitals that fail to accurately or timely diagnose or that are treating or have treated patients affected by contagious diseases. If any of the Debtors' healthcare facilities were involved in treating patients for such a contagious disease, other patients might cancel elective procedures or fail to seek needed care from the Debtors' healthcare facilities. Further, a pandemic might adversely impact the Debtors' business by causing a temporary shutdown or diversion of patients, by disrupting or delaying production and delivery of materials and products in the supply chain or by causing staffing shortages in the Debtors' healthcare facilities. Moreover, the Debtors cannot predict the costs associated with the potential treatment of an infectious disease outbreak by their hospitals or preparation for such treatment. In the event that a pandemic disrupts the production or supply of pharmaceuticals and medical supplies, for example, the Debtors' business could be adversely affected. Although the Debtors have disaster plans in place and operate pursuant to infectious disease protocols, the potential impact of a pandemic, epidemic or outbreak of an infectious disease, with respect to the Debtors' markets or the Debtors' healthcare facilities is difficult to predict and could adversely impact the Debtors' business. In addition, if such events lead to a significant or prolonged impact on capital or credit markets or economic growth, then the Debtors' business, financial condition and results of operations could be adversely affected.

12. The Debtors' Inability to Recruit and Retain Quality Physicians Could Adversely Impact The Debtors' Performance.

The success of the Debtors' healthcare facilities depends in part on the number and quality of the physicians on the medical staffs of the Debtors' hospitals and other healthcare facilities, the Debtors' ability to employ or contract with quality physicians, the admitting and utilization practices of employed and non-employee physicians, maintaining good relations with physicians and controlling costs related to the employment of physicians. In many of the markets the Debtors serve, many physicians have admitting privileges at other healthcare facilities in addition to the Debtors' healthcare facilities. Such physicians may terminate their affiliation or employment with the Debtors' healthcare facilities at any time. If the Debtors are unable to provide adequate supporting medical staff or technologically advanced medical equipment and facilities that meet the needs or expectations of those physicians and their patients, they may be discouraged from referring patients to the Debtors' facilities, admissions may decrease and the Debtors' operating performance may decline.

13. If the Debtors Fail to Comply with the Extensive Laws and Governmental Regulations That Apply to the U.S. Healthcare Industry, Including Anti-Fraud and Abuse Laws, the Debtors Could Suffer Penalties or be Required to Make Significant Changes to Their Operations.

The U.S. healthcare industry is governed by extensive laws and regulations at the federal, state and local government levels. These laws and regulations include standards that address, among other issues, the following:

- the adequacy of medical care, equipment, personnel, and operating policies and procedures;
- billing and coding for services;
- proper handling of overpayments;
- classification of levels of care provided;
- preparing and filing of cost reports;
- relationships with referral sources and referral recipients;
- corporate practice of medicine and fee-splitting;
- maintenance of adequate records;
- compliance with building codes;
- environmental protection;
- privacy and security; and
- debt collection and communications with patients and consumers.

Examples of these laws include, but are not limited to, HIPAA, the Stark Law, the Anti-Kickback Statute, the False Claims Act, EMTALA and similar state laws. These laws are applicable to financial arrangements Debtors have with physicians and other health care providers who refer patients to the Debtors' hospitals, employed physicians and other health care services. The laws are quite complex and subject to varying interpretations. In the future, evolving interpretations or enforcement of the laws and regulations applicable to the U.S. healthcare industry could subject the Debtors' current practices to allegations of impropriety or illegality or could require the Debtors to make changes to their healthcare facilities, equipment, personnel, healthcare service offerings, capital expenditure programs and operating expenses.

14. The Debtors May from Time to Time Become the Subject of Legal, Regulatory and Governmental Proceedings That, If Resolved Unfavorably, Could Have An Adverse Effect on the Debtors, and the Debtors May be Subject to Other Loss Contingencies, Both Known and Unknown.

The Debtors may from time to time become a party to various legal, regulatory and governmental proceedings and other related matters. Those proceedings include, among other things, governmental investigations. In addition, the Debtors may become subject to other loss contingencies, both known and unknown, which may relate to past, present and future facts, events, circumstances and occurrences. Addressing any investigations, lawsuits or other claims may distract management and divert resources, even if the Debtors ultimately prevail. Should an unfavorable outcome occur in some or all of any such current or future legal, regulatory or governmental proceedings or other such loss contingencies, or if successful claims and other actions are brought against the Debtors in the future, there could be an adverse impact on the Debtors' results of operations, financial position and cash flows.

Governmental investigations, as well as qui tam lawsuits, may lead to significant fines, penalties, settlements or other sanctions, including exclusion from federal and state healthcare programs. Settlements of lawsuits involving Medicare and Medicaid issues routinely require both monetary payments and corporate integrity agreements, each of which could have an adverse effect on the Debtors' business, results of operations, financial position and cash flows.

15. The Debtors Could be Subject to Substantial Uninsured Liabilities or Increased Insurance Costs As A Result of Significant Legal Actions.

Physicians, hospitals and other healthcare providers have become subject to an increasing number of legal actions alleging malpractice and other liability claims or legal theories. Many of these actions

involve large claims and significant costs for legal defense. To protect the Debtors from the vulnerability to the potentially significant costs arising from these claims, the Debtors maintain claims-made professional and general liability insurance coverage in excess of those amounts for which they are self-insured. The Debtors' insurance coverage, however, may not continue to be available in the future at a reasonable cost for the Debtors to maintain adequate levels of insurance. Additionally, the Debtors' insurance coverage does not cover all claims against the Debtors, such as fines, penalties, or other damage and legal expense payments resulting from qui tam lawsuits. The Debtors cannot predict the outcome of current or future legal actions against them or the effect that judgments or settlements in such matters may have on them or on their insurance costs. Additionally, all professional and general liability insurance the Debtors purchase is subject to policy limitations. If the aggregate limit of any of the Debtors' professional and general liability policies is exhausted, in whole or in part, it could deplete or reduce the limits available to pay any other material claims applicable to that policy period. Furthermore, one or more of the Debtors' insurance carriers could become insolvent and unable to fulfill its or their obligations to defend, pay or reimburse the Debtors when those obligations become due. In that case, or if payments of claims exceed the Debtors' estimates or are not covered by the Debtors' insurance, it could have an adverse effect on their business, financial condition or results of operations.

16. The Debtors' Operations Could be Impaired by a Failure of Their Information Systems.

The operation of the Debtors' information systems is essential to a number of critical areas of their operations, including (a) accounting and financial reporting; (b) billing and collecting accounts; (c) coding and compliance; (d) medical records and document storage; and (e) clinical systems.

In general, information systems may be vulnerable to damage from a variety of sources, including telecommunications or network failures, human acts and natural disasters. In addition, the Debtors' business is at risk from and may be impacted by information security incidents, including ransomware, malware, and other electronic security events. Such incidents can range from individual attempts to gain unauthorized access to information technology systems to more sophisticated security threats. These events can also result from internal compromises, such as human error or malicious acts. These events can occur on the Debtors' systems or on the systems of their partners and subcontractors.

The Debtors believe that their subcontractors and vendors take precautionary measures to prevent problems that could affect the Debtors' business operations as a result of failure or disruption to information systems. However, there is no guarantee such efforts will be successful in preventing a disruption, and it is possible that the Debtors may be impacted by information system failures. The occurrence of any information system failures could result in interruptions, delays, loss or corruption of data and cessations or interruptions in the availability of these systems. All of these events or circumstances, among others, could have an adverse effect on the Debtors' business, results of operations, financial position and cash flows, and they could harm the Debtors' business reputation.

17. A Cyber-Attack or Security Breach Could Result in The Compromise of the Debtors' Facilities, Confidential Patient Data, Confidential Corporate Information, or Critical Systems and Give Rise to Potential Harm to Patients, Remediation and Other Expenses, Expose the Debtors to Liability under HIPAA, Consumer Protection Laws, Common Law or Other Legal Theories, Subject the Debtors to Litigation and Federal and State Governmental

Inquiries, Damage The Debtors' Reputation, and Otherwise be Disruptive to The Debtors' Business.

The Debtors rely extensively on their computer systems and those of third-party vendors to collect, store and manage clinical and financial data on their networks and devices, to communicate with patients, payors, vendors and other third parties, and to summarize and analyze operating results. The Debtors' networks and devices store sensitive information, including intellectual property, proprietary business information and personally identifiable information of patients, partners and employees. The Debtors' ability to recover from a ransomware, phishing, social engineering, hacking or other cyber-attack is dependent on the continued development and enhancement of controls, process and practices designed to protect the Debtors' information systems and data from attack, damage or unauthorized access, including successful backup systems and other recovery procedures.

Despite these efforts, threats from malicious persons and groups, new vulnerabilities and advanced new attacks against the Debtors' and third-party vendor's information systems and devices create risks of cybersecurity incidents. These risks include ransomware, malware, and other electronic security events and the resulting damage. Such incidents can range from individual attempts to gain unauthorized access to the Debtors' information technology systems to more sophisticated security threats. They can also result from internal compromises, such as human error or malicious acts. Breaches of personal information can result from deliberate attacks or unintentional events. There can be no assurance that the Debtors, or their third-party vendors, will not be subject to cyber-attacks or security breaches in the future. Such attacks or breaches could impact the integrity, availability or privacy of protected patient medical data or other information subject to privacy laws, or they could disrupt the Debtors' information technology systems, medical devices or business, including the Debtors' ability to provide various healthcare services. Additionally, growing cyber-security threats related to the use of ransomware, phishing and other malicious software threaten the access to, availability of, and utilization of critical information technology and data. As cyber-threats continue to evolve, the Debtors may be required to expend significant additional resources to continue to modify or enhance the Debtors' protective measures or to investigate and remediate any information security vulnerabilities or incidents.

In addition, the healthcare industry is currently experiencing increased attention on compliance with regulations designed to safeguard protected health information and mitigate cyber-attacks on entities. There continues to be an increased level of attention focused on cyberattacks on healthcare providers because of the vast amount of personally identifiable information these organizations possess. Most healthcare providers, including all who accept Medicare and Medicaid, must comply with the Health Insurance Portability and Accountability Act, or HIPAA, regulations regarding the privacy and security of protected health information. States also maintain laws focused in this area. The HIPAA regulations impose extensive administrative requirements with regard to how protected health information may be used and disclosed. Further, the regulations and similar state laws include extensive and complex provisions which require the Debtors to establish reasonable and appropriate administrative, technical and physical safeguards to ensure the confidentiality, integrity and availability of protected health information maintained in electronic format. The Debtors must safeguard protected health information against reasonably anticipated threats or hazards to the information.

Violations of these various privacy and security laws can result in significant civil monetary penalties, as well as the potential for criminal penalties. In addition to state data breach notification requirements, HIPAA authorizes state attorneys general to bring civil actions on behalf of affected state residents against entities that violate HIPAA's privacy and security regulations. These penalties could be in addition to other penalties assessed by a state for a breach which would be considered reportable under the state's data breach notification laws. Further, there are significant costs associated with a breach, including investigation costs, remediation and mitigation costs, notification costs, attorney fees, and the

potential for reputational harm and lost revenues due to a loss in confidence in the provider. The Debtors cannot predict the costs to comply with these laws or the costs associated with a potential breach of protected health information, which could have a material adverse effect on the Debtors' business, results of operations, financial position and cash flows, and business reputation.

If the Debtors are subject to cyber-attacks or security breaches in the future, this could also result in harm to patients; business interruptions and delays; the loss, misappropriation, corruption or unauthorized access of data; litigation and potential liability under privacy, security and consumer protection laws or other applicable laws; reputational damage and federal and state governmental inquiries, any of which could have an adverse effect on the Debtors' business, results of operations, financial position and cash flows.

18. The Reorganized Debtors May Be Adversely Affected by Potential Litigation, Including Litigation Arising Out of the Chapter 11 Cases.

In the future, the Reorganized Debtors may become parties to litigation. In general, litigation can be expensive and time consuming to bring or defend against. Such litigation could result in settlements or damages that could significantly affect the Reorganized Debtors' financial results. It is also possible that certain parties will commence litigation with respect to the treatment of their Claims under the Plan. It is not possible to predict the potential litigation that the Reorganized Debtors may become party to nor the final resolution of such litigation. The impact of any such litigation on the Reorganized Debtors' businesses and financial stability, however, could be material.

19. The Loss of Key Personnel Could Adversely Affect the Debtors' Operations.

The Debtors' operations are dependent on a relatively small group of key management personnel and a highly-skilled employee base. The Debtors' Chapter 11 Cases have created distractions and uncertainty for key management personnel and employees. Because competition for experienced personnel in the healthcare industry can be significant, the Debtors may be unable to find acceptable replacements with comparable skills and experience and the loss of such key management personnel could adversely affect the Debtors' ability to operate their businesses. In addition, a loss of key personnel or material erosion of employee morale could have a material adverse effect on the Debtors' ability to meet expectations, thereby adversely affecting the Debtors' businesses and the results of operations.

20. Certain Claims May Not Be Discharged and Could Have a Material Adverse Effect on the Debtors' Financial Condition and Results of Operations.

The Bankruptcy Code provides that the confirmation of a plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all Claims that arise prior to the Debtors' filing of their Petitions or before confirmation of the plan of reorganization (a) would be subject to compromise and/or treatment under the plan of reorganization and/or (b) would be discharged in accordance with the terms of the plan of reorganization. Any Claims not ultimately discharged through a plan of reorganization could be asserted against the reorganized entity and may have an adverse effect on the Reorganized Debtors' financial condition and results of operations.

IX. SOLICITATION AND VOTING

This Disclosure Statement, which is accompanied by a Ballot or Ballots to be used for voting on the Plan, is being distributed to the holders of Claims in those Classes that are entitled to vote to accept or reject the Plan. The procedures and instructions for voting and related deadlines are set forth in the exhibits annexed to the proposed Disclosure Statement Order, which is attached hereto as **Exhibit C**.

The proposed Disclosure Statement Order is incorporated herein by reference and should be read in conjunction with this Disclosure Statement and in formulating a decision to vote to accept or reject the Plan.

THE DISCUSSION OF THE SOLICITATION AND VOTING PROCESS SET FORTH IN THIS DISCLOSURE STATEMENT IS ONLY A SUMMARY. PLEASE REFER TO THE PROPOSED DISCLOSURE STATEMENT ORDER ATTACHED HERETO FOR A MORE COMPREHENSIVE DESCRIPTION OF THE SOLICITATION AND VOTING PROCESS.

A. Holders of Claims Entitled to Vote on the Plan.

Under the provisions of the Bankruptcy Code, not all holders of claims against or interests in a debtor are entitled to vote on a chapter 11 plan. The table in Article III.C of this Disclosure Statement, entitled “Am I entitled to vote on the Plan?,” which begins on page 5, provides a summary of the status and voting rights of each Class (and, therefore, of each Holder within such Class absent an objection to the holder’s Claim or Interest) under the Plan.

As shown in the table, the Debtors are soliciting votes to accept or reject the Plan only from holders of Claims in Classes 3 and 4 (collectively, the “Voting Classes”). The holders of Claims in the Voting Classes are Impaired under the Plan and may, in certain circumstances, receive a distribution under the Plan. Accordingly, holders of Claims in the Voting Classes have the right to vote to accept or reject the Plan.

The Debtors are *not* soliciting votes from holders of Claims or Interests in Classes 1, 2, 5, 6, 7, 8, and 9 (collectively, the “Non-Voting Classes”).

B. Voting Record Date.

The Voting Record Date is [●], 2022 (the “Voting Record Date”). The Voting Record Date is the date on which it will be determined which holders of Claims in the Voting Classes are entitled to vote to accept or reject the Plan and whether Claims have been properly assigned or transferred under Bankruptcy Rule 3001(e) such that an assignee or transferee, as applicable, can vote to accept or reject the Plan as the holder of a Claim.

C. Voting on the Plan.

The Voting Deadline is [●], 2022, at 4:00 p.m., prevailing Central Time. In order to be counted as votes to accept or reject the Plan, all ballots must be properly executed, completed, and delivered as directed, so that your ballot or the master ballot containing your vote is **actually received** by the Solicitation Agent on or before the Voting Deadline. Ballots or master ballots returned by facsimile will not be counted.

D. Ballots Not Counted.

No ballot will be counted toward Confirmation if, among other things: (1) it is illegible or contains insufficient information to permit the identification of the holder; (2) it is cast by a Person or Entity that does not hold a Claim in a Class that is entitled to vote on the Plan; (3) it is unsigned; (4) it is not marked to accept or reject the Plan, or marked both to accept and reject the Plan; and/or (5) it is submitted by a party not entitled to cast a vote with respect to the Plan. **Please refer to the proposed Disclosure Statement Order for additional requirements with respect to voting to accept or reject the Plan.**

ANY BALLOT RECEIVED AFTER THE VOTING DEADLINE OR THAT IS OTHERWISE NOT IN COMPLIANCE WITH THE SOLICITATION AND VOTING PROCEDURES PROVIDED IN THIS ARTICLE IX OF THE DISCLOSURE STATEMENT WILL NOT BE COUNTED.

X. CONFIRMATION OF THE PLAN

A. Requirements for Confirmation of the Plan.

Among the requirements for Confirmation of the Plan pursuant to section 1129 of the Bankruptcy Code are: (1) the Plan is accepted by all Impaired Classes of Claims or Interests, or if rejected by an Impaired Class, the Plan “does not discriminate unfairly” and is “fair and equitable” as to the rejecting Impaired Class; (2) the Plan is feasible; and (3) the Plan is in the “best interests” of holders of Claims or Interests.

At the Confirmation Hearing, the Bankruptcy Court will determine whether the Plan satisfies all of the requirements of section 1129 of the Bankruptcy Code. The Debtors believe that: (1) the Plan satisfies, or will satisfy, all of the necessary statutory requirements of chapter 11 for plan confirmation; (2) the Debtors have complied, or will have complied, with all of the necessary requirements of chapter 11 for plan confirmation; and (3) the Plan has been proposed in good faith.

B. Best Interests of Creditors/Liquidation Analysis.

Often called the “best interests” test, section 1129(a)(7) of the Bankruptcy Code requires that a bankruptcy court find, as a condition to confirmation, that a chapter 11 plan provides, with respect to each impaired class, that each Holder of a claim or an equity interest in such impaired class either (1) has accepted the plan or (2) will receive or retain under the plan property of a value that is not less than the amount that the non-accepting holder would receive or retain if the debtors liquidated under chapter 7.

Attached hereto as **Exhibit D** and incorporated herein by reference is a liquidation analysis (the “Liquidation Analysis”) prepared by the Debtors with the assistance of the Debtors’ advisors. As reflected in the Liquidation Analysis, the Debtors believe that liquidation of the Debtors’ businesses under chapter 7 of the Bankruptcy Code would result in substantial diminution in the value to be realized by holders of Claims or Interests as compared to distributions contemplated under the Plan. Consequently, the Debtors and their management believe that Confirmation of the Plan will provide a substantially greater return to holders of Claims or Interests than would a liquidation under chapter 7 of the Bankruptcy Code.

If the Plan is not confirmed, and the Debtors fail to propose and confirm an alternative plan of reorganization, the Debtors’ businesses may be liquidated pursuant to the provisions of a chapter 11 liquidating plan. In liquidations under chapter 11, the Debtors’ assets could be sold in an orderly fashion over a more extended period of time than in a liquidation under chapter 7. Thus, a chapter 11 liquidation may result in larger recoveries than a chapter 7 liquidation, but the delay in distributions could result in lower present values received and higher administrative costs. Any distribution to holders of Claims or Interests (to the extent holders of Interests would receive distributions at all) under a chapter 11 liquidation plan would most likely be substantially delayed. Most importantly, the Debtors believe that any distributions to creditors in a chapter 11 liquidation scenario would fail to capture the significant going concern value of their businesses, which is reflected in the New Common Equity to be distributed under the Plan. Accordingly, the Debtors believe that a chapter 11 liquidation would not result in distributions as favorable as those under the Plan.

C. Feasibility.

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation of a plan of reorganization is not likely to be followed by the liquidation, or the need for further financial reorganization of the debtor, or any successor to the debtor (unless such liquidation or reorganization is proposed in such plan of reorganization).

To determine whether the Plan meets this feasibility requirement, the Debtors, with the assistance of Ankura Consulting Group, LLC and Jefferies, have analyzed their ability to meet their respective obligations under the Plan. As part of this analysis, the Debtors have prepared the Financial Projections. Creditors and other interested parties should review Article VIII of this Disclosure Statement, entitled “Risk Factors,” which begins on page 35, for a discussion of certain factors that may affect the future financial performance of the Reorganized Debtors.

The Financial Projections are attached hereto as Exhibit E and incorporated herein by reference. Based upon the Financial Projections, the Debtors believe that they will be a viable operation following the Chapter 11 Cases and that the Plan will meet the feasibility requirements of the Bankruptcy Code.

D. Acceptance by Impaired Classes.

The Bankruptcy Code requires, as a condition to confirmation, except as described in the following section, that each class of claims or equity interests impaired under a plan, accept the plan. A class that is not “impaired” under a plan is deemed to have accepted the plan and, therefore, solicitation of acceptances with respect to such a class is not required.

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in a number of allowed claims in that class, counting only those claims that have *actually* voted to accept or to reject the plan. Thus, a class of Claims will have voted to accept the Plan only if two-thirds in amount and a majority in number of the Allowed Claims in such class that vote on the Plan actually cast their ballots in favor of acceptance.

Section 1126(d) of the Bankruptcy Code defines acceptance of a plan by a class of impaired equity interests as acceptance by holders of at least two-thirds in amount of allowed interests in that class, counting only those interests that have *actually* voted to accept or to reject the plan. Thus, a Class of Interests will have voted to accept the Plan only if two-thirds in amount of the Allowed Interests in such class that vote on the Plan actually cast their ballots in favor of acceptance.

Pursuant to Article III.E of the Plan, if a Class contains Claims eligible to vote and no holders of Claims eligible to vote in such Class vote to accept or reject the Plan, the holders of such Claims in such Class shall be deemed to have accepted the Plan.

E. Confirmation Without Acceptance by All Impaired Classes.

Section 1129(b) of the Bankruptcy Code allows a bankruptcy court to confirm a plan even if all impaired classes have not accepted it; *provided* that the plan has been accepted by at least one impaired class. Pursuant to section 1129(b) of the Bankruptcy Code, notwithstanding an impaired class’s rejection or deemed rejection of the plan, the plan will be confirmed, at the plan proponent’s request, in a procedure commonly known as a “cramdown” so long as the plan does not “discriminate unfairly” and is “fair and equitable” with respect to each class of claims or equity interests that is impaired under, and has not accepted, the plan.

If any Impaired Class rejects the Plan, the Debtors reserve the right to seek to confirm the Plan utilizing the “cramdown” provision of section 1129(b) of the Bankruptcy Code. To the extent that any Impaired Class rejects the Plan or is deemed to have rejected the Plan, the Debtors may request Confirmation of the Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code. The Debtors reserve the right to alter, amend, modify, revoke, or withdraw the Plan or any Plan Supplement document, including the right to amend or modify the Plan or any Plan Supplement document to satisfy the requirements of section 1129(b) of the Bankruptcy Code.

1. No Unfair Discrimination.

The “unfair discrimination” test applies to classes of claims or interests that are of equal priority and are receiving different treatment under a plan. The test does not require that the treatment be the same or equivalent, but that treatment be “fair.” In general, bankruptcy courts consider whether a plan discriminates unfairly in its treatment of classes of claims or interests of equal rank (*e.g.*, classes of the same legal character). Bankruptcy courts will take into account a number of factors in determining whether a plan discriminates unfairly. A plan could treat two classes of unsecured creditors differently without unfairly discriminating against either class.

2. Fair and Equitable Test.

The “fair and equitable” test applies to classes of different priority and status (*e.g.*, secured versus unsecured) and includes the general requirement that no class of claims receive more than 100 percent of the amount of the allowed claims in the class. As to the dissenting class, the test sets different standards depending upon the type of claims or equity interests in the class.

The Debtors submit that if the Debtors “cramdown” the Plan pursuant to section 1129(b) of the Bankruptcy Code, the Plan is structured so that it does not “discriminate unfairly” and satisfies the “fair and equitable” requirement. With respect to the unfair discrimination requirement, all Classes under the Plan are provided treatment that is substantially equivalent to the treatment that is provided to other Classes that have equal rank. With respect to the fair and equitable requirement, no Class under the Plan will receive more than 100 percent of the amount of Allowed Claims or Interests in that Class. The Debtors believe that the Plan and the treatment of all Classes of Claims or Interests under the Plan satisfy the foregoing requirements for nonconsensual Confirmation of the Plan.

XI. CERTAIN SECURITIES LAW MATTERS

A. Issuance of Securities under the Plan.

As discussed herein, the Plan provides for the offer, issuance, and distribution of the New Common Equity by New Pipeline to Holders of certain Claims (such New Common Equity, the “1145 Securities”).

Section 1145 of the Bankruptcy Code provides that Section 5 of the Securities Act and any state or local law requirements for the issuance of a security do not apply to the offer or sale of stock, options, warrants, or other securities by a debtor if (a) the offer or sale occurs under a plan of reorganization, (b) the recipients of the securities hold a claim against, an interest in, or claim for administrative expense against, the debtor, and (c) the securities are issued in exchange for a claim against or interest in a debtor or are issued principally in such exchange and partly for cash or property. Section 1145(a)(2) further provides for the application of the Securities Act exemption described in the preceding sentence to the offer of a security through a warrant sold in the manner described therein or to the sale of a security upon the exercise of such

a warrant. The Debtors believe that the issuance of the 1145 Securities in exchange for the Claims described above satisfy the requirements of section 1145(a) of the Bankruptcy Code.

Accordingly, no registration statement will be filed under the Securities Act or any state securities laws with respect to the 1145 Securities. Recipients of the 1145 Securities are advised to consult with their own legal advisors as to the availability of any exemption from registration under the Securities Act and any applicable state Blue Sky Law.

In the case of an Equitization Restructuring, it shall be a condition precedent to the Effective Date that the Confirmation Order includes a finding that section 1145 of the Bankruptcy Code fully applies to the New Common Equity.

B. Subsequent Transfers.

The 1145 Securities may be freely transferred by most recipients following the initial issuance under the Plan, and all resales and subsequent transfers of the 1145 Securities are exempt from registration under the Securities Act and state securities laws, unless the holder is an “underwriter” with respect to such securities. Section 1145(b)(1) of the Bankruptcy Code defines an “underwriter” as one who, except with respect to “ordinary trading transactions” of an entity that is not an “issuer”: (a) purchases a claim against, interest in, or claim for an administrative expense in the case concerning the debtor, if such purchase is with a view to distribution of any security received or to be received in exchange for such claim or interest; (b) offers to sell securities offered or sold under a plan for the holders of such securities; (c) offers to buy securities offered or sold under a plan from the holders of such securities, if such offer to buy is (i) with a view to distribution of such securities and (ii) under an agreement made in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan; or (d) is an issuer of the securities within the meaning of section 2(a)(11) of the Securities Act. In addition, a person who receives a fee in exchange for purchasing an issuer’s securities could also be considered an underwriter within the meaning of section 2(a)(11) of the Securities Act.

The definition of an “issuer” for purposes of whether a person is an underwriter under section 1145(b)(1)(D) of the Bankruptcy Code, by reference to section 2(a)(11) of the Securities Act, includes as “statutory underwriters” all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. The reference to “issuer,” as used in the definition of “underwriter” contained in section 2(a)(11) of the Securities Act, is intended to cover “Controlling Persons” of the issuer of the securities. “Control,” as defined in Rule 405 of the Securities Act, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor under a plan of reorganization may be deemed to be a “Controlling Person” of the debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the reorganized debtor’s or its successor’s voting securities. In addition, the legislative history of section 1145 of the Bankruptcy Code suggests that a creditor who owns ten percent or more of a class of securities of a reorganized debtor may be presumed to be a “Controlling Person” and, therefore, an underwriter.

Resales of 1145 Securities by entities deemed to be “underwriters” (which definition includes “Controlling Persons”) are not exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Under certain circumstances, holders of 1145 Securities who are deemed to be “underwriters” may be entitled to resell their 1145 Securities pursuant to the limited safe harbor resale provisions of Rule 144 of the Securities Act. Generally, Rule 144 of the Securities Act would permit the public sale of securities received by such Person if the required holding period has been met and,

under certain circumstances, current information regarding the issuer is publicly available and volume limitations, manner of sale requirements and certain other conditions are met. Whether any particular person would be deemed to be an “underwriter” (including whether the person is a “Controlling Person”) with respect to the 1145 Securities would depend upon various facts and circumstances applicable to that Person. Accordingly, the Debtors express no view as to whether any person would be deemed an “underwriter” with respect to the 1145 Securities and, in turn, whether any person may freely resell 1145 Securities.

Persons who receive securities under the Plan are urged to consult their own legal advisor with respect to the restrictions applicable under the federal or state securities laws and the circumstances under which securities may be sold in reliance on such laws. The foregoing summary discussion is general in nature and has been included in this Disclosure Statement solely for informational purposes. We make no representations concerning, and do not provide, any opinions or advice with respect to the Securities or the bankruptcy matters described in this Disclosure Statement. In light of the uncertainty concerning the availability of exemptions from the relevant provisions of federal and state securities laws, we encourage each recipient of securities and party in interest to consider carefully and consult with its own legal advisors with respect to all such matters. Because of the complex, subjective nature of the question of whether a security is exempt from the registration requirements under the federal or state securities laws or whether a particular recipient of securities may be an underwriter, we make no representation concerning the ability of a person to dispose of the securities issued under the Plan.

C. Management Incentive Plan

The Management Incentive Plan for the Reorganized Debtors, the terms and conditions of which shall be, in the sole discretion of the DIP Lenders and Term Loan Lenders (which election shall be made by written notice to the Debtors), either set forth in the Plan Supplement (in which case, such terms and conditions shall be acceptable to the Debtors and the DIP Lenders and the Term Loan Lenders) or determined by the New Board after the Effective Date.

Any securities that may be issued under the Management Incentive Plan will be issued pursuant to a registration statement or an available exemption from registration under the Securities Act and other applicable law. Securities issued under the Management Incentive Plan may be issued pursuant to an available exemption from registration under the Securities Act and other applicable law. The Debtors express no view as to whether any person or entity may freely resell the securities that may be issued under the Management Incentive Plan. The Debtors recommend that potential recipients of securities under the Management Incentive Plan consult their own counsel concerning their ability to freely trade the securities without registration under applicable federal securities laws and Blue Sky Laws and the availability of Rule 144 of the Securities Act for exempt resales.

XII. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Introduction

The following discussion summarizes certain United States (“U.S.”) federal income tax consequences of the implementation of the Plan to the Debtors, the Reorganized Debtors, and Holders of Claims entitled to vote on the Plan (*i.e.*, Holders of ABL Claims and Term Loan Claims). It does not address the U.S. federal income tax consequences to Holders of Claims or Holders of Interests that are not entitled to vote on the Plan. This summary is based on the Internal Revenue Code of 1986, as amended (the “Tax Code”), the U.S. Treasury Regulations promulgated thereunder (the “Treasury Regulations”), judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service (the “IRS”), all as in effect on the date hereof (collectively, “Applicable Tax Law”). Changes in the rules

or new interpretations of the rules may have retroactive effect and could significantly affect the U.S. federal income tax consequences described below. The Debtors have not requested any ruling or determination from the IRS or any other taxing authority with respect to the tax consequences discussed herein, and the discussion below is not binding upon the IRS or the courts. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position than any position discussed herein.

This summary does not address non-U.S., state, local, or non-income tax consequences of the Plan (including such consequences with respect to the Debtors or the Reorganized Debtors), nor does it purport to address all aspects of U.S. federal income taxation that may be relevant to a Holder in light of its individual circumstances or to a Holder that may be subject to special tax rules (such as persons who are related to the Debtors within the meaning of the Tax Code, persons liable for alternative minimum tax, U.S. Holders whose functional currency is not the U.S. dollar, U.S. expatriates, broker-dealers, accrual-method U.S. Holders that prepare an “applicable financial statement” (as defined in Section 451 of the Tax Code), banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax-exempt organizations, controlled foreign corporations, passive foreign investment companies, partnerships (or other entities treated as partnerships or other pass-through entities), beneficial owners of partnerships (or other entities treated as partnerships or other pass-through entities), subchapter S corporations, persons who hold Claims as part of a straddle, hedge, conversion transaction, or other integrated investment, persons using a mark-to-market method of accounting, and Holders of Claims who are themselves in bankruptcy. In addition, this summary assumes that a Holder of a Claim holds only Claims in a single Class and holds a Claim only as a “capital asset” (within the meaning of section 1221 of the Tax Code). Furthermore, the following summary assumes that the Exit Facility will be respected as a debt instrument for U.S. federal income tax purposes.

This summary does not address the receipt, if any, of property by Holders of Claims other than in their capacity as such (*e.g.*, this summary does not discuss the treatment of any commitment fee or similar arrangement).

For purposes of this discussion, a “U.S. Holder” is a Holder of a Claim that is: (1) an individual citizen or resident of the United States for U.S. federal income tax purposes; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of the source of such income; or (4) a trust (A) if a court within the United States is able to exercise primary jurisdiction over the trust’s administration and one or more United States persons (within the meaning of section 7701(a)(30) of the Tax Code) have authority to control all substantial decisions of the trust or (B) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person. For purposes of this discussion, a “Non-U.S. Holder” is any Holder of a Claim that is neither a U.S. Holder nor a partnership (or other entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes).

If a partnership (or other entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes) is a Holder of a Claim, the tax treatment of a partner (or other beneficial owner) generally will depend upon the status of the partner (or other beneficial owner) and the activities of the entity. Partners (or other beneficial owners) of partnerships (or other entities treated as partnerships or other pass-through entities) that are Holders of Claims should consult their respective tax advisors regarding the U.S. federal income tax consequences of the Plan.

THE FOLLOWING SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM. ALL HOLDERS OF CLAIMS

ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, NON-U.S., NON-INCOME, AND OTHER TAX CONSEQUENCES OF THE PLAN.

B. Certain U.S. Federal Income Tax Consequences to the Debtors, the Reorganized Debtors, and Holders of Equity Interests in Parent

Debtors are currently treated as a partnership or as an entity that is disregarded as separate from its parent for U.S. federal income tax purposes. Accordingly, the U.S. federal income tax consequences of consummating the Plan will generally not be borne by the Debtors, but by their partners (i.e., the Holders of equity in the Debtors).

1. COD Income

In general, absent an exception, a taxpayer will realize and recognize cancellation of indebtedness income (“COD Income”) upon satisfaction of its outstanding indebtedness for total consideration less than the amount of such indebtedness. The amount of COD Income, in general, is the excess of (a) the adjusted issue price of the indebtedness satisfied, over (b) the sum of (i) the amount of any cash paid, (ii) the issue price of any new indebtedness of the debt issued, and (iii) the fair market value of any other consideration given in satisfaction of such indebtedness at the time of the exchange; except to the extent that payment of the indebtedness would have given rise to a deduction.

Under section 108 of the Tax Code, a taxpayer is not required to include COD Income in gross income (a) if the taxpayer is under the jurisdiction of a court in a case under chapter 11 of the Bankruptcy Code and the discharge of debt occurs pursuant to that case (the “Bankruptcy Exception”), or (b) to the extent that the taxpayer is insolvent immediately before the discharge (but only to the extent of the taxpayer’s insolvency) (the “Insolvency Exception”). Instead, as a consequence of such exclusion, a taxpayer-debtor must reduce its tax attributes by the amount of COD Income that it excluded from gross income. In general, tax attributes will be reduced in the following order: (a) net operating losses; (b) most tax credits, including minimum tax credit carryovers; (c) capital loss carryovers; (d) tax basis in assets (but not below the amount of liabilities to which the debtor remains subject); (e) passive activity loss and credit carryovers; and (f) foreign tax credits. Alternatively, the taxpayer can elect first to reduce the basis of its depreciable assets pursuant to section 108(b)(5) of the Tax Code.

Under section 108(d)(6) of the Tax Code, when an entity that is a flow-through entity (such as the Debtors) realizes COD Income, its partners are treated as receiving their allocable share of such COD Income and the Bankruptcy Exception and the Insolvency Exception (and related attribute reduction) are applied at the partner level rather than at the entity level. Accordingly, the Holders of equity in the Debtors will be treated as receiving their allocable share, if any, of the COD Income realized by the Debtors. If a Holder has suspended loss with respect to its equity interest in the Debtors, the allocation of COD Income may allow some or all of such suspended losses to be used to offset the COD Income.

C. Certain U.S. Federal Income Tax Consequences to U.S. Holders of ABL Claims and Term Loan Claims

The following discussion assumes that the Debtors will undertake the transactions currently contemplated by the Plan. Holders of Claims are urged to consult their tax advisors regarding the tax consequences of the transactions.

1. U.S. Federal Income Tax Consequences to U.S. Holders of ABL Claims

(a) Equitization Restructuring

Pursuant to the Plan, if the Equitization Restructuring occurs, a U.S. Holder of an ABL Claim shall receive its Pro Rata share of the Exit Facility. A U.S. Holder of an ABL Claim will generally be treated as having exchanged its ABL Claim for its Pro Rata share of the Exit Facility in a taxable exchange governed by Section 1001 of the Tax Code on which taxable gain or loss is recognized in an amount equal to the difference between (i) the issue price of the share of the Exit Facility received and (ii) such U.S. Holder's adjusted basis in such ABL Claim.

Any amount received in respect of accrued but untaxed interest will be taxed as set forth below under "--Accrued but Untaxed Interest." A U.S. Holder's tax basis in the share of the Exit Facility received should be equal to the "issue price" of such share (as described below) and a U.S. Holder's holding period would begin on the day after the Effective Date.

(b) Asset Sale Restructuring

Pursuant to the Plan, if the Asset Sale Restructuring occurs, a U.S. Holder of an ABL Claim shall receive (A) in the event of a Credit Bid Sale, its Pro Rata share of the Credit Bid Distributions distributable under the Plan; and (B) otherwise, its Pro Rata share of the Debtors' remaining Cash (if any) following payment of senior Claims, funding of the Professional Fee Escrow Account, and any wind-down reserves as set forth in the Wind-Down Budget.

If, after the Credit Bid, the new entity acquiring assets in the Credit Bid is treated as a continuation of the PHS partnership for U.S. federal income tax purposes, the tax consequences are as described under the Equitization Restructuring. If, after the Credit Bid, the new entity is not treated as a continuation of the PHS partnership for U.S. federal income tax purposes, or if the Debtors' assets are sold for Cash, then such U.S. Holder will be treated as having exchanged its ABL Claim for its Pro Rata Share of the Credit Bid Distributions or Cash in a taxable exchange governed by Section 1001 of the Tax Code on which gain or loss is recognized in an amount equal to the difference between (i) the amount of Cash or the fair market value of the Credit Bid Distributions received and (ii) such U.S. Holder's adjusted basis in such ABL Claim.

Any amount received in respect of accrued but untaxed interest will be taxed as set forth below under "--Accrued but Untaxed Interest." A U.S. Holder's tax basis in the share of any Credit Bid Distributions received should be equal to its fair market value and a U.S. Holder's holding period would begin on the day after the Effective Date.

2. U.S. Federal Income Tax Consequences to U.S. Holders of Term Loan Claims

(a) Equitization Restructuring

Pursuant to the Plan, if the Equitization Restructuring occurs, a U.S. Holder of a Term Loan Claim shall receive its Pro Rata share of the Equitization Term Loan Equity Pool.

Under the Equitization Restructuring, such U.S. Holder of a Term Loan Claim generally will be treated as having exchanged a portion of its Term Loan Claim for its share of New Common Equity in a tax-free exchange governed by Section 721 of the Tax Code on which no gain or loss is recognized (except as described below in "--Accrued but Untaxed Interest"). A U.S. Holder's initial aggregate tax basis in the New Common Equity should be equal to the sum of (i) the fair market value of the New Common Equity received on account of accrued but untaxed interest (see below under "--Accrued but Untaxed Interest"),

(ii) the U.S. Holder's tax basis in the portion of the Term Loan Claim exchanged for the New Common Equity (other than in respect of accrued but unpaid interest) and (iii) such U.S. Holder's allocable portion of New Pipeline's liabilities. A U.S. Holder's holding period of the New Common Equity should include the period that the U.S. Holder held the Term Loan Claim, except to the extent such New Common Equity is received on account of accrued but untaxed interest, in which case the holding period would begin on the day following the Effective Date.

(b) Asset Sale Restructuring

Pursuant to the Plan, if the Asset Sale Restructuring occurs, a U.S. Holder of a Term Loan shall receive (A) in the event of a Credit Bid Sale, its Pro Rata share of the Credit Bid Distributions distributable under the Plan; and (B) otherwise, its Pro Rata share of the Post-Sale Debtors' remaining Cash (if any) following payment of senior Claims, funding of the Professional Fee Escrow Account, and any wind-down reserves as set forth in the Wind-Down Budget.

If, after the Credit Bid, the new entity acquiring assets in the Credit Bid is treated as a continuation of the PHS partnership for U.S. federal income tax purposes, the tax consequences are as described under the Equitization Restructuring. If, after the Credit Bid, the new entity is not treated as a continuation of the PHS partnership for U.S. federal income tax purposes, or if the Debtors' assets are sold for Cash, then such U.S. Holder will be treated as having exchanged its Term Loan Claim for its Pro Rata Share of the Credit Bid Distributions or Cash in a taxable exchange governed by Section 1001 of the Tax Code on which gain or loss is recognized in an amount equal to the difference between (i) the amount of Cash or the fair market value of the Credit Bid Distributions received and (ii) such U.S. Holder's adjusted basis in such Term Loan Claim.

Any amount received in respect of accrued but untaxed interest will be taxed as set forth below under "--Accrued but Untaxed Interest." A U.S. Holder's tax basis in the share of any Credit Bid Distributions received should be equal to its fair market value and a U.S. Holder's holding period would begin on the day after the Effective Date.

3. Character of Gain or Loss

To the extent a U.S. Holder of Claims recognizes gain or loss as described in Sections (1) and (2) above, and subject to the discussion below on accrued but untaxed interest and market discount, any gain or loss recognized on the exchange of Claims should be capital gain or loss and will generally be long-term capital gain or loss if the U.S. Holder held his or her Claims for more than one year on the Effective Date. Under current U.S. federal income tax law, certain non-corporate U.S. Holders (including individuals) are eligible for preferential rates of U.S. federal income tax on long-term capital gains. The deductibility of capital losses is subject to limitation.

4. Accrued but Untaxed Interest

To the extent that any amount received by a U.S. Holder of a Claim is attributable to accrued but untaxed interest on the debt instruments constituting the surrendered Claim, the receipt of such amount should be taxable to the U.S. Holder as ordinary interest income (to the extent not already taken into income by the U.S. Holder), in which case, such amount will be excluded from a U.S. Holder's calculation of gain or loss on such exchange of Claims. Conversely, a U.S. Holder of a Claim may be able to recognize a deductible loss to the extent that any accrued interest previously was included in the U.S. Holder's gross income but was not paid in full by the Debtors.

If the fair market value of the consideration is not sufficient to fully satisfy all principal and interest on Allowed Claims, the extent to which such consideration will be attributable to accrued interest is unclear. Under the Plan, the aggregate consideration to be distributed to U.S. Holders of Allowed Claims in each Class will be allocated first to the principal amount of Allowed Claims, with any excess allocated to unpaid interest that accrued on these Claims, if any. Certain legislative history indicates that an allocation of consideration as between principal and interest provided in a Chapter 11 plan of reorganization is binding for U.S. federal income tax purposes, and certain case law generally indicates that a final payment on a distressed debt instrument that is insufficient to repay outstanding principal and interest will be allocated to principal, rather than interest. Certain Treasury Regulations treat payments as allocated first to any accrued but unpaid interest. The IRS could take the position that the consideration received by the U.S. Holder should be allocated in some way other than as provided in the Plan. U.S. Holders of Claims should consult their own tax advisors regarding the proper allocation of the consideration received by them under the Plan.

5. Market Discount

Under the “market discount” provisions of the Tax Code, some or all of any gain recognized by a U.S. Holder of a Claim who exchanges the Claim for an amount on the Effective Date may be treated as ordinary income (instead of capital gain), to the extent of the amount of “market discount” on the debt instruments constituting the exchanged Claim. In general, a debt instrument is considered to have been acquired with “market discount” if it is acquired other than on original issue and if its Holder’s initial tax basis in the debt instrument is less than (a) the sum of all remaining payments to be made on the debt instrument, excluding “qualified stated interest” or (b) in the case of a debt instrument issued with OID, its adjusted issue price, by at least a *de minimis* amount (equal to 0.25% of the sum of all remaining payments to be made on the debt instrument, excluding “qualified stated interest” multiplied by the number of remaining whole years to maturity).

Any gain recognized by a U.S. Holder on the taxable disposition of a Claim that had been acquired with market discount should be treated as ordinary income to the extent of the market discount that accrued thereon while the Claim was considered to be held by the U.S. Holder (unless the U.S. Holder elected to include market discount in income as it accrued).

To the extent that the surrendered debt instruments that had been acquired with market discount are exchanged in a tax-free or other reorganization transaction for other property, any market discount that accrued on such debt instruments but was not recognized by the U.S. Holder may be required to be carried over to the property received therefor and any gain recognized on the subsequent sale, exchange, redemption, or other disposition of such property may be treated as ordinary income to the extent of the accrued but unrecognized market discount with respect to the exchanged debt instrument.

6. Net Investment Income Tax

Certain U.S. Holders that are individuals, estates, or trusts are required to pay an additional 3.8 percent tax on, among other things, gains from the sale or other disposition of capital assets. U.S. Holders that are individuals, estates, or trusts should consult their tax advisors regarding the effect, if any, of this tax provision on their ownership and disposition of any consideration to be received under the Plan.

7. Issue Price of the Exit Facility

The issue price of the Exit Facility will depend on whether the Exit Facility and/or the ABL Claims are considered to be “traded on an established market” at the time of the exchange. In general, a debt

instrument will be treated as publicly traded if, at any time during the 31-day period ending 15 days after the applicable measurement date: (a) a “sales price” for an executed purchase of the debt instrument appears on a medium that is made available to issuers of debt instruments, persons that regularly purchase or sell debt instruments, or persons that broker purchases or sales of debt instruments; (b) a “firm” price quote for the debt instrument is available from at least one broker, dealer, or pricing service for property and the quoted price is substantially the same as the price for which the person receiving the quoted price could purchase or sell the property; or (c) there are one or more “indicative” quotes available from at least one broker, dealer, or pricing service for property. However, a debt instrument will not be treated as traded on an established market if at the time the determination is made the outstanding stated principal amount of the issue that includes the debt instrument does not exceed \$100 million. If either the Exit Facility is publicly traded, or the Exit Facility is not publicly traded but the ABL is, then the issue price of the Exit Facility will be its fair market value. If neither are publicly traded, then the issue price of the Exit Facility will be its stated principal amount. As of the date of this Disclosure Statement, the outstanding stated principal amount of the ABL Claim does not exceed \$100 million. As a result, it appears the debt instruments will likely not be treated as publicly traded.

D. Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders of ABL Claims and Term Loan Claims

1. In General

The following discussion includes only certain U.S. federal income tax consequences of the transactions to Non-U.S. Holders. The discussion does not include any non-U.S. tax considerations. The rules governing the U.S. federal income tax consequences to Non-U.S. Holders are complex. Non-U.S. Holders should consult their own tax advisors regarding the U.S. federal, state, and local and non-U.S. tax consequences of the consummation of the Plan to such Non-U.S. Holders and the ownership and disposition of the Exit Facility or New Common Equity.

Whether a Non-U.S. Holder recognizes gain or loss on the exchange of Claims pursuant to the Plan, or upon a subsequent disposition of the consideration received under the Plan, the amount of such gain or loss is determined in the same manner as set forth above in connection with U.S. Holders.

a. Gain Recognition in Connection with the Plan

Other than with respect to any amounts received that are attributable to accrued but untaxed interest (or OID, if any), any gain recognized by a Non-U.S. Holder on the exchange of its Claim generally will not be subject to U.S. federal income taxation unless (i) the Non-U.S. Holder is an individual who was present in the United States for 183 days or more during the taxable year in which the gain is recognized and certain other conditions are met or (ii) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (and if an income tax treaty applies, such gain is attributable to a permanent establishment or fixed base maintained by such Non-U.S. Holder in the United States).

If the first exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% (or at a reduced rate or exemption from tax under an applicable income tax treaty) on the amount by which such Non-U.S. Holder’s capital gains allocable to U.S. sources exceed capital losses allocable to U.S. sources during the taxable year. If the second exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax with respect to such gain in the same manner as a U.S. Holder with respect to such gain. In addition, if such a Non-U.S. Holder is a corporation, it may be subject

to a branch profits tax equal to 30% (or such lower rate provided by an applicable tax treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

E. Ownership and Disposition of the Exit Facility

1. U.S. Holders

a. Payments of Qualified Stated Interest

Payments or accruals of “qualified stated interest” (as defined below) on the Exit Facility will be taxable to a U.S. Holder as ordinary income at the time that such payments are accrued or are received in accordance with such Holder’s regular method of accounting for U.S. federal income tax purposes. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of the Exit Facility, as applicable, at a single fixed rate of interest, or, subject to certain conditions, based on one or more interest indices.

b. Original Issue Discount

A debt instrument, such as the Exit Facility, is treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes if its issue price is less than its stated redemption price at maturity by at least a de minimis amount.

The amount of OID on the Exit Facility will be the difference between the “stated redemption price at maturity” (the sum of all payments to be made on the debt instrument other than “qualified stated interest”) and the “issue price” (as discussed above). A U.S. Holder (whether a cash or accrual method taxpayer) generally will be required to include the OID in gross income (as ordinary income) as the OID accrues (on a constant yield to maturity basis), in advance of the Holder’s receipt of cash payments attributable to this OID. In general, the amount of OID includible in the gross income of a U.S. Holder will be equal to a ratable amount of OID with respect to the note for each day in an accrual period during the taxable year or portion of the taxable year on which a U.S. Holder held the note. An accrual period may be of any length and the accrual periods may vary in length over the term of the note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (i) the product of the note’s adjusted issue price at the beginning of such accrual period and its yield to maturity, determined on the basis of a compounding assumption that reflects the length of the accrual period over (ii) the sum of the qualified stated interest payments on the notes allocable to the accrual period. The adjusted issue price of a note at the beginning of any accrual period generally equals the issue price of the note increased by the amount of all previously accrued OID and decreased by any cash payments previously made on the note other than payments of qualified stated interest. The rules regarding OID are complex. You should consult your own tax advisors regarding the consequences of OID, including the amount of OID that you would include in gross income for a taxable year.

c. Sale, Taxable Exchange or Other Taxable Disposition

Upon the disposition of the Exit Facility by sale, exchange, retirement, redemption or other taxable disposition, a U.S. Holder will generally recognize gain or loss equal to the difference, if any, between (i) the amount realized on the disposition (other than amounts attributable to accrued but unpaid interest, which will be taxed as ordinary interest income to the extent not previously so taxed) and (ii) the U.S. Holder’s adjusted tax basis in the Exit Facility, as applicable. A U.S. Holder’s adjusted tax basis will generally be equal to the holder’s initial tax basis in the Exit Facility, as applicable, increased by any accrued OID

previously included in such holder's gross income. A U.S. Holder's gain or loss will generally constitute capital gain or loss and will be long-term capital gain or loss if the U.S. Holder has held such Exit Facility for longer than one year. Non-corporate taxpayers are generally subject to a reduced federal income tax rate on a net long-term capital gains. The deductibility of capital losses is subject to certain limitations.

2. Non-U.S. Holders

a. Payments of Interest

Subject to the discussion of backup withholding and FATCA below, interest income (which, for purposes of this discussion of Non-U.S. Holders, includes OID) of a Non-U.S. Holder that is not effectively connected with a U.S. trade or business carried on by the Non-U.S. Holder will qualify for the so-called "portfolio interest exemption" and, therefore, will not be subject to U.S. federal income tax or withholding, provided that:

- the Non-U.S. Holder does not own, actually or constructively, a 10% or greater interest in the New Pipeline's capital or profits within the meaning of Section 871(h)(3) of the Tax Code and Treasury Regulations thereunder;
- the Non-U.S. Holder is not a controlled foreign corporation related to the Debtors or Reorganized Debtors, actually or constructively through the ownership rules under Section 864(d)(4) of the Tax Code;
- the Non-U.S. Holder is not a bank that is receiving the interest on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and
- the beneficial owner gives the Reorganized Debtors or the Reorganized Debtor's paying agent an appropriate IRS Form W-8 (or suitable substitute or successor form or such other form as the IRS may prescribe) that has been properly completed and duly executed establishing its status as a Non-U.S. Holder.

If not all of these conditions are met, interest on the Exit Facility paid to a Non-U.S. Holder that is not effectively connected with a U.S. trade or business carried on by the Non-U.S. Holder will generally be subject to U.S. federal income tax and withholding at a 30% rate, unless an applicable income tax treaty reduces or eliminates such withholding and the Non-U.S. Holder claims the benefit of that treaty by providing an appropriate IRS Form W-8 (or a suitable substitute or successor form or such other form as the IRS may prescribe) that has been properly completed and duly executed.

If interest on the Exit Facility is effectively connected with a U.S. trade or business carried on by the Non-U.S. Holder ("ECI"), the Non-U.S. Holder will be required to pay U.S. federal income tax on that interest on a net income basis generally in the same manner as a U.S. Holder (and the 30% withholding tax described above will not apply, provided the appropriate statement is provided to the Reorganized Debtor or its paying agent) unless an applicable income tax treaty provides otherwise. To claim an exemption from withholding, such non-U.S. Holder will be required to provide a properly executed IRS Form W-8ECI (or suitable substitute or successor form or such other form as the IRS may prescribe). If a Non-U.S. Holder is eligible for the benefits of any income tax treaty between the United States and its country of residence, any interest income that is ECI will be subject to U.S. federal income tax in the manner specified by the treaty if the Non-U.S. Holder claims the benefit of the treaty by providing an appropriate IRS Form W-8 (or a suitable substitute or successor form or such other form as the IRS may prescribe) that has been

properly completed and duly executed. In addition, a corporate Non- U.S. Holder may, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate, or, if applicable, a lower treaty rate, on its effectively connected earnings and profits attributable to such interest (subject to adjustments).

The certifications described above must be provided to the applicable withholding agent prior to the payment of interest and must be updated periodically. Non-U.S. Holders that do not timely provide the applicable withholding agent with the required certification, but that qualify for a reduced rate under an applicable income tax treaty, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non- U.S. Holders should consult their tax advisors regarding their entitlement to benefits under any applicable income tax treaty.

b. Sale, Taxable Exchange, or Other Disposition of the Exit Facility

A Non-U.S. Holder will generally not be subject to U.S. federal income tax on any gain realized on a sale, exchange, retirement, redemption or other taxable disposition of the Exit Facility (other than any amount representing accrued but unpaid interest on the loan, which will be treated as interest and may be subject to the rules discussed above under “--Non-U.S. Holders--Payments of Interest”) unless:

- (i) the gain is ECI (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment that such Non-U.S. Holder maintains), or
- (ii) in the case of a Non-U.S. Holder who is a nonresident alien individual, such Holder is present in the United States for 183 or more days in the taxable year of the disposition and certain other requirements are met.

If a Non-U.S. Holder falls under the first of these exceptions, unless an applicable income tax treaty provides otherwise, the Non-U.S. Holder will generally be taxed on the net gain derived from the disposition of the Exit Facility under the graduated U.S. federal income tax rates that are applicable to U.S. Holders and, if the Non-U.S. Holder is a foreign corporation, it may also be subject to the branch profits tax described above. To claim an exemption from withholding, such Non-U.S. Holder will be required to provide a properly executed IRS Form W-8ECI (or suitable substitute or successor form or such other form as the IRS may prescribe). If an individual Non-U.S. Holder falls under the second of these exceptions, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% (unless a lower applicable treaty rate applies) on the amount by which the gain derived from the disposition exceeds such Non-U.S. Holder’s capital losses allocable to sources within the United States for the taxable year of the sale.

F. Ownership and Disposition of New Common Equity

1. Tax Classification of New Pipeline

Under applicable Treasury Regulations, a limited liability company with at least two members may either be treated as an association taxable as a corporation or as a partnership for U.S. federal income tax purposes. If a limited liability company does not make an election to be an association taxable as a corporation, it will be treated as a partnership for U.S. federal income tax purposes by default. New Pipeline, a Delaware limited liability company, has not made an election to be treated as an association taxable as a corporation and the Debtors currently intend for PHS to be classified as a partnership for U.S. federal income tax purposes.

Under the “publicly traded partnership” provisions of the Tax Code, an entity that would otherwise be treated as a partnership whose interests are considered to be publicly traded and does not meet a

qualifying income test will be taxable as a corporation. It is anticipated that the New Organizational Documents will prohibit certain transfers of New Common Equity (and, in particular, any such transfer that would jeopardize the status of New Pipeline as a partnership for U.S. federal income tax purposes). Any purported transfer in violation of such provisions will be null and void and would not be recognized by New Pipeline.

If New Pipeline is treated as a “publicly traded partnership,” New Pipeline will be treated as if it had transferred all of its assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which it was a “publicly traded partnership,” in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in New Pipeline. This deemed contribution and liquidation, in certain circumstances, could be taxable to a Holder of New Common Equity (an “Equityholder”). Thereafter, New Pipeline would be treated as a corporation for U.S. federal income tax purposes.

If New Pipeline were taxable as a corporation in any taxable year, New Pipeline’s items of income, gain, loss and deduction would be reflected only on its tax return rather than being passed through to the Equityholders, and New Pipeline’s net income would be taxed at corporate rates. In addition, pursuant to Section 301 of the Tax Code, any distribution made to an Equityholder that is a U.S. Holder would be treated as either taxable dividend income, to the extent of New Pipeline’s current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the Equityholder’s tax basis in its New Common Equity, or taxable gain, after the Equityholder’s tax basis in its New Common Equity is reduced to zero. Accordingly, taxation as a corporation could result in a material reduction in an Equityholder’s after-tax return and thus would likely result in a substantial reduction of the value of the New Common Equity.

The remainder of the discussion assumes that New Pipeline will be treated as a partnership for U.S. federal income tax purposes.

2. U.S. Holders

As a partnership, New Pipeline itself will not be subject to U.S. federal income tax. Instead, New Pipeline will file an annual partnership information return with the IRS which will report the results of New Pipeline’s operations. Each Equityholder will be required to report on its U.S. federal income tax return, and will be subject to tax in respect of, its distributive share of each item of New Pipeline’s income, gain, loss, deduction and credit for each taxable year of New Pipeline ending with or within the Equityholder’s taxable year. Each item generally will have the same character as if the Equityholder had recognized the item directly. Equityholders will be required to report these items regardless of the extent to which, or whether, they receive cash distributions from New Pipeline for such taxable year, and thus may incur income tax liabilities in excess of any cash distributions from New Pipeline.

An Equityholder is allowed to deduct its allocable share of New Pipeline’s losses (if any) only to the extent of such Equityholder’s adjusted tax basis (discussed below) in its New Common Equity at the end of the taxable year in which the losses occur. In addition, various other limitations in the Tax Code may significantly limit an Equityholder’s ability to deduct its allocable share of deductions and losses of New Pipeline against other income.

New Pipeline will provide each Equityholder with the necessary information to report its allocable share of New Pipeline’s tax items for U.S. federal income tax purposes. However, no assurance can be given that New Pipeline will be able to provide such information prior to the initial due date of the Equityholder’s U.S. federal income tax return and Equityholders may therefore be required to apply to the IRS for an extension of time to file their tax returns.

New Pipeline's board will decide how items will be reported on New Pipeline's U.S. federal income tax returns, and all Equityholders will be required under the Tax Code to treat the items consistently on their own returns, unless they file a statement with the IRS disclosing the inconsistency. In the event that New Pipeline's income tax returns are audited by the IRS, the tax treatment of New Pipeline's income and deductions generally will be determined at New Pipeline level in a single proceeding, rather than in individual audits of the Equityholders. New Pipeline's "tax matters partner" or "partnership representative" (as those terms are used in the Tax Code) will have considerable authority under the Tax Code and the New Organizational Documents to make decisions affecting the tax treatment and procedural rights of the Equityholders.

An Equityholder generally will not recognize gain or loss on the receipt of a distribution of cash or property from Reorganized Pipeline (provided that the Equityholder is not treated as exchanging such Equityholder's share of New Pipeline's "unrealized receivables" and/or certain "inventory items" (as those terms are defined in the Tax Code, and together "ordinary income items") for other partnership property). An Equityholder, however, will recognize gain on the receipt of a distribution of cash and, in some cases, marketable securities, from the us (including any constructive distribution of money resulting from a reduction of the Equityholder's share of New Pipeline's indebtedness) to the extent such distribution or the fair market value of such marketable securities distributed exceeds such Equityholder's adjusted tax basis in its New Common Equity. Such distribution would be treated as gain from the sale or exchange of the New Common Equity, which is described below.

An Equityholder's adjusted tax basis in its New Common Equity generally will be equal to such member's initial tax basis (discussed above), increased by the sum of (i) any additional capital contribution such Equityholder makes to us, (ii) the Equityholder's allocable share of the income of New Pipeline, and (iii) increases in the Equityholder's allocable share of New Pipeline's indebtedness, and reduced, but not below zero, by the sum of (i) the Equityholder's allocable share of New Pipeline's losses, and (ii) the amount of money or the adjusted tax basis of property distributed to such Equityholder, including constructive distributions of cash resulting from reductions in such Equityholder's allocable share of New Pipeline's indebtedness.

A sale of all or part of the New Common Equity will result in the recognition of gain or loss in an amount equal to the difference between the amount of the sales proceeds or distribution (including any constructive distribution) and such member's adjusted tax basis for the portion of the New Common Equity disposed of. Any gain or loss recognized with respect to such a sale generally will be treated as capital gain or loss, and will be long-term capital gain or loss if the New Common Equity have been held for more than one year, except to the extent (i) that the proceeds of the sale are attributable to a member's allocable share of certain of New Pipeline's ordinary income items and such proceeds exceed the Equityholder's adjusted tax basis attributable to such ordinary income items and (ii) of previously allowed bad debt or ordinary loss deductions. An Equityholder's ability to deduct any loss recognized on the sale of its New Common Equity will depend on the Equityholder's own circumstances and may be restricted under the Tax Code.

3. Tax-Exempt U.S. Holders

It is expected that New Pipeline will derive income that constitutes unrelated business taxable income ("UBTI"). Consequently, an Equityholder that is a tax-exempt organization will generally be subject to "unrelated business income tax" to the extent that its allocable share of New Pipeline's income consists of UBTI. Tax-exempt entities face unique tax issues from owning New Common Equity that may result in adverse tax consequences. U.S. Holders that are tax-exempt are urged to consult their tax advisors regarding the tax consequences of the direct ownership of the New Common Equity.

4. Non-U.S. Holders

Non-U.S. Holders treated as engaged in a U.S. trade or business are subject to U.S. federal income tax at the graduated rates applicable to U.S. persons on their net income that is considered to be effectively connected with such U.S. trade or business. Non-U.S. Holders that are corporations may also be subject to a 30% branch profits tax on such effectively connected income. The 30% rate applicable to branch profits may be reduced or eliminated under the provisions of an applicable income tax treaty between the United States and the country in which the Non-U.S. Holder resides or is organized.

It is expected that New Pipeline's method of operation will result in a determination that New Pipeline is engaged in a U.S. trade or business with the result that a large majority of New Pipeline's income is properly treated as effectively connected income with respect to Non-U.S. Holders. If a Non-U.S. Holder were treated as being engaged in a U.S. trade or business in any year because of an investment in New Common Equity in such year, such Non-U.S. Holder generally would be (i) subject to withholding on its distributive share of New Pipeline's income effectively connected with such U.S. trade or business, (ii) required to file a U.S. federal income tax return for such year reporting its allocable share, if any, of income or loss effectively connected with such trade or business and (iii) required to pay U.S. federal income tax at regular U.S. federal income tax rates on any such income. Moreover, a Non-U.S. Holder who is a corporation might be subject to a U.S. branch profits tax on its allocable share of its effectively connected income. Any amount so withheld would be creditable against such Non-U.S. Holder's U.S. federal income tax liability, and such Non-U.S. Holder could claim a refund to the extent that the amount withheld exceeded such Non-U.S. Holder's U.S. federal income tax liability for the taxable year. Finally, if New Pipeline were treated as being engaged in a U.S. trade or business, a portion of any gain recognized by a Non-U.S. Holder on the sale or exchange of its New Pipeline units would be treated for U.S. federal income tax purposes as effectively connected income, and hence such Non-U.S. Holder could be subject to U.S. federal income tax on the sale or exchange. Furthermore, all or a portion of a Non-U.S. Holder's New Common Equity may be attributable to U.S. real property, in which case gain on sale or exchange of such New Membership Units could be treated for U.S. federal income tax purposes as effectively connected income, even if New Pipeline were not otherwise treated as engaged in a U.S. trade or business.

Non-U.S. Holders may have to supply certain beneficial ownership statements to New Pipeline (which would be available to the IRS) to obtain reductions in U.S. federal withholding tax on interest and to obtain benefits under U.S. income tax treaties, to the extent applicable.

In general, different rules from those described above apply in the case of Non-U.S. Holder subject to special treatment under U.S. federal income tax law, including a Non-U.S. Holder (i) who has an office or fixed place of business in the United States or is otherwise carrying on a U.S. trade or business; (ii) who is an individual present in the United States for 183 or more days or has a "tax home" in the United States for U.S. federal income tax purposes; or (iii) who is a former citizen or resident of the United States.

Non-U.S. Holders are urged to consult their tax advisors with regard to the U.S. federal income tax consequences to them of acquiring, holding and disposing of the New Common Equity, as well as the effects of state, local and non-U.S. tax laws, as well as eligibility for any reduced withholding benefits.

G. Information Reporting and Back-up Withholding

The Debtors and Reorganized Debtors will withhold all amounts required by law to be withheld from payments of interest and distributions with respect to equity. The Debtors and Reorganized Debtors will also comply with all applicable reporting requirements of the Tax Code. In general, information reporting requirements may apply to distributions or payments made to a Holder of a Claim under the Plan, as well as future payments or allocations of income made with respect to consideration received under the

Plan. In addition, backup withholding of taxes will generally apply to payments in respect of a Claim under the Plan, as well as future payments with respect to the consideration received under the Plan, unless, in the case of a U.S. Holder, such U.S. Holder provides a properly executed IRS Form W-9 and, in the case of a Non-U.S. Holder, such Non-U.S. Holder provides a properly executed applicable IRS Form W-8 (or, in each case, such Holder otherwise establishes eligibility for an exemption).

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a Holder's U.S. federal income tax liability, and a Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS (generally, a U.S. federal income tax return).

In addition, from an information reporting perspective, the Treasury Regulations generally require disclosure by a taxpayer on its U.S. federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these regulations and require disclosure on the Holders' tax returns.

H. FATCA

Under legislation commonly referred to as the Foreign Account Tax Compliance Act ("FATCA"), foreign financial institutions and certain other foreign entities must report certain information with respect to their U.S. account holders and investors or be subject to withholding at a rate of 30 percent on the receipt of "withholdable payments." For this purpose, "withholdable payments" are generally U.S. source payments of fixed or determinable, annual or periodical income, and, subject to the paragraph immediately below, also include gross proceeds from the sale of any property of a type which can produce U.S. source interest or dividends. FATCA withholding will apply even if the applicable payment would not otherwise be subject to U.S. federal nonresident withholding.

FATCA withholding rules were previously scheduled to take effect on January 1, 2019, that would have applied to payments of gross proceeds from the sale or other disposition of property of a type that can produce U.S. source interest or dividends. However, such withholding has effectively been suspended under proposed Treasury Regulations that may be relied on until final regulations become effective. Nonetheless, there can be no assurance that a similar rule will not go into effect in the future. Each Non-U.S. Holder should consult its own tax advisor regarding the possible impact of FATCA withholding rules on such Non-U.S. Holder.

BOTH U.S. HOLDERS AND NON-U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE IMPACT OF THESE RULES ON SUCH HOLDERS' EXCHANGE OF ANY OF ITS CLAIMS PURSUANT TO THE PLAN.

THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX. THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER IN LIGHT OF SUCH HOLDER'S CIRCUMSTANCES AND INCOME TAX SITUATION. ALL HOLDERS OF CLAIMS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, NON-U.S., OR NON-INCOME TAX LAW, AND OF ANY CHANGE IN APPLICABLE TAX LAW.

XIII. RECOMMENDATION

In the opinion of the Debtors, the Plan is preferable to all other available alternatives and provides for a larger distribution to the Debtors' creditors than would otherwise result in any other scenario. Accordingly, the Debtors recommend that holders of Claims entitled to vote on the Plan vote to accept the Plan and support Confirmation of the Plan.

Exhibit A

Plan of Reorganization

[Filed separately]

Exhibit B

Corporate Organization Chart

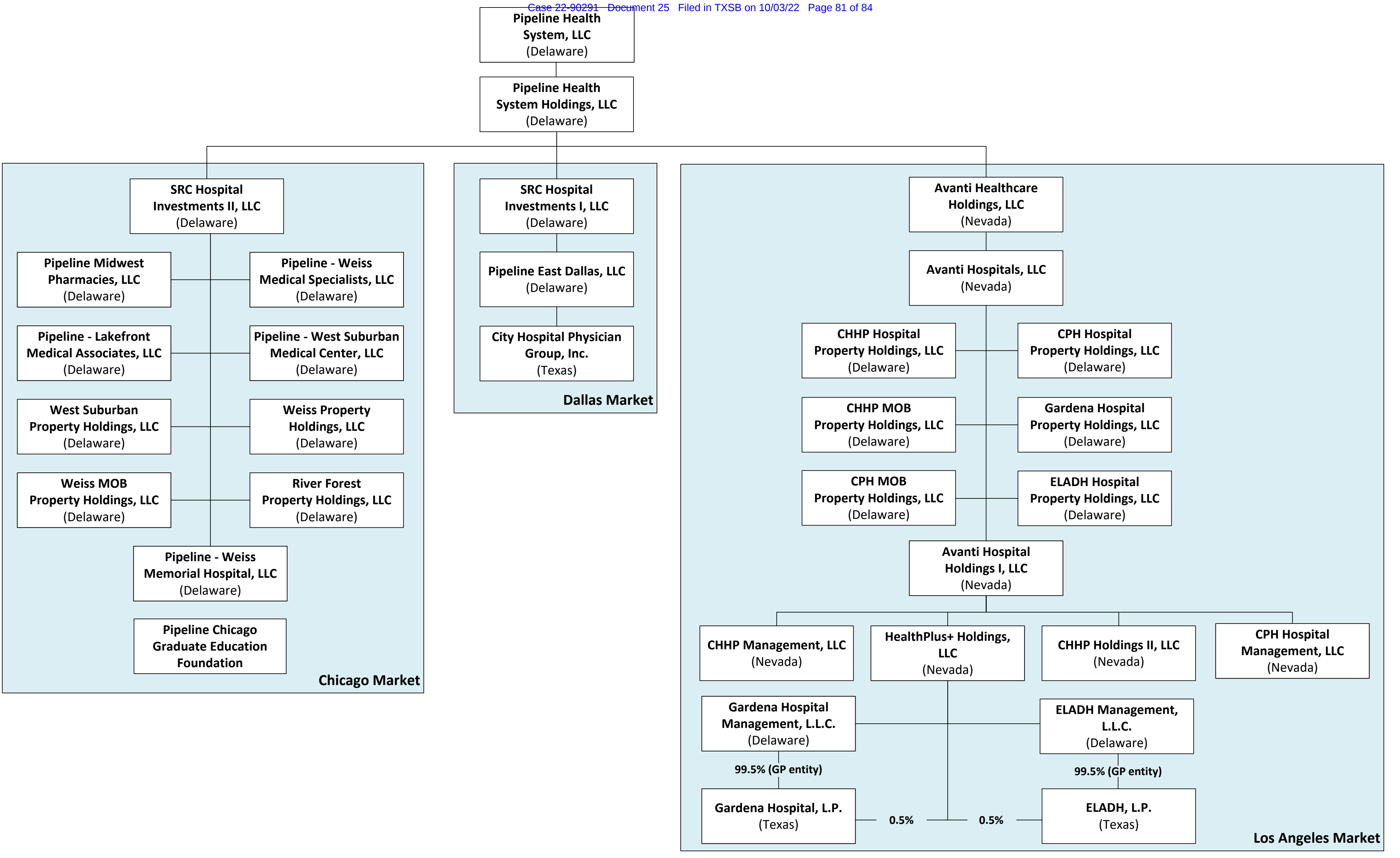


Exhibit C

Disclosure Statement Order

[To follow]

Exhibit D

Liquidation Analysis

[To follow]

Exhibit E

Financial Projections

[To follow]