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BSC 3

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re	Case No. LA 05-22627-TD
	Chapter 11
WATTSHealth Foundation, Inc., dba UHP Healthcare, a California not-for-profit corporation,	**DISCLOSURE STATEMENT FOR DEBTOR'S PLAN OF REORGANIZATION DATED DECEMBER 15, 2006**
Debtor.	**DISCLOSURE STATEMENT HEARING**
	[T/B/D]
Tax I.D. No. 95-2623688	**PLAN CONFIRMATION HEARING**
	[T/B/D]

[THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT AND NO ONE MAY SOLICIT ACCEPTANCES OR REJECTIONS OF THE PLAN UNTIL THIS DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION UNDER THE BANKRUPTCY CODE.]

I.

INTRODUCTION

WATTSHealth Foundation, Inc., dba UHP Healthcare, a California not-for-profit corporation, is the debtor (the "**Debtor**") in the above-referenced bankruptcy case (the "**Chapter 11 Case**"). The Debtor commenced the Chapter 11 Case by filing a voluntary petition under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**") on May 31, 2005 (the "**Petition Date**"). The Chapter 11 Case is pending in the United States Bankruptcy Court for the Central District of California before the Honorable Thomas Donovan (the "**Bankruptcy Court**").

Chapter 11 allows the Debtor, inter alia, to propose a plan of reorganization. The Debtor filed its plan of reorganization on December 15, 2006 (the "**Plan**"), a copy of which is attached hereto as **Exhibit "A"**. The Debtor estimates that the Effective Date of the Plan will occur in **[May]** 2007. The document you are reading (as the same may be modified, amended, or supplemented, the "**Disclosure Statement**") contains information with respect to the Debtor and the Plan. Except as otherwise provided herein, capitalized terms used in this Disclosure Statement shall have the meanings set forth in the Plan. The Debtor also will file with the Bankruptcy Court a Plan Supplement, which (as set forth below) will contain copies of certain documents relating to the transactions contemplated by the Plan. The Plan Supplement will be filed with the Bankruptcy Court on or before the hearing to confirm the Plan, in accordance with the deadline to be set by the Bankruptcy Court. The Plan Supplement also will be available at www.bmccorp.com/uhp.

The Plan provides for the Debtor to use its available Cash and other assets to satisfy Allowed Claims, and, to the extent that any excess funds remain available thereafter, continue in existence as a charitable organization, but not as a provider of health insurance. The Plan provides for payment to holders of Allowed Claims consistent with the priority provisions of the Bankruptcy Code. The following is a summary of the treatment proposed for Allowed Claims under the Plan:

SUMMARY OF PLAN CLASSIFICATION AND TREATMENT			
CLASS	**TREATMENT AND DISTRIBUTION**	**ESTIMATE OF CLAIM AMOUNTS AND RECOVERY**	**VOTING STATUS**
Unclassified Allowed Administrative Claims and Allowed Priority Tax Claims	**Treatment:** Payment in full.	Approx. $[_____] Recovery: 100%	N/A
Class 1: Other Priority Claims	**Treatment:** Payment in full of Principal Amount plus Post-Petition Interest.	None Anticipated.	**Impaired; entitled to vote.**
Class 2: Allowed Secured Claim Of Merrill Lynch	**Treatment:** Cash payment in the amount of $2,042,250.00, plus 50% of the accrued and unpaid non-default interest from the Petition Date through the date of payment, plus the reasonable out-of-pocket attorneys' fees and expenses incurred by Merrill Lynch from and after the Petition Date to the extent provided for in the Merrill Lynch Indebtedness Documents, but not to exceed $25,000.	Approx. $[_____] Recovery: 100%	**Impaired; entitled to vote.**
Class 3: Allowed Secured Property Tax Claims	**Treatment:** Deferred Cash payments or Cash payment on the Effective Date.	None Anticipated	**Impaired; entitled to vote.**
Class 4: Allowed DIR Secured Claims	**Treatment:** No alteration of legal, equitable or contractual rights.	Unliquidated Claim.	**Unimpaired; deemed to accept the Plan**
Class 5: Allowed United Bank Secured Claim	**Treatment:** Cure and reinstatement.	Approx. $112,000 Recovery: 100%	**Unimpaired; deemed to accept the Plan**
Class 6: Allowed Secured Claims (not otherwise classified in any other Class)	**Treatment:** Deferred Cash payments, Cash payment on the Effective Date, or cure and reinstatement.	None Anticipated.	**Impaired; entitled to vote.**
Class 7: Allowed General Unsecured Claims	**Treatment:** Pro-Rata Cash Distributions of Net Proceeds, up to full Principal Amount plus Post-Petition Interest.	Approx. $[_____] Est. Recovery: ___ to 100%	**Impaired; entitled to vote.**
Class 8: Allowed Convenience Claims	**Treatment:** Payment in Cash, on or about the Effective Date, of Principal Amount not to exceed $5,000, plus Post-Petition Interest.	Approx. $[_____] Est. Recovery: 100%	**Unimpaired; deemed to accept the Plan**

THE BANKRUPTCY COURT HAS NOT YET CONFIRMED THE PLAN. UNLESS AND UNTIL THE BANKRUPTCY COURT CONFIRMS THE PLAN, ITS TERMS ARE NOT BINDING. IF THE COURT CONFIRMS THE PLAN, THEN THE PLAN WILL BE BINDING ON THE DEBTOR AND ALL CREDITORS AND INTEREST HOLDINGS IN THE CHAPTER 11 CASE.

A. Purpose of This Document.

Pursuant to section 1125 of the Bankruptcy Code, this Disclosure Statement is being distributed to you for the purpose of enabling you to make an informed judgment about the Plan. The Bankruptcy Code requires a Disclosure Statement to contain "adequate information" concerning the Plan. The Bankruptcy Court has approved this Disclosure Statement as containing adequate information as required by the Bankruptcy Code. This Disclosure Statement summarizes the provisions set forth in the Plan, and tells you certain information relating to the Plan and the process the Bankruptcy Court will follow in determining whether or not to confirm the Plan.

READ THIS DISCLOSURE STATEMENT CAREFULLY TO LEARN ABOUT:

(1) WHO CAN VOTE ON THE PLAN,

(2) HOW CLAIMS WILL BE TREATED UNDER THE PLAN,

(3) HOW THIS TREATMENT COMPARES TO HOW CLAIMS WOULD BE TREATED IF THE DEBTOR WAS LIQUIDATED UNDER CHAPTER 7 OF THE BANKRUPTCY CODE,

(4) THE HISTORY, BUSINESS, RESULTS OF OPERATIONS, MANAGEMENT, ASSETS AND LIABILITIES OF THE DEBTOR, AND SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASE,

(5) HOW THE COURT WILL DECIDE WHETHER OR NOT TO CONFIRM THE PLAN,

(6) WHAT WILL HAPPEN IF THE PLAN IS CONFIRMED,

(7) WHETHER THE PLAN IS FEASIBLE.

This Disclosure Statement cannot tell you everything about your rights. You should consider consulting your own lawyer to obtain more specific advice on how this Plan will affect you

and what is the best course of action for you. Be sure to read the Plan as well as the Disclosure Statement. If there are any inconsistencies between the Plan and the Disclosure Statement, the Plan provisions will govern.

The Debtor strongly urges you to review carefully the contents of this Disclosure Statement and the Plan (including the referenced exhibits) before making a decision to accept or reject the Plan. Particular attention should be paid to the provisions affecting or impairing your rights as a creditor. The Debtor has examined various alternatives and, based on information contained in this Disclosure Statement, and for the reasons set forth below, the Debtor has concluded that the Plan provides the best recovery to the Debtor's creditors.

B. Voting on the Plan.

The Debtor is providing copies of this Disclosure Statement and the applicable form of ballot for casting an acceptance or rejection of the Plan (a "**Ballot**") to all known holders of Claims entitled to vote under the Plan. Such Creditors may vote to accept or reject the Debtor's Plan. **Section V.B.2** ("*Who May Vote to Accept or Reject the Plan.*") below provides more information about who is entitled to vote under the Plan.

Your vote on the Plan is important. Non-acceptance of the Plan may lead to a liquidation under chapter 7 of the Bankruptcy Code, or to the confirmation of another plan of reorganization. These alternatives may not provide for a distribution of as much value to holders of Allowed Claims as the Plan and any such distributions may be delayed. Accordingly, the Debtor urges you to accept the Plan by completing and returning the enclosed Ballot.

1. Deadline for Voting on the Plan.

In order to be counted, Ballots must be completed, signed and returned so that they are received no later than **4:00 P.M. prevailing Pacific Time on** [DATE]**, 2007** (the "**Voting Deadline**") at the following address:

[INSERT]

DO NOT SEND YOUR BALLOT VIA FACSIMILE OR E-MAIL.

DO NOT DELIVER YOUR BALLOT TO THE BANKRUPTCY COURT.

DO NOT DELIVER YOUR BALLOT TO THE DEBTOR.

Any Ballot that is not timely received at the address above on or prior to the Voting Deadline will not be counted in connection with confirmation of the Plan by the Bankruptcy Court.

2. Ballot Instructions.

A Ballot is enclosed herewith for Creditors to use in voting on the Plan. To vote on the Plan, indicate on the enclosed Ballot that you accept or you reject the Plan and sign your name and mail the Ballot in the envelope provided for this purpose, and otherwise comply with the instructions included with the Ballot. If a Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should indicate such capacity when signing.

TO BE COUNTED, YOUR BALLOT MUST BE COMPLETELY FILLED IN, SIGNED, AND TRANSMITTED IN THE MANNER SPECIFIED IN THE BALLOT SO THAT IT IS RECEIVED BY THE VOTING DEADLINE SPECIFIED IN THE BALLOT. PLEASE FOLLOW CAREFULLY ALL INSTRUCTIONS CONTAINED IN THE BALLOT. ANY BALLOTS RECEIVED WHICH DO NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN, OR WHICH INDICATE BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN, WILL BE COUNTED AS A VOTE IN FAVOR OF THE

PLAN. A BALLOT WHICH OTHERWISE DOES NOT FULLY COMPLY WITH THE BALLOT INSTRUCTIONS, WILL NOT BE COUNTED.

If your Ballot is not properly completed, signed and returned as described, it will not be counted. If your Ballot is damaged or lost, you may request a replacement by sending a written request to BMC at the above address. If you have any questions about the procedure for voting, or if you did not receive a Ballot, received a damaged Ballot, or have lost your Ballot, or if you would like any additional copies of this Disclosure Statement, please contact BMC at the address noted above.

3. Convenience Class Option.

If you are the holder of one or more General Unsecured Claims with an aggregate Principal Amount greater than Five Thousand Dollars ($5,000.00), you have the option to reduce the aggregate Principal Amount of all of your General Unsecured Claims to Five Thousand Dollars ($5,000.00) and thereby become an Eligible Convenience Class Claimant (the "**Convenience Class Option**"). If you select the Convenience Class Option on your Ballot, you will receive on the Effective Date or as soon as practicable thereafter, in full satisfaction, discharge, exchange and release of your Claims, Cash in the amount of (a) $5,000.00, plus (b) Post-Petition Interest on this amount to the extent payable as provided for in the Plan.

The benefit to selecting the Convenience Class Option is that the Distribution to Class 8 Allowed Convenience Claims will be made or the Effective Date or as soon thereafter as is practicable. The detriment to selection the Convenience Class Option is that it limits the aggregate Principal Amount of all of the General Unsecured Claims held by the selecting party to $5,000.

C. Confirmation Of The Plan.

"Confirmation" is the technical phrase for the Bankruptcy Court's approval of a plan of reorganization. At the Confirmation Hearing, in order to confirm the Plan, the Debtor must demonstrate that it has met the requirements of section 1129 of the Bankruptcy Code. If the Bankruptcy Court determines that all of the requirements of section 1129 have been satisfied, the Bankruptcy Court will enter an order confirming the Plan. The Debtor believes that the Plan

satisfies all the statutory requirements of chapter 11 of the Bankruptcy Code for Confirmation of the Plan. See " *CONFIRMATION REQUIREMENTS AND PROCEDURES*" at § V.

1. Time and Place of Confirmation Hearing.

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on Confirmation of the Plan (the "**Confirmation Hearing**"). The Confirmation Hearing will take place on **[DATE]** at **[TIME]** in Courtroom 1345, Roybal Federal Building, 255 E. Temple Street, Los Angeles, California. The Confirmation Hearing may be continued from time to time by the Bankruptcy Court without further notice except for the announcement of the continuation date made at the Confirmation Hearing or at any subsequent continued Confirmation Hearing.

2. Deadline for Objecting to the Confirmation of the Plan.

Any objection to Confirmation of the Plan must be in writing and must be filed with the Bankruptcy Court and served upon the parties set forth below by or before **[DATE]**, in accordance with the Disclosure Statement Order.

Parties on whom objections to Confirmation of the Plan must be served are:

Counsel for the Debtor

Stutman, Treister & Glatt Professional Corporation
1901 Avenue of the Stars, Twelfth Floor
Los Angeles, California 90067
Attn: Nathan A. Schultz, Esq.

Counsel for the Committee

Danning, Gill, Diamond & Kollitz, LLP
2025 Century Park East, Third Floor
Los Angeles, California 90067
Attn: Steven J. Schwartz, Esq.

and

Office of the United States Trustee

725 S. Figueroa St., 26th Floor
Los Angeles, California 90017
Attn: Patricia Biery, Esq.

D. Additional Documents and Information.

1. Exhibits

Attached as Exhibits to this Disclosure Statement are copies of the following:

(a) The Plan (**Exhibit A**);

(b) Balance Sheet – Petition Date and As of **[December 31, 2006] (Exhibit B)**

(c) Sources and Uses (**Exhibit C**);

(d) Claims Analysis (**Exhibit D**); and

(e) Liquidation Analysis (**Exhibit E**).

(f) Initial Post-Confirmation Expense Budget Summary (**Exhibit F**)

2. Other Documents Accompanying This Disclosure Statement.

Also accompanying this Disclosure Statement are copies of the following:

(a) The Order of the Bankruptcy Court approving this Disclosure Statement and setting the confirmation hearing, the deadlines and procedures for voting and for objecting to confirmation of the Plan, and related matters (the "**Disclosure Statement Order**"); and

(b) For each Person entitled to vote on the Plan, a Ballot.

3. Plan Supplement.

Forms of certain documents referred to in the Plan are or will be contained in the separate Plan Supplement, including: (i) the Initial Post-Confirmation Expense Budget; (ii) the list of executory contracts and unexpired leases to be assumed pursuant to the Plan; (iii) the list of executory contracts and unexpired leases to be rejected pursuant to the Plan; (iv) the Articles of Incorporation of Reorganized Debtor; and (v) the By-laws of Reorganized Debtor. On or before the Confirmation Hearing, the Plan Supplement may be inspected in the office of the Clerk of the Bankruptcy Court, 300 N. Los Angeles Street, Los Angeles, California 90012, or a copy, or excerpts, may be obtained upon written request to the Debtor's counsel, Stutman, Treister & Glatt Professional Corporation, 1901 Avenue of the Stars, Los Angeles, California 90067 (Attn: Nathan A. Schultz, Esq.) or online at www.bmccorp.com/uhp.

4. Additional Information.

Additional information relating to the Chapter 11 Case may be found at www.bmccorp.com/uhp. Certain historical financial information filed by the Debtor with the Department of Managed Health Care ("**DMHC**") may be obtained via the DMHC's web site at http://www.dmhc.ca.gov/.

E. Disclaimers.

1. The Bankruptcy Court Has Not Yet Approved the Plan.

The Bankruptcy Court has approved this Disclosure Statement as containing information of a kind and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the Debtor and the condition of its books and records, to be adequate to enable hypothetical, reasonable investors typical of the holders of impaired Claims to make an informed judgment as to whether to accept or reject the Plan. Approval of this Disclosure Statement does not, however, constitute a determination by the Bankruptcy Court as to the fairness or the merits of the Plan.

2. The SEC Has not Approved this Disclosure Statement.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR BY ANY STATE AUTHORITY UNDER ANY STATE SECURITIES OR "BLUE SKY" LAW, NOR HAS THE COMMISSION (OR ANY STATE AUTHORITY) PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT.

3. Forward-Looking Statements.

The information contained in **Section III** ("*Financial Information*") and certain other statements contained or incorporated by reference herein, including, without limitation, statements containing the words "believes," "anticipates," "expects," and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties, and other

factors that may cause the actual results, performance, or achievements of the Debtor, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: national and local general economic and market conditions; demographic changes; liabilities and other claims asserted against the Debtor; the realizable value of the assets of the Estate; business disruptions; the allowance and disallowance of Claims; the ability to attract and retain qualified personnel; regulatory matters; and other factors referenced herein. **Given these uncertainties, those reading this Disclosure Statement are cautioned not to place undue reliance on such forward-looking statements.** The Debtor disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained or incorporated by reference herein to reflect untrue events or developments.

4. Exclusive Source Of Information.

No representations concerning the Debtor or the Plan are authorized by the Debtor other than as set forth in this Disclosure Statement.

5. Plan Controls.

Although the Debtor believes that this Disclosure Statement accurately describes the Plan, all summaries of the Plan contained in this Disclosure Statement are qualified by the Plan itself and the documents described therein which are controlling.

6. Source Of Information.

Factual information contained in this Disclosure Statement has been provided by the Debtor or has been obtained from the Debtor's records, except where otherwise specifically noted. All financial information contained in this Disclosure Statement has been prepared by the Debtor or has been obtained from its records. None of the Debtor's attorneys, accountants, or other professionals make any representation regarding the Debtor's information or the information contained herein. The Debtor does not represent or warrant that the information contained in this Disclosure Statement is free from any inaccuracy.

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, NOTHING CONTAINED HEREIN SHALL BE ATTRIBUTABLE TO OR IS DERIVED FROM OR

REPRESENTED TO BE ACCURATE BY THE DEBTOR'S PROFESSIONALS, THE COMMITTEE, BY ANY HOLDER OF A CLAIM, OR BY ANY OF THEIR RESPECTIVE ADVISORS, NOR HAS THE COMMITTEE, ANY SUCH HOLDER, OR ANY SUCH ADVISOR INDEPENDENTLY VERIFIED THE INFORMATION SET FORTH HEREIN. ALTHOUGH THE DEBTOR'S PROFESSIONAL ADVISORS HAVE ASSISTED IN THE PREPARATION OF THIS DISCLOSURE STATEMENT BASED UPON FACTUAL INFORMATION AND ASSUMPTIONS RESPECTING FINANCIAL, BUSINESS, AND ACCOUNTING DATA PROVIDED BY THE DEBTOR, THEY HAVE NOT INDEPENDENTLY VERIFIED THE INFORMATION SET FORTH HEREIN AND MAKE NO REPRESENTATIONS AS TO THE ACCURACY THEREOF.

The Debtor has, however, made great efforts to present the information accurately and fairly and believes that the information is substantially accurate. The assumptions underlying the projections contained in this Disclosure Statement concerning sources and amounts of payments to Creditors represent the best estimate of the Debtor as to what is expected will happen. Because these are only assumptions about or predictions of future events, many of which are beyond the Debtor's control, there can be no assurances that the assumptions will in fact materialize or that the projected realizations will in fact be met. Except as otherwise provided herein, this Disclosure Statement does not reflect any events that occurred subsequent to the date that the Debtor submitted the Disclosure Statement to the Bankruptcy Court for approval.

7. No Admissions.

Nothing contained herein shall, or shall be deemed, to be an admission or declaration against interest by the Debtor for purposes of any existing or future litigation.

8. Warning Regarding Federal And State Income Tax Consequences Of The Plan.

The tax consequences of the Plan will vary based on the individual circumstances of each holder of a Claim. Accordingly, each Creditor is strongly urged to consult with its own tax advisor regarding the federal, state, local and foreign tax consequences of the Plan. See § VII (*CERTAIN FEDERAL INCOME TAX CONSEQUENCES.*).

F. EXCULPATION.

As specified in section 1125(e) of the Bankruptcy Code, persons who solicit acceptances or rejections of the Plan and/or who participate in the offer, issuance, sale, or purchase of securities offered or sold under the Plan, in good faith and in compliance with the applicable provisions of the Bankruptcy Code, are not liable, on account of such solicitation or participation, for violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer, issuance, sale, or purchase of securities.

II.

BACKGROUND INFORMATION

A. Description and History of the Debtor's Business.

1. Corporate Structure.

The Debtor is a California not-for-profit corporation. As such, the Debtor is exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701 of the California Revenue and Taxation Code. The Debtor does not have outstanding equity interests, and the Debtor does not have any subsidiaries. The Debtor has a historical relationship with WATTSHealth Charities, Inc., which is not a debtor in the Chapter 11 Case.

2. Business Operations.

As of the Petition Date, the Debtor operated as a health maintenance organization ("**HMO**") with approximately 90,000 members in the state of California. The primary function of the Debtor's business was to arrange for the provision of healthcare services to the Debtor's members. The Debtor arranged for the delivery of healthcare services to its members by contracting with physicians, either directly or through Independent Practice Associations and medical groups, hospitals and other health care providers or contracting entities. As an HMO, the Debtor did not provide healthcare or hospital services directly to its members.

The Debtor served members in four principal lines of business: (i) Medi-Cal; (ii) Medicare; (iii) Denti-Cal; and (iv) Commercial/Individual. The majority of the Debtor's revenues consisted of premiums principally under contracts with the Local Initiative Health Authority for Los Angeles County ("**L.A. Care**") and the Centers for Medicare & Medicaid Services ("**CMS**") for

Medi-Cal and Medicare beneficiaries, respectively. In the year ending on December 31, 2004, the Debtor generated revenues of approximately $207 million.

As of the Petition Date, the Debtor had approximately 173 full-time employees and 2 part-time employees. As of the Petition Date, the Debtor did not own a hospital or healthcare facility, nor did it employ doctors or health care providers, except in administrative capacities.

3. Management of the Debtor as of, and After, the Petition Date.

As of the Petition Date, the Debtor's Board of Directors (the "**Board**") consisted of:

- Johnny D. Griggs - Chairman
- Lawrence G. Becker - Treasurer
- Cynthia McClain-Hill - Secretary
- Frank Quevedo
- Edmund Butts, MD
- Arthur I. Johnson, MD

Subsequent to the Petition Date, Mr. Griggs was appointed as Board Restructuring Director. Other than this appointment, there have been no changes to the composition of the Board since the Petition Date.

As of the Petition Date, the Debtor's senior management consisted of:

- Curtis Owens - Chief Executive Officer
- Charles Ferrand - Chief Financial Officer
- Alan Bloom - Chief Administrative Officer
- Albert Young, MD - Chief Medical Officer
- Cassandra Sams - Chief Nursing Officer

Following the Petition Date, Bradley A. Lang of Alvarez & Marsal, LLC ("**A&M**") was appointed as the Debtor's Chief Restructuring Officer. In or about August 2005, Mr. Owens and the Board agreed that Mr. Owens would separate his employment with the Debtor. Charles Ferrand subsequently was appointed Interim Chief Executive Officer. In or about May 2006, Mr. Ferrand and the Board agreed that Mr. Ferrand would separate his employment with the Debtor. Sharon Isaac subsequently was appointed Chief Financial Officer. On or about August 31, 2006 (as of the

closing of the sale of the Debtor's lines of business), Mr. Bloom, Mr. Young, and Ms. Sams separated employment with the Debtor. Subsequently, Sione Ayers was appointed Chief Administrative Officer.

As of the date of this Disclosure Statement, the Debtor's management consists of:

- Bradley A. Lang – Chief Restructuring Officer
- Sharon Isaac – Chief Financial Officer
- Sione Ayers – Chief Administrative Officer

B. Events Leading To The Filing Of The Chapter 11 Case.

1. The Conservatorship.

In August 2001, the DMHC took possession of the property, business and assets of Watts Health Foundation, Inc. and appointed Frank Stevens as Conservator, thereby commencing a conservatorship case (the "**Conservatorship Case**") for the Debtor under applicable state law. In October 2003, the Superior Court of the State of California, County of Los Angeles, Central District entered its "Order Approving Termination Of Conservatorship And Approving Conservator's Plan of Reorganization Dated September 3, 2002" (the "**Conservatorship Order**"). In accordance with the Conservatorship Order, the Conservatorship Case terminated on November 21, 2003.

2. Events Following The Conservatorship Case.

Following the termination of the Conservatorship Case, the Debtor was fully vested with its assets, claims against the Debtor arising prior to August 8, 2001 were resolved pursuant to the Conservator's Plan of Reorganization and are specifically not enforceable against the Debtor, and the Debtor took over control of the management and operation of its businesses under the auspices of a newly appointed Board of Directors.[1] In January 2004, the President and CEO and the Chief Operations Officer of the Debtor resigned. In March 2004, the Board of Directors hired a new President and CEO. Subsequently, in the fall of 2004 several key senior management employees, including the Chief Financial Officer, resigned.

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[1] Pursuant to the Conservator's Plan of Reorganization, a trust was created for the benefit of the holders of pre-Conservatorship Case claims against the Debtor (the "**Creditors' Trust**"). Development Specialists, Inc. ("**DSI**") is the trustee of the Creditors' Trust. DSI filed a claim in the Chapter 11 Case on behalf of the Creditors' Trust.

Changes in senior management, changes in the health-care industry, and other factors combined to create significant challenges for the Debtor in calendar year 2005. The Debtor's operating performance in 2005 deteriorated and, the Debtor confronted various challenges to remain in compliance with its regulatory obligations.

On the Petition Date, in order to restructure its operations, and preserve and maintain its value, the Debtor filed a voluntary petition for relief under the Bankruptcy Code. Since the Petition Date, the Debtor has continued in the possession of its properties and has managed its business as Debtor in Possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

C. Significant Events During the Chapter 11 Case.

1. First Day Pleadings.

Immediately after filing its chapter 11 petition, the Debtor began its transition to operating as a Debtor in Possession. In order to facilitate that process, the Debtor filed certain motions on an emergency basis (the "**Emergency Motions**"). By these Emergency Motions the Debtor sought authorization to pay pre-petition wages and continue to honor employee benefits, maintain the Debtor's existing cash management system, establish procedures for adequate assurance of utilities, and establish various administrative procedures. The Court granted each of the Emergency Motions.

2. Administrative Matters.

The Debtor obtained Court approval to retain The BMC Group, Inc. ("**BMC**") as its notice agent and proofs of claim agent. BMC provided notice of the Debtor's 341(a) meeting, which took place on August 16, 2005. The Debtor timely filed its "7-Day" package with the Office of the United States Trustee ("**OUST**"), and provided supplements, as needed. In July 2005, the Debtor met with the OUST analyst to ensure that the Debtor's monthly operating reports ("**MOR's**") would satisfy the OUST's requirements. Since the Petition Date, the Debtor has filed its MOR's on a monthly basis, generally in a timely manner. On August 1, 2005, the Debtor filed its Schedules and Statement of Financial Affairs (the "**Schedules**"), and on November 30, 2005 and December 22, 2005, the Debtor filed amendments to the Schedules.

3. Appointment Of The Committee.

On June 16, 2005, the OUST appointed the members of the Official Committee of Creditors Holding Unsecured Claims (the "**Committee**"). The members of the Committee are: (a) the University of Southern California Hospital; (b) St. Bernardine Medical Center; (c) Long Beach Memorial Medical Center; (d) Centinela Hospital Medical Center; (e) Watts Healthcare Corporation, Inc.; (f) La Vida Medical Group; (g) Good Samaritan Hospital; (h) LAC King/Drew Medical Center; and (i) Development Specialists, Inc. The Committee selected Danning, Gill, Diamond & Kollitz, LLP ("DGDK") as its counsel, and FTI Consulting, Inc. ("FTI") as its financial advisor. The employment of DGDK and FTI were approved by orders of the Bankruptcy Court.

4. MedImpact Contract.

As of the Petition Date, the Debtor had outstanding obligations owing on account of pharmaceutical benefits provided to members of the Debtor's health plans, which benefits are administered through the Debtor's pre-petition contract with MedImpact Healthcare Systems, Inc. ("**MedImpact**"). To avoid a potentially crippling disruption to the Debtor's operations, working with MedImpact and the Committee, the Debtor obtained Court authority to pay its pre-petition obligations owing to MedImpact.

5. Workers' Compensation.

As of the Petition Date, the Debtor's workers' compensation coverage included a self-insured program (the "**Self-Insured Program**") and an insured program. The Debtor's self-insured program is subject to regulation by the Department of Industrial Relations (the "**DIR**"), with whom the Debtor had posted a deposit securing its obligations (as required by applicable law). Deposits with the DIR are in the form of certificates of deposit issued by Wells Fargo and Bank of America and pledged to the DIR. At the commencement of the Chapter 11 Case, the Debtor was confronted with the possibility that the DIR would cause the Self-Insurance Program to be taken over by the DIR or an affiliated program, draw on the deposit, and seek to recover any deficiency from the Debtor. To avoid this result, and ensure the continued orderly administration of its self-insured workers' compensation program, the Debtor obtained Court authority to continue to honor its workers' compensation obligations in the ordinary course of business.

Because the vast majority of the Self-Insured Program claimants had no affiliation with the Debtor, other than having asserted claims under the Self-Insured Program, the Debtor determined that it would be in the best interests of the Estate to pursue a comprehensive settlement with as many of the Self-Insured Program claimants as possible. In late 2005, the Debtor filed a motion seeking approval for certain forms and procedures to be used in negotiating settlements with Self-Insured Program claimants. Prior to the hearing on this motion the DIR asserted various concerns regarding the forms and procedures proposed by the Debtor. The Debtor successfully negotiated a resolution to some of these concerns, and obtained Court approval for modified versions of the forms and procedures. The procedures generally provide for the Debtor to provide notice to the Committee of a settlement reached with a Self-Insured Program claimant prior to seeking approval of such settlement under applicable state law.

6. Employment Of Professionals.

Shortly after the Petition Date, the Debtor filed applications to employ certain professionals, including A&M as its restructuring financial advisor, Stutman, Treister & Glatt Professional Corporation ("**ST&G**") as its reorganization counsel, Sidley Austin Brown & Wood, LLP ("**Sidley**") as its special litigation counsel, and McDermott Will & Emery LLP ("**MWE**") as its special healthcare counsel. The Bankruptcy Court granted each of these employment applications.

7. Operational Analysis And Modifications; Business Plan Development.

Prior to the Petition Date, the Debtor had commenced a number of initiatives to improve its operational performance, including: (i) seeking to recover from its medical group providers certain medical cost payments made by the Debtor that were the responsibility of the providers; (ii) renegotiating the Debtor's contract with MedImpact; and (iii) assessing the Debtor's Medicare premium rate and developing the database to increase the Debtor's Medicare premium.

Following the commencement of the Chapter 11 Case, with the assistance of A&M, the Debtor defined and expanded its prepetition initiatives, developed implementation programs, assigned employee tasks and responsibility, and diligently worked to implement operational changes. During the pendency of the Chapter 11 Case, the Debtor made substantial progress in this

regard, including (for example): (i) finalizing a new contract with MedImpact that built on Medicare program changes initiated in January 2005; (ii) implementing an aggressive effort to collect the data necessary to support a Medicare premium increase, which resulted in both retroactive adjustments, and an increased premium going forward; (iii) undertaking a thorough analysis of its contracts, developing a draft "medical services agreement" and a draft "hospital services agreement" and commencing and in certain cases completing contract negotiations; and (iv) implementing changes in its medical cost management procedures and claims review process to ensure that any improper submissions are identified and that they are either not paid, or paid and subjected to appropriate measures to recover payment from the responsible providers.

The Debtor's prepetition and postpetition operational improvement efforts focused on both stabilizing the company's operations, and providing a baseline for determining whether the company could pursue a stand-alone internal reorganization. Of critical importance to the Debtor's efforts and analysis were improvement of the Debtor's medical loss ratio and stabilization of the Debtor's member enrollment. Following the commencement of the Chapter 11 Case, the Debtor's operational efforts started to translate into improved operating margins. However, as a result of the commencement of the Chapter 11 Case, the Debtor suffered a decline in enrollment. As part of its effort to stabilize and expand its enrollment, the Debtor initiated several marketing programs. In addition, the Debtor successfully sought authority to offer a Medicare Part D. Plan.

Starting around December 2005 the Debtor's member enrollment began to improve. The improvement in the Debtor's operating margins and the stabilization in member enrollment provided the Debtor's with a foundation to develop a business plan and compare the costs and benefits of an internal reorganization with a sale of the company.

8. The Debtor's Marketing Effort.

In conjunction with its internal analysis of a stand-alone restructuring, the Debtor determined in the first month of the Chapter 11 Case that it was important to consider alternatives to an internally-driven restructuring, including a sale of one or more lines of business. The Debtor, with assistance from ST&G and A&M, developed a form of confidentiality agreement, and created an on-line due diligence room. In addition, the Debtor both responded to unsolicited expressions of

interest by engaging such parties in a dialogue, and reached out to those parties who, based on their participation in the industry, likely would be qualified candidates to consider such a transaction.

The Debtor set September 30, 2005 as the initial deadline for the submission of formal offers. After receiving multiple offers, the Debtor analyzed the offers received and provided feedback to each of the interested parties. The Debtor set October 31, 2005 as a second deadline for parties to submit new or revised offers. By early November 2005, the Debtor had received new or revised offers from multiple parties. The Debtor and its professionals analyzed the additional offers received and developed a uniform term sheet to respond to the interested parties. In response to the term sheet, the Debtor received counter-offers from more than one party. The Debtor had discussions with each party reagarding its respective counter-offer, and subsequently prepared a further revised term sheet to submit to such parties.

Ultimately, the Debtor focused its negotiations on two separate buyers. After considerable negotiations, meetings, and due diligence, the Debtor selected Care 1st as the party with the highest and best offer for the Debtor's lines of business. During February, 2006, the Debtor reached agreement with Care 1st on the form of term sheet, and proceeded to negotiate the form of an asset purchase agreement (the "**APA**") with Care 1st during March, 2006. In conjunction with this effort, the Debtor engaged various of the governing regulators in discussions relating to a potential sale to Care 1st.

9. The Sale of the Debtor's Lines of Business.

By the end of March/early April, 2006, each of the Debtor's dual reorganization tracks (a sale transaction and a stand-alone business plan) had matured sufficiently for the Debtor to make a decision regarding which restructuring path to pursue. In making this decision, the Debtor focused primarily on its key goals: (1) arranging for quality health care to all of the Debtor's members; (2) the Debtor's financial commitments and obligations to creditors, including the hospitals, medical groups and other health care providers who have supported the Debtor and tended to the needs of thousands of the Debtor's members; (3) protecting the interests of the Debtor's employees; and (4) addressing the health care needs and contributing to the quality of life of the

underserved community that it is the Debtor's mission to serve. The Debtor also considered input from the Committee, the Debtor's regulators, and the provider community.

On April 3, 2006, the Debtor's Board voted unanimously to approve the APA and to reorganize the Debtor's business through a sale transaction. In making this decision, the Board balanced the perceived risks and benefits of the stand-alone business plan against the perceived risks and benefits of a sale. With respect to the stand-alone business plan, the Board identified the following significant risks and hurdles: (i) the potential that the Debtor would be unable to meet the cash and operating capital requirements necessary to emerge from chapter 11; (ii) the uncertainty as to whether the Debtor would be able to meet revenue projections, given the relatively recent Medicare enrollment increases and the continued Medi-Cal enrollment decline; (iii) the uncertainty as to whether the Debtor would be able to sustain the apparent reduction in per-member medical expenses, particularly given the largely incomplete status of the Debtor's efforts to re-contract with its providers; (iv) the potential that the Debtor would not be able to obtain sufficient support from its providers for the stand-alone business plan; (v) the likelihood that, given the Debtor's prior bankruptcy and state court conservatorship, the Debtor's regulators would impose particularly rigorous standards and requirements as a condition to the Debtor's continued operations; and (vi) the strong preference for a sale transaction repeatedly expressed by the Committee. Thus, the Board determined that the benefits of a stand-alone restructuring, such as continuity for employees and as an HMO with a mission to serve the underserved community, were greatly offset by substantial risks.

In contrast, the proposed sale transaction posed relatively few risks to offset its substantial benefits. Care 1st is Knox-Keene licensed, community-based, and provider owned, and has a history of arranging for health care for the underserved populations of Los Angeles County. Care 1st operates a Medi-Cal line of business similar to that operated by the Debtor in California, and a Medicare business in Arizona. The Debtor understood that Care 1st had, in place, a network of health care providers in Los Angeles County which duplicated that of the Debtor by approximately 90%. Thus, substantially all of the Debtor's members in Los Angeles County will be able to continue using their same medical providers. In addition, Care 1st agreed to assume certain

of the Debtor's provider agreements, which will enable those additional providers to continue to provide services based upon the terms of their agreement with the Debtor.

On April 24, 2006, the Debtor filed its motion ("**Sale Motion**") seeking approval of the sale proposed under the APA (the "**Sale**"). The Sale Motion was approved at a hearing held on June 7, 2006, the order approving the Sale was entered on June 19, 2006, and the Sale closed on August 31, 2006. As a result of the closing of the Sale, Care 1st: (1) acquired all of the Debtor's lines of business; (2) paid the Debtor at closing approximately $11.8 million, and deposited approximately $10.2 million in escrows pursuant to which the Debtor anticipates receiving additional funds; (3) assumed the financial responsibility for, and the administrative cost of paying and processing, the Debtor's unpaid fee-for-service post-petition medical claims (as a credit against the $30 million purchase price); (4) assumed certain of the Debtor's contracts; and (5) employed a number of the Debtor's qualified employees who applied for employment with Care 1st.

10. Claims Processing Agreement.

One of the key functions required in connection with the Debtor's business operations is the processing and payment of fee-for-service medical claims asserted by the various physicians, hospitals and other entities that provide healthcare services to the Debtor's members. As of the commencement of the Debtor's case, the Debtor used a third-party claims processor to perform this function. However, prior to the closing of the Sale, the Debtor's claims processor ceased operations, forcing the Debtor either to find a new third-party claims processor, or to process its own claims internally. In light of the Sale to Care 1st, the Debtor determined that the most efficient and economical way to process and pay its claims through the date of the Sale closing was to transition its claims processing function (and certain other services) to Care 1st. Accordingly, the Debtor and Care 1st negotiated a Claims Agreement. The Debtor sought and obtained Bankruptcy Court approval of the Claims Agreement.

11. Employee Severance and Retention.

Due to the inherent delay between the approval of the Sale and its closing, the Debtor determined that it was critical to insure that it maintain its workforce. The Debtor's workforce was necessary to ensuring that the business would continue to operate pending the Sale, and that the Sale

could be consummated. To enable the Debtor to retain employees who would, in large measure, lose their jobs upon consummation of the Sale, the Debtor determined that it was necessary to enact a retention program. In addition, the long-term tenure of many of the Debtor's employees, and the highly specialized nature of the Debtor's business, suggested that many of the Debtor's rank-and-file employees could face significant difficulty in finding comparable alternative employment opportunities.

In order to address these issues, the Debtor, with the assistance of its advisors, developed a comprehensive retention and severance plan (the "**Retention and Severance Plan**"). The Retention And Severance Plan consists of two levels of benefits, one of which was available to all employees of the Debtor who were actively employed as of April 10, 2006, and the other that was available only to specific employees of the Debtor who (i) were actively employed as of April 10, 2006, and (ii) who have been specifically identified as "key" to the Debtor's restructuring and transition process. In general, the Retention and Severance Plan offered four types of benefits: (i) a severance payment; (ii) the pay out of accrued unused sick leave; (iii) full vesting of company-funded pension benefits; and (iv) professional outplacement services.

The Debtor sought and obtained Bankruptcy Court approval of its Retention and Severance Plan. As of the date hereof, the actual payments made and the estimated payments remaining under the Retention Severance Plan are as follows:

	Amount Paid As of 12/31/06	Estimated Payments Remaining	TOTAL
Severance	$ 2,698,491	$ 433,379	$ 3,131,870
Outplacement	200,000	-	200,000
Sick Leave	435,516	45,682	481,198
Pension Vest	350,000	-	350,000
	$ 3,684,007	$ 479,061	$ 4,163,068

12. Rejection of Union Contract.

As of the Petition Date, certain of the Debtor's employees were members of the .the Hotel and Services Employees Union, Local 399 SEIU, AFL-CIO (the "**Union**"). Following the

Debtor's decision to pursue the Sale, the Debtor entered into negotiations with the Union regarding the termination of the employment of the Debtor's Union employees as of the Sale closing. These negotiations resulted in the Union's agreement to the Debtor's termination of its relationship with the Union pursuant to section 1113 of the Bankruptcy Code, in return for the Debtor's agreement to allow the Union employees to participate in the Retention and Severance Plan. The Debtor obtained Bankruptcy Court approval for the termination of its relationship with the Union.

13. Claims Bar Date.

Given the nature of the Claims asserted against the Debtor, the Debtor developed and obtained Bankruptcy Court approval for a general bar date and a comprehensive set of procedures for filing and processing proofs of claim. In particular, the Debtor designed, with input from the Committee, a set of forms and procedures intended to streamline the proof of claim process for Creditors who will assert fee-for-service medical claims. Because the resolution of Claims will require the parties to reference, exchange and analyze confidential patient information, the Debtor proposed certain protections to prevent such information from becoming available to the public.

On November 16, 2005, the Bankruptcy Court approved the Debtor's motion seeking approval for the bar date and related procedures and fixed a general claims bar date of January 31, 2006. The Debtor's claims agent mailed notice of the bar date on November 30, 2005. Shortly thereafter, the Debtor filed amendments to certain portions of its Schedules, which amendments primarily reflected updated information regarding fee-for-service medical claims. The Debtor subsequently prepared and served a supplemental bar date notice to ensure that the information provided to Creditors clearly reflected the Debtor's amended Schedules.

Over 2,000 Claims were filed on or before the bar date. Subsequent to the bar date, over 200 additional Claims have been filed. Based upon the Debtor's Schedules and the timely filed and late filed proofs of claim, a total of approximately 2600 claims aggregating approximately $69.375 million currently are pending against the Estate. The Debtor believes that a number of the asserted Claims are duplicates, have been amended, superceded or previously resolved, or are subject to objection. The Debtor assembled a bankruptcy claims resolution team with expertise in reviewing and resolving medical claims, and developed a non-litigation process for compiling,

reviewing, and negotiating claims. While the Debtor's review and negotiation of Claims is ongoing, the Debtor has resolved or identified for objection various Claims. A summary of the Claims asserted against the Debtor is set forth in **Exhibit D**.

14. Settlement Procedures and Claim Distribution Motion.

To facilitate the resolution of Claims, on September 22, 2006, the Debtor filed a motion seeking: (i) approval for certain procedures to provide notice and obtain Court approval of settled claims; and (ii) authority to make a 50% interim distribution to holders of allowed general unsecured claims. The proposed procedures for settled claims provide a streamlined and efficient notice and approval process for claims that the Debtor settles. By the procedures, the Debtor sought to avoid the inefficiency and added cost of filing individual settlement motions. By the interim distribution, the Debtor sought to implement a means for distributing cash to holders of undisputed claims in the near term, and to incentivize holders of disputed claims to negotiate settlements with the Debtor. The Committee filed a limited objection to the motion, supporting the proposed settlement procedures, but objecting to the proposed interim distribution. The Court overruled the Committee's objection and granted the Debtor's motion. On or about December 18, 2006, the Debtor made its first interim 50% distribution in the amount of approximately $1.25 million.

15. Exclusivity Extensions.

The Debtor's initial exclusive period to file a plan of reorganization and solicit acceptances of its plan of reorganization were set to expire on January 31, 2006 and April 3, 2006, respectively. The Debtor and the Committee negotiated a series of consensual extensions of the Debtor's exclusive periods to file and solicit acceptances of a plan of reorganization. The Debtor filed the Plan on December 15, 2006, within its exclusive period to do so. The Disclosure Statement similarly has been filed on or before the Debtor's deadline to do so. The Debtor's exclusive period to solicit acceptance of the Plan will expire on February 12, 2007, unless further extended.

16. Interim Fee Procedures.

On July 29, 2005, the Debtor filed a motion seeking approval for certain procedures for interim compensation and reimbursement of fees and expenses of Professional Persons. In particular, the proposed procedures provided that, upon filing and serving a monthly professional

statement and absent timely objection, without further order of the Court a Professional Person shall be entitled to payment from the Debtor in the amount of eighty percent (80%) of the compensation and one hundred percent (100%) of the expense reimbursement requested in such statement. The Court approved the motion, and Professional Persons have filed fee statements and received monthly interim payments throughout the course of the Chapter 11 Case.

17. Building Sale.

As of the Petition Date, the Debtor's health plan operations, including over 150 employees, were housed in a headquarters building occupying over 60,000 square feet located at 3405 W. Imperial Highway, Inglewood, California (the "**Headquarters Building**"). The Debtor has continued to occupy the Headquarters Building throughout the pendency of the Bankruptcy Case. The Debtor is the fee owner of the Headquarters Building, and the real property upon which it is located (the "**Property**").

Following the Sale, the Debtor no longer required a building of the Headquarters Building's size to house its remaining staff. Moreover, the Debtor understood that the Property has significant sale value, particularly to a party who would occupy the premises for its own use. In furtherance of and in conjunction with the Plan, the Debtor engaged Cushman & Wakefield of California, Inc. ("**C&W**") as the Debtor's real estate broker for the marketing and sale of the Debtor's former headquarters property and building located at Property pursuant to the "Exclusive Listing Agreement: Sale Transaction" between the Debtor and C&W dated September 13, 2006. On September 22, 2006, the Debtor filed an application to employ C&W as its real estate broker, which application was approved by order of the Court entered on October 23, 2006.

C&W combined its knowledge and expertise regarding the Los Angeles real estate market with extensive research to identify (1) the use of the Property that would most likely generate the highest and best purchase price, and (2) the potentially interested parties who would be motivated to make a strong offer and proceed to closing at such a price. Through this process, C&W determined that a party purchasing the Property in order to use the Headquarters Building for its own purposes (an "owner/user") would be most likely to pay the highest and best price for the Property, and that such a party likely could be willing to pay up to $6 million (or more) for the Property.

Accordingly, in September 2006, C&W commenced a wide-reaching marketing campaign for the Property at a minimum offer price of $5.7 million. C&W emailed fliers regarding the property to 2,185 commercial real estate professionals. In addition, C&W agents personally contacted several hundred parties likely to be interested in the Property, including potential owner/users and developers. Additionally, C&W agents posted the offering in the CoStar and LoopNet multiple listing services and to over 1,000 C&W agents through its CWWeb system.

In response to these marketing efforts, during October and November 2006, C&W received 10 offers, 6 of which were at or above the minimum offer price of $5.7 million. Following the receipt of these offers, C&W contacted the offerors and solicited a highest and best offer from each. In response, one of the offerors withdrew its offer and the four offerors with offers below the minimum offer price declined to raise their offer to the minimum offer price. Of the remaining five offers, one was at the minimum offer price of $5.7 million, and the other four ranged from $5.8 million to $6.3 million.

Among the parties who submitted offers on the Property, the Debtor identified Today's Fresh Start, Inc. ("**TFS**") as the party most likely to proceed to closing on a sale of the Property at the agreed price, in part because TFS would be an owner/user of the Property (as opposed to a developer) and because TFS already has in place its funding for the purchase price. In addition, the $6.35 million purchase price offered by TFS exceeded any other offer received by the Debtor.

On December 20, 2006, the Debtor and TFS entered into an Asset Purchase Agreement (the "**TFS APA**") that provides for TFS to purchase the Property from the Debtor for a purchase price of $6,350,000.00, potentially subject to a downward price adjustment based upon the appraised value of the Property. The Debtor filed a motion seeking approval of the TFS APA on January 5, 2007, which motion is set for hearing on January 31, 2007. The sale of the Property is expressly contemplated by the Plan as a component of the means of implementation. The closing of the sale contemplated by the TFS APA is subject to DMHC approval and certain other conditions set forth therein. The Debtor anticipates that, if the conditions to closing are satisfied, the sale of the Building to TFS will close in the spring or early summer of 2007.

III.

FINANCIAL INFORMATION

A. Current and Historical Financial Information.

1. The Debtor's Assets and Liabilities.

The Schedules contain information regarding the Debtor's assets and liabilities as of the Petition Date. Attached hereto as **Exhibit A** are (a) the Debtor's Balance Sheet as of the Petition Date, and (b) the Debtor's most recent Balance Sheet (dated as of **[December 31, 2006]**). The Debtor's historical financial statements are on file with the DMHC and can be viewed at http://www.dmhc.ca.gov/.

2. Results of Post-Petition Operations and Wind-down.

From the Petition Date through the closing of the Sale, the Debtor operated its HMO lines of business. From the closing the Sale through the date of this Disclosure Statement, the Debtor has continued to wind-down its former operations as an HMO, which has involved, among other things, (a) collecting Medicare risk-score adjustments, (b) collecting pharmacy rebates, (c) reducing workers' compensation obligations, and (d) collecting other accounts receivable. The following summarizes the Debtor's quarterly unaudited results of operations and wind-down for each quarter from the Petition Date through November 2006:

	Q1 6/1/05 - 8/30/05	Q2 9/1/05 - 11/30/05	Q3 12/1/05 - 2/28/06	Q4 3/1/06 - 5/31/06	Q5 6/1/06 - 8/30/06	Q6 9/1/06 - 11/30/06
Enrollment Revenue	$ 46,485,506	$ 40,727,679	$ 41,833,330	$ 42,866,165	$ 41,212,458	$ 4,134,353
Total Revenue	**46,711,000**	**41,060,311**	**42,266,843**	**43,323,611**	**41,879,982**	**4,702,923**
Healthcare Expenses	37,870,454	32,443,601	33,775,216	34,963,968	34,378,771	(674,644)
General Expenses	6,650,717	7,429,556	7,915,082	9,412,591	10,110,927	3,427,655
Total Expenses	$ 44,521,170	$ 39,873,157	$ 41,690,298	$ 44,376,558	$ 44,489,699	$ 2,753,011
Net Income[1]	$ 2,189,829	$ 1,187,154	$ 576,545	$ (1,052,947)	$ (2,609,716)	$ 1,949,912

More detailed historical financial information can be obtained from the public reports filed by the Debtor with the DMHC, which can be accessed via the Internet at http://www.dmhc.ca.gov/.

B. Projected Pre-Effective Date Cash Flow and Post-Confirmation Expenses.

1. Projected Pre-Effective Date Cash Flow.

From the current month through the Effective Date, the Debtor anticipates that it will continue to wind-down its former operations as an HMO. The following summarizes the Debtor's current monthly unaudited projections for the current month through the estimated Effective Date in May 2007:

[INSERT]

2. Projected Post-Confirmation Expenses.

Following the Effective Date, the Debtor will continue to wind-down its HMO operations and resolve and pay Claims pursuant to the Plan. Pursuant to the Plan, the Debtor will pay for all Post-Confirmation Expenses that are not inconsistent with certain Post-Confirmation Budgets or as approved by the Bankruptcy Court. The Debtor will file the Initial Post-Confirmation Expense Budget with the Plan Supplement. The Initial Post-Confirmation Expense Budget will cover the first eighteen (18) months following the Effective Date. The Debtor will prepare additional Post-Confirmation Budgets as needed, pursuant to the terms of the Plan. **Exhibit F** attached hereto contains a preliminary summary of the Initial Post-Confirmation Expense Budget.

C. Disclaimer.

THE FINANCIAL INFORMATION INCLUDED OR REFERENCED IN THIS DISCLOSURE STATEMENT, INCLUDING ALL EXHIBITS HERETO, HAS BEEN PREPARED BY OR UNDER THE SUPERVISION OF DEBTOR'S MANAGEMENT AND HAS NOT BEEN REVIEWED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS OR PREPARED IN COMPLIANCE WITH PUBLISHED GUIDELINES OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING PROJECTIONS OR IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING

PRINCIPLES. MOREOVER, SUBSTANTIAL UNCERTAINTIES ARE INVOLVED IN THE PROJECTIONS.

THE ACTUAL ASSETS AND LIABILITIES OF THE ESTATE AS OF THE EFFECTIVE DATE MAY VARY MATERIALLY FROM THE PROJECTIONS CONTAINED HEREIN, BASED UPON, AMONG OTHER THINGS: (1) EVENTS OCCURRING BEFORE THE EFFECTIVE DATE; (2) INACCURACIES IN THE ASSUMPTIONS UNDERLYING THE PROJECTIONS; (3) CHANGES IN THE ESTIMATED PRO FORMA ADJUSTMENTS WHICH HAVE BEEN ESTIMATED BASED UPON THE BEST INFORMATION CURRENTLY AVAILABLE TO MANAGEMENT BUT WHICH MAY CHANGE WITH THE PASSAGE OF TIME AND THE ACCUMULATION OF ADDITIONAL AND MORE COMPLETE INFORMATION; AND (4) OTHER FACTORS BEYOND THE DEBTOR'S CONTROL. IN ADDITION, THIS DISCLOSURE STATEMENT ASSUMES AN EFFECTIVE DATE OF [May __, 2007]. **AN EFFECTIVE DATE MATERIALLY DIFFERENT FROM THIS DATE COULD SUBSTANTIALLY AFFECT THE PROJECTIONS.**

Readers are urged to review carefully any notes accompanying any financial information contained or referenced in this Disclosure Statement, which notes form an integral part thereof. Notes required under GAAP have not been included. Further, the reader should read the disclaimer regarding forward-looking statements set forth in **Section I.E.3** (*Forward Looking Statements.)*

IV.

SUMMARY OF THE PLAN.

THE PLAN IS ATTACHED HERETO AS EXHIBIT A AND FORMS A PART OF THIS DISCLOSURE STATEMENT. THE DISCUSSION OF THE PLAN HEREIN CONSTITUTES A SUMMARY ONLY, AND SHOULD NOT BE RELIED UPON FOR VOTING PURPOSES. YOU ARE URGED TO READ THE PLAN IN FULL IN EVALUATING WHETHER TO ACCEPT OR REJECT THE PLAN PROPOSED BY THE DEBTOR. IF ANY INCONSISTENCY EXISTS BETWEEN THIS SUMMARY AND THE PLAN, THE TERMS OF THE PLAN SHALL CONTROL.

A. Overview.

The Plan is the product of considerable effort on the part of the Debtor and its professionals, with review and input from the Committee. The Plan envisions the Debtor using its assets to satisfy Claims as provided for in the Plan and to fund the Debtor's Post-Confirmation Expenses, with any surplus to be used by the Reorganized Debtor in accordance with the Amended Articles of Incorporation and Amended By-Laws and applicable non-bankruptcy law.

The Debtor believes that through the Plan: (1) holders of impaired Claims will obtain an earlier and greater recovery on their claims under the Plan than if the Debtor's assets were liquidated under chapter 7 of the Bankruptcy Code or if any other feasible alternatives were pursued; and (2) the value of the Plan Assets will be maximized by allowing the Debtor to implement the Plan.

THE DEBTOR BELIEVES THAT THE PLAN PROVIDES THE MOST FEASIBLE METHOD TO OBTAIN THE HIGHEST AND BEST RECOVERIES FOR THE HOLDERS OF IMPAIRED CLAIMS AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF SUCH HOLDERS. THE DEBTOR THEREFORE RECOMMENDS THAT HOLDERS OF IMPAIRED CLAIMS ACCEPT THE PLAN.

B. CLASSIFICATION AND TREATMENT OF CLAIMS.

A DETAILED CHART SETTING FORTH THE CLASSIFIED AND UNCLASSIFIED CATEGORIES OF CLAIMS UNDER THE PLAN, THE PROPOSED TREATMENT UNDER THE PLAN OF EACH CATEGORY OF CLAIMS, THE PROJECTED RECOVERY UNDER THE PLAN FOR EACH CATEGORY OF CLAIMS, AND WHETHER THE HOLDER OF A CLAIM IN A CATEGORY IS ENTITLED TO VOTE, IS SET FORTH AT THE OUTSET OF THIS DISCLOSURE STATEMENT. See § I ("*SUMMARY OF PLAN CLASSIFICATION AND TREATMENT*"). Articles II and III of the Plan contains the specific terms and conditions that will govern the treatment of Claims under the Plan.

1. Unclassified Claims.

Pursuant to the Bankruptcy Code, certain types of Claims are not placed into voting classes; instead they are unclassified. Unclassified Claims are not considered impaired, and they are not entitled to vote on the Plan because they automatically are entitled to specific treatment provided for them in the Bankruptcy Code. Under the Plan, Administrative Expense Claims, Priority Tax Claims and Claims described in 507(a)(3) of the Bankruptcy Code are not classified. The treatment of unclassified Claims is set forth in Article II of the Plan and summarized below.

a. Administrative Expense Claims.

Except to the extent that the holder of an Allowed Administrative Expense Claim agrees to a different treatment, the Reorganized Debtor will pay to each holder of an Allowed Administrative Expense Claim Cash in an amount equal to such Allowed Administrative Expense Claim on the later of the Effective Date and the date such Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or as soon thereafter as is practicable; provided, however, that all Ordinary Course Administrative Expenses may be paid by the Reorganized Debtor in the ordinary course of business in accordance with the terms and conditions of any agreement relating thereto without further order of the Bankruptcy Court.

General Administrative Claims Bar Date: Requests for payment of Administrative Expense Claims (other than Ordinary Course Administrative Claims) must be Filed and served on the Reorganized Debtor and counsel to the Plan Committee, pursuant to procedures to be specified in

the Confirmation Order and the notice of entry of the Confirmation Order, no later than 30 days after the Effective Date (the "**General Administrative Claims Bar Date**"); provided, however, that the General Administrative Claims Bar Date may be extended from time to time upon the mutual agreement of the Reorganized Debtor and the applicable holder of an Administrative Expense Claim or pursuant to an order of the Bankruptcy Court on notice to the Plan Committee.

Professional Fee Claims Bar Date: Professionals or other Entities asserting a Professional Fee Claim for services rendered to the Estate before the Effective Date must File and serve on Reorganized Debtor and such other Entities who are designated by the Bankruptcy Rules, the Confirmation Order, or other order of the Bankruptcy Court an application for final allowance of such Professional Fee Claim, as it relates to services provided to the Estate prior to the Effective Date, no later than 60 days after the Effective Date (the "**Professional Fee Claims Bar Date**"); provided, however, that the Professional Fee Claims Bar Date may be extended from time to time upon the mutual agreement of the Reorganized Debtor and the applicable Professional Person or pursuant to an order of the Court. Any Professional Person who may receive compensation or reimbursement of expenses pursuant to the Non-bankruptcy Professionals Order may continue to receive such compensation and reimbursement of expenses for services rendered before the Effective Date from Reorganized Debtor, without further Bankruptcy Court review or approval, in accordance with the terms and conditions of the Non-bankruptcy Professionals Order.

Administrative Tax Claims Bar Date: Any request for payment of an Administrative Expense Claim asserted by a governmental unit for a tax claim (an "**Administrative Tax Claim**") must be Filed and served on the Reorganized Debtor, pursuant to the procedures specified in the Confirmation Order and the notice of entry of the Confirmation Order, no later than 90 days after the Effective Date (the "**Administrative Tax Claims Bar Date**"), provided, however, that the Administrative Tax Claim Bar Date may be extended from time to time upon the mutual agreement of the Reorganized Debtor and the applicable governmental unit or pursuant to an order of the Bankruptcy Court.

HOLDERS OF ADMINISTRATIVE EXPENSE CLAIMS THAT ARE REQUIRED TO FILE A REQUEST FOR PAYMENT OF SUCH ADMINISTRATIVE

EXPENSE CLAIMS AND THAT DO NOT FILE SUCH A REQUEST BY THE APPLICABLE ADMINISTRATIVE CLAIMS BAR DATE WILL BE FOREVER BARRED FROM ASSERTING SUCH ADMINISTRATIVE EXPENSE CLAIMS AGAINST THE DEBTOR OR REORGANIZED DEBTOR OR THEIR RESPECTIVE PROPERTY, AND SUCH ADMINISTRATIVE EXPENSE CLAIMS WILL BE DEEMED DISCHARGED AS OF THE EFFECTIVE DATE.

b. Priority Tax Claims.

The Plan provides that the Allowed Priority Tax Claim held by any taxing authority relating to any taxable year shall be the lesser of: (a) the Allowed Claim held by such Entity; (b) the estimated claim amount held by such Entity, if estimated by the Bankruptcy Court for purposes of allowance; or (c) the amount of such claim as determined by any administrative or judicial tribunal of competent jurisdiction before which such issue is brought by Final Order or as compromised and settled by the Reorganized Debtor and such taxing authority. In addition, notwithstanding any other provision of the Plan to the contrary, payments in respect of Allowed Priority Tax Claims will not be made on the Effective Date, but rather shall, at the sole option and discretion of Reorganized Debtor be made (a) in full, in Cash, on the later of the Effective Date or the Date of Assessment, or, in each case, as soon as practicable thereafter, (b) in accordance with section 1129(a)(9)(C) of the Bankruptcy Code, in full, in Cash, in up to twenty-four (24) equal quarterly installments, commencing on the first Business Day following the Date of Assessment of such Allowed Priority Tax Claim, together with interest from the Date of Assessment at a rate of 3.32 percent, or (c) by mutual agreement of the holder of such Allowed Priority Tax Claim and Reorganized Debtor. Further, notwithstanding the provisions of Section 2.4 of the Plan, the holder of an Allowed Priority Tax Claim shall not be entitled to receive any payment on account of any penalty arising with respect to or in connection with the Allowed Priority Tax Claim. Any such Claim or demand for any such penalty shall be subject to treatment in Class 7, if not subordinated to Class 7 Claims pursuant to an order of the Bankruptcy Court. The Plan prohibits the holder of an Allowed Priority Tax Claim from assessing or attempting to collect any penalty arising with respect to or in consideration with such Allowed Priority Tax Claim from the Debtor, Reorganized Debtor or their respective

property, but the Plan permits such holder to File timely a Claim for such penalty with respect to a Tax Claim that arises prior to the Effective Date.

2. Classified Claims.

In accordance with the Bankruptcy Code, the Plan classifies Claims separately and provides, separately for each Class, that holders of Claims in the Class will receive various types of consideration, thereby giving effect to the different rights of the holders in each Class. The treatment of each Class of Claims is set forth in Article III of the Plan and is summarized below.

a. Class 1: Other Priority Claims.

Under the Plan, except to the extent that the holder of any such Claim agrees to a different treatment, each holder of an Allowed Other Priority Claim will receive on the later of (a) the Effective Date; and (b) the date on which an order allowing such Claim becomes a Final Order, and in each case or as soon thereafter as is practicable, in full satisfaction, discharge, exchange and release of such Allowed Claim, Cash in the amount of (x) the Principal Amount of such Allowed Claim, plus (y) Post-Petition Interest on such Allowed Claim to the extent payable as provided for in the Plan.

b. Class 2: Allowed Merrill Lynch Secured Claim.

The Allowed Merrill Lynch Secured Claim will be allowed under the Plan in (i) the principal amount of $2,042,250.00, plus (ii) fifty percent (50%) of the unpaid non-default interest accrued from the Petition Date to the Effective Date, plus (iii) reasonable out-of-pocket attorneys' fees and expenses in an amount to be agreed to by the Debtor and Merrill Lynch, or as determined by the Bankruptcy Court, but not to exceed in any event $25,000. The Allowed Merrill Lynch Secured Claim will be satisfied under the Plan in full by the payment of Cash to Merrill Lynch on the Effective Date equal to the amount of the Allowed Merrill Lynch Secured Claim. As of the Effective Date, all property of the Estate that is the subject of any Liens or Claims in favor of Merrill Lynch will vest in the Reorganized Debtor free and clear of all Claims and Liens of Merrill Lynch, such Claims and Liens will be automatically terminated and of no further force and effect, and the Reorganized Debtor will have free and clear title to such property of the Estate.

c. Class 3: Allowed Secured Property Tax Claims.

Under the Plan, except to the extent that the holder of any such Claim agrees to a different treatment, each holder of an Allowed Secured Property Tax Claim will receive in full satisfaction, discharge, exchange and release of such Allowed Claim, one of the following alternative treatments, as determined by the Reorganized Debtor in its sole and absolute discretion: (a) Cash in the amount of such Allowed Claim, on the later of: (i) the Effective Date; and (ii) the date on which an order allowing such Claim becomes a Final Order, and in each case or as soon thereafter as is practicable; (b) deferred Cash payments (a "**Deferred Secured Tax Claim Payment**"), over a period six years after the Effective Date, with simple interest accruing at 3.32 percent per annum from and after the Effective Date until the Allowed Secured Property Tax Claim is paid in full. The Deferred Secured Tax Claim Payment will be paid in equal installments of principal, with the first of such installments to be made three months after the later of (i) the Effective Date; and (ii) the date on which an order allowing such Claim becomes a Final Order, and in each case, or as soon thereafter as is practicable, and with each successive installment to be made at three month intervals thereafter. An Allowed Secured Property Tax Claim may be prepaid at any time without penalty or premium, and any such prepayments shall be applied to future principal installments in order of maturity. Allowed Secured Property Tax Claims will not include any interest accruing subsequent to the Petition Date or any penalties, and all post-petition interest and all penalties will be disallowed.

d. Class 4: DIR Secured Claims.

Except to the extent that the holder of the DIR Secured Claims agrees to a different treatment, pursuant to section 1124 of the Bankruptcy Code, the Plan leaves unaltered the legal, equitable, and contractual rights of the holder of the Allowed DIR Secured Claims.

e. Class 5: United Bank Secured Claim.

Except to the extent that the holder of the United Bank Secured Claim agrees to a different treatment, pursuant to section 1124(2) of the Bankruptcy Code, under the Plan the Allowed United Bank Secured Claim will be unimpaired. On the Effective Date: (i) any defaults with respect to the Allowed United Bank Secured Claim that occurred either before or after the

Petition Date, other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code, will be cured on the later of: (a) Effective Date; or (b) the date of a Final Order determining the cure payment, and in each case or as soon as practicable thereafter; (ii) the maturity of the Allowed United Bank Secured Claim will be reinstated as it existed under the applicable loan documents relating to the Allowed United Bank Secured Claim before any defaults; (iii) the holder of the Allowed United Bank Secured Claim will be compensated on the later of: (a) Effective Date; or (b) the date of a Final Order determining the cure payment, and in each case or as soon as practicable thereafter, for any damages incurred as a result of any reasonable reliance by such holder on any contractual provision or applicable law that entitled the holder to accelerate maturity of the Allowed United Bank Secured Claim; and (iv) the other legal, equitable, and contractual rights of the holder of the Allowed United Bank Secured Claim will be unaltered.

f. Class 6: Other Secured Claims.

Under the Plan, except to the extent that the holder of any such Claim agrees to a different treatment, each holder of an Allowed Other Secured Claim will receive in full satisfaction, discharge, exchange and release of such Allowed Secured Claim, one of the following alternative treatments, as determined by the Reorganized Debtor in its sole and absolute discretion: (a) Cash in the amount of such Allowed Secured Claim, on the later of: (i) the Effective Date; and (ii) the date on which an order allowing such Claim becomes a Final Order, and in each case or as soon thereafter as is practicable; (b) deferred Cash payments (a "**Deferred Other Secured Claim Payment**"), over a period six years after the Effective Date, with simple interest accruing at 3.32 percent per annum from and after the Effective Date until the Allowed Other Secured Claim is paid in full, with the Deferred Other Secured Claim Payment being paid in equal installments of principal, with the first of such installments to be made three months after the later of (i) the Effective Date; and (ii) the date on which an order allowing such Claim becomes a Final Order, and in each case, or as soon thereafter as is practicable, and with each successive installment to be made at three month intervals thereafter; or (c) a cure and reinstatement of the maturity of the Allowed Other Secured Claim by: (i) curing any defaults with respect to an Allowed Other Secured Claim that occurred either before or after the Petition Date, other than defaults of a kind specified in section

365(b)(2) of the Bankruptcy Code, on the later of: (a) Effective Date; or (b) the date of a Final Order determining the cure payment, and in each case or as soon as practicable thereafter; (ii) reinstating the maturity of each such Claim as the maturity existed before any defaults; (iii) compensating the holder of each such Claim on the later of: (a) Effective Date; or (b) the date of a Final Order determining the cure payment, and in each case or as soon as practicable thereafter, for any damages incurred as a result of any reasonable reliance by such holder on any contractual provision or applicable law that entitled the holder to accelerate maturity of the Claim; and (iv) otherwise leaving unaltered the other legal, equitable, and contractual rights of the holder of such Allowed Other Secured Claim.

g. Class 7: Allowed General Unsecured Claims.

Under the Plan, except to the extent that the holder of any such Claim agrees to a different treatment, each holder of an Allowed General Unsecured Claim will receive, in full satisfaction, discharge, exchange and release of such Claim, a Pro Rata Distribution from the Net Proceeds of the Available Plan Assets of Cash in an amount up to, but not exceeding, (a) the Principal Amount of such Holders' Allowed General Unsecured Claim, plus (b) Post-Petition Interest on such Allowed Claim to the extent payable as provided for in the Plan. Distributions to Holders of Class 7 Allowed General Unsecured Claims will be made at such time, and in such manner, as is provided for in Section 6.4 of the Plan.

h. Class 8: Allowed Convenience Class Claims.

Under the Plan, except to the extent that the holder of any such Claim(s) agrees to a different treatment, each holder of an Allowed Convenience Class Claim will receive on the Effective Date or as soon as practicable thereafter, in full satisfaction, discharge, exchange and release of such Claim, Cash in the amount of (a) the Principal Amount of such Holders' Allowed Convenience Class Claim, plus (b) Post-Petition Interest on such Allowed Claim to the extent payable as provided for in the Plan.

C. Means Of Implementation.

The implementation of the Plan will be accomplished via numerous actions, transactions and processes. The following summarizes certain of the Plan's provisions for its implementation.

1. Conditions Precedent

The Plan provides that it will not become effective unless each of the following conditions has occurred or been waived by the Debtor in its sole and absolute discretion:

(a) The Confirmation Order shall have been entered on the docket of the Bankruptcy Court for at least ten days (as calculated in accordance with Bankruptcy Rule 9006(a)); and

(b) The Effective Date Reserve and the Plan Reserves shall be established and funded.

2. Effective Date.

The Effective Date will be the later of the first Business Day on which no stay of the Confirmation Order is and remains in effect and which is at least one Business Day after the date on which all conditions to effectiveness of the Plan have been satisfied or waived. As soon as practicable after the Effective Date has occurred, the Debtor shall File with the Bankruptcy Court an informational notice specifying the Effective Date, as a matter of record.

3. Reserves.

On the Effective Date, or as soon thereafter as is practicable, the Debtor will establish with Plan Assets, in one or more accounts, the Plan Reserves, which will consist of: (i) a reserve (the "**Administrative Expense Claim Reserve**"), on account of, and for the benefit of holders of, Disputed Administrative Expense Claims, in an amount reasonably estimated by the Disbursing Agent, or as approved by the Bankruptcy Court; (ii) a reserve(s) (the "**Disputed Claim Reserves**"), on account of, and for the benefit of holders of, Disputed Claims, equal to the aggregate Pro-Rata amount that would be distributed to the holders of all such Disputed Claims at the time of any initial or subsequent Distribution to holders of Allowed Claims in the same Class if such Disputed Claims were allowed in the amounts set forth in the Claims filed by, or listed in the Schedules with respect

to, such holders; (iii) a reserve (the "**Post Confirmation Expense Reserve**") on account of, and for the benefit of, the Reorganized Debtor, to pay the Post Confirmation Expenses; and (iv) a reserve to fund the Distributions to holders of Allowed Claims to be paid as of the Effective Date under the Plan (the "**Effective Date Reserve**"). All Distributions after the Effective Date under the Plan shall be made by the Disbursing Agent from the Plan Reserves, except as otherwise required to be made from the Effective Date Reserve as set forth in Section 6.3.1 of the Plan. Pursuant to the Plan, any funds remaining in the Plan Reserves after payment of (or reserve for) all Distributions to be made under the Plan after the Effective Date will be deemed to be Plan Assets.

a. Effective Date Reserve.

All Distributions on the Effective Date under the Plan shall be made by the Disbursing Agent from the Effective Date Reserve, except as otherwise required to be made from the Plan Reserves as set forth in Section 5.1 of the Plan. Pursuant to the Plan, any funds in the Effective Date Reserve remaining after payment of (or reserve for) all Distributions to holders of Allowed Claims to be paid on the Effective Date will be deemed to be Plan Assets.

b. Post-Confirmation Expense Reserve.

The Post Confirmation Expense Reserve will be used by the Reorganized Debtor, and the Plan authorizes the Reorganized Debtor to use the Post-Confirmation Expense Reserve, in its sole and absolute discretion, to pay for all Post Confirmation Expenses that are not inconsistent with the applicable Post-Confirmation Budget. The Reorganized Debtor shall, in its sole and absolute discretion, use Plan Assets to increase the Post Confirmation Expense Reserve as may be required for the payment of Post-Confirmation Expenses that are not inconsistent with the applicable Post-Confirmation Budget. At such time as all Distributions contemplated by the Plan are made, and the Plan is substantially consummated and the Chapter 11 Case is closed, any then remaining funds in the Post-Confirmation Expense Reserve or the Plan Reserves, and any then Remaining Plan Assets, shall be vest in, and shall be, property of the Reorganized Debtor and immediately distributed to the Reorganized Debtor, free and clear of any and all Claim, Lien, or Right of Action.