

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

_____ §
In re: § Chapter 11
NEIGHBORS LEGACY HOLDINGS, INC., §
et al., § Case No. 18-33836 (MI)
§
§ (Jointly Administered)
_____ §
Debtors.¹

NOTICE OF FILING OF AMENDED LIQUIDATION ANALYSIS
[Relates to Docket No. 758]

Attached hereto is the amended Liquidation Analysis, which is **Exhibit B** to the Disclosure Statement for Joint Plan of Liquidation of Neighbors Legacy Holdings, Inc. and its Debtor Affiliates under Chapter 11 of the Bankruptcy Code [Docket No. 758].

Dated: February 18, 2019.

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**COUNSEL FOR DEBTORS
AND DEBTORS IN POSSESSION**

¹ Due to the large number of Debtors in these chapter 11 cases, a complete list of the Debtors and the last four digits of their tax identification numbers is not provided herein. A complete list of such information may be obtained on the website of the Debtors' proposed claims and noticing agent at www.kccllc.net/neighbors. The location of Debtors' principal place of business and the Debtors' service address is: 10800 Richmond Avenue, Houston, Texas 77042.



LIQUIDATION ANALYSIS

General Assumptions

THIS LIQUIDATION ANALYSIS PRESENTS INFORMATION FOR ALL DEBTORS ON A CONSOLIDATED BASIS.

In connection with the Plan and Disclosure Statement, the following hypothetical liquidation analysis (“**Liquidation Analysis**”) has been prepared by Debtors’ management with the assistance of the Debtors’ advisors. This Liquidation Analysis is for all the Debtors on a consolidated basis.

This Liquidation Analysis should be read in conjunction with the Plan and the Disclosure Statement.

The Debtors, with the assistance of their financial advisors, have prepared this Liquidation Analysis for evaluating whether the Plan meets the so-called best interests test under section 1129(a)(7) of the Bankruptcy Code. The Liquidation Analysis has been prepared assuming the Debtors Chapter 11 Cases convert to Chapter 7 proceedings under the Bankruptcy Code on January 31, 2019 (“**Liquidation Date**”) and their assets are liquidated. A chapter 7 trustee (“Trustee”) would be appointed or elected to commence the liquidation of all the Debtors assets. To maximize recovery, the liquidation is assumed to occur over a 12-month period (the “**Wind Down Period**”). The Liquidation Analysis is based on unaudited book values as of November 30, 2018 and these values, in total, are assumed to be representative of the Debtors¹ assets and liabilities as of the Liquidation Date. However, the Liquidation Analysis does not include recoveries resulting from any potential preference claims, fraudulent conveyance litigation, or other avoidance actions.

THE DEBTORS BELIEVE THAT ANY ANALYSIS OF A HYPOTHETICAL LIQUIDATION IS NECESSARILY SPECULATIVE. THERE ARE A NUMBER OF ESTIMATES AND ASSUMPTIONS UNDERLYING THE LIQUIDATION ANALYSIS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES BEYOND THE CONTROL OF THE DEBTORS OR A CHAPTER 7 TRUSTEE. NEITHER THE ANALYSIS, NOR THE FINANCIAL INFORMATION ON WHICH IT IS BASED, HAS BEEN EXAMINED OR REVIEWED BY INDEPENDENT ACCOUNTANTS IN ACCORDANCE WITH STANDARDS PROMULGATED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. THERE CAN BE NO ASSURANCE THAT ACTUAL RESULTS WOULD NOT VARY MATERIALLY FROM THE HYPOTHETICAL RESULTS PRESENTED IN THE LIQUIDATION ANALYSIS.

¹ Values associated with Non- Debtor Affiliates are not contained within such assets and liabilities and are not deemed material to this Liquidation Analysis.

Summary Notes to Liquidation Analysis

1. *Dependence on estimates and assumptions.* The Liquidation Analysis is dependent on estimates and assumptions which are based on information available at the time of its preparation. In addition, the Liquidation Analysis is based on unaudited book values which contain estimates that continue to be under review and subject to further legal and accounting analysis. Furthermore, the assumptions are inherently subject to significant economic, business, regulatory uncertainties and contingencies that are beyond the control of the Debtors or their management. The Liquidation Analysis is also based on the Debtors' best judgment of how numerous decisions in the liquidation process would be resolved. Accordingly, there can be no assurance that the values reflected in the Liquidation Analysis would ultimately be realized if the Debtors were to undergo a chapter 7 liquidation since actual results could vary materially from values contained herein.

2. *Chapter 7 liquidation process.* The liquidation of the Debtors' assets is assumed to be completed over a 12-month period. During the 12-month period the chapter 7 trustee would oversee the remainder of the patient AR collection cycle and sell the Debtors' furnishings, owned equipment and medical supply inventory. Throughout the 12-month period the chapter 7 trustee would also be working on administrative activities, such as creditor distributions needed to complete the wind-down of the Estates.

3. *Litigation Proceeds.* There may be significant recoveries for the estate preference actions, fraudulent transfer litigation and other potential causes of actions, however no review or analysis has been prepared and therefore no value has been ascribed to them in the Liquidation Analysis. While no analysis has been prepared, the Debtors believe that any recoveries would be substantially the same under the Plan of Liquidation.

4. *Claims Estimates.* In preparing the Liquidation Analysis, the Debtors have estimated Allowed Claims for each creditor class based upon a review of the Debtors' unaudited balance sheet and other analyses prepared in connection with the Debtors' cash collateral and wind-down budget. In addition, the Liquidation Analysis includes an estimate for certain chapter 7 administrative claims that would be incurred during the pendency of the chapter 7 liquidation. The estimate of all allowed claims in this Liquidation Analysis is based on the book value of such claims, or projected amounts were used if book values were not available. No reconciliation of the Debtors' debts to the proof of claims filed in these cases has been prepared, nor has there been any order fixing the amount of the claims been entered in this matter. Accordingly, the estimate of the amount of set forth in the Liquidation Analysis should not be relied upon for any other purpose, including but not limited to, distributions to be made under the Plan of Liquidation. The actual value and number of Allowed Claims could be materially different from the Claims value estimated in the Liquidation Analysis.

Neighbors Legacy Holdings, et al.
Liquidation Analysis

	Asset Value	Chapter 7 Recovery		Notes
		%	\$	
Assets				
Cash	\$ 16,263,475	100%	\$ 16,263,475	1
Accounts Receivable, Net	13,320,858	25%	3,330,214	2
Inventory	1,107,852	4%	45,000	3
Receivables from non-Debtor affiliates	3,949,695	0%	-	4
Fixed Assets, Net	32,753,089	2%	650,000	5
Other Assets	1,216,044	0%	-	6
Total Asset Recoveries	\$ 68,611,013	30%	\$ 20,288,690	
Chapter 7 Costs				
Chapter 7 Trustee Fees			866,135	7
Chapter 7 Trustee's Professional Fees			750,000	8
Cost to Wind-down Operations			500,000	9
Total Chapter 7 Costs			2,116,135	
Proceeds Available for DIP Claims			18,172,554	
DIP Claims			-	10
Recovery on DIP Claims			-	
<i>% Recovery on DIP Claims</i>			<i>n/a</i>	
Proceeds Available for Secured Claims			18,172,554	
Secured Claims			55,905,420	11
Recovery on Secured Claims			18,172,554	
<i>% Recovery on Secured Claims</i>			<i>32.5%</i>	
Proceeds Available for Administrative Claims			-	
Administrative Claims			5,932,817	12
Recovery on Administrative Claims			-	
<i>% Recovery on Administrative Claims</i>			<i>0.0%</i>	
Proceeds Available for Priority Claims			-	
Pre-Petition Priority Claims			2,436,740	13
Recovery on Priority Claims			-	
<i>% Recovery on Priority Claims</i>			<i>0.0%</i>	
Proceeds Available for General Unsecured Claims			-	
General Unsecured Claims			56,995,072	14
Recovery on General Unsecured Claims			-	
<i>% Recovery on General Unsecured Claims</i>			<i>0.0%</i>	

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Notes to the Liquidation Analysis

1 Cash

The Debtors' estimated cash as of the Liquidation Date is based on the latest balance sheet (November 30, 2018). In a liquidation the estimated recovery on the balance of cash is 100%.

2 Accounts Receivable, Net

This balance represents the value of the net patient accounts receivable as of November 30, 2018 that were retained and not sold with the sale of the free-standing emergency room facilities. This analysis assumes that a Chapter 7 trustee would oversee the collection efforts during the pendency (12-months) of the Chapter 7 proceedings.

3 Inventory

This balance represents the Debtors' estimated value of medical supplies inventory as of the Liquidation Date and is based on recent indications of interest to purchase the inventory.

4 Receivables from non-Debtor Affiliates

The balance represents intercompany receivables from non-Debtor Affiliates. The analysis assumes that these non-Debtor Affiliates are insolvent and would be liquidated and that the Debtors would not realize a recovery.

5 Fixed Assets, Net

This balance represents the Debtors' estimated value of furniture and equipment (corporate headquarters and recovered from closed locations) as of the Liquidation Date and is based on recent indications of interest to purchase the substantially all the items.

6 Other Assets

This balance represents unamortized intangible assets and are assumed to have no value to the Estate.

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Notes to the Liquidation Analysis (continued)

7 Chapter 7 Trustee Fees

Pursuant to section 326 of the Bankruptcy code, the court may allow reasonable compensation for the trustee's services not to exceed 25% on the first \$5,000 or less, 10% on any amount in excess of \$5,000 but not in excess of \$50,000, 5% on any amount in excess of \$50,000 but not in excess of \$1 million, and reasonable compensation not to exceed 3% of such moneys in excess of \$1 million, upon all moneys disbursed or turned over in the case by the trustee to parties in interest, excluding the debtor, but including holders of secured claims. The fees were estimated for each Debtor and aggregated for the Liquidation Analysis.

8 Chapter 7 Professional Fees

This amount represents professional fees for legal and financial advisor costs in connection with the administration and winddown of the Estates.

9 Cost to Wind-down Estate

This amount represents the cost to winddown the Estates over a 12-month period. The costs include expenses for salaries, independent contractor wages, IT and overhead (primarily rent).

10 DIP Claims

The DIP Claim amount represents the balance after applying proceeds of the sale paid to the Secured Lenders. The DIP loan commitment was \$24 million, which consisted of an \$8 million Revolving Commitment and a \$16 million Term Commitment. The Debtor satisfied DIP Claims from the proceeds of its asset sales. The DIP loan was terminated on or about November 8, 2018.

11 Secured Claims

The Secured Claim amount represents the balance of the Credit Facility of approximately \$94.4 million (consisting of the pre-petition balance of approximately \$110.2 million, and interest and fees of approximately \$240,000, less the \$16 million DIP Term Commitment) reduced by approximately \$38.5 million of asset sale proceeds remitted to the Secured Agent for a total hypothetical recovery of approximately \$56.7 million or 60%.

12 Administrative Claims

Administrative claims include Chapter 11 post-petition trade payables and an estimate for accrued by unbilled trade expenses, an estimate for 503(b)(9) claims, post-petition PTO/Severance for Debtors' employees, unreported employee healthcare claims. Administrative claims also include an estimate of accrued and unfunded Chapter 11 professional fees.

13 Priority Claims

Priority claims include claims for pre-petition property and franchise tax obligations.

14 General Unsecured Claims

The general unsecured claims in the Liquidation Analysis primarily represents the book value of pre-petition accounts payable. The general unsecured claims value includes the Secured Lender deficiency claim but does not include unliquidated claims stemming from litigation.