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

IN RE:)
) Chapter 11
EL PASO CHILDREN'S HOSPITAL)
CORPORATION,) Case No. 15-30784
)
Debtor,)

RULE 2004 EXAMINATION OF
RAYMOND ADAMS
JULY 17, 2015

The Rule 2004 Examination of RAYMOND ADAMS,
taken at the request of El Paso County Hospital District
d/b/a University Medical Center of El Paso, at 9:49 a.m.,
Friday, July 17, 2015, at 4845 Alameda, El Paso, Texas,
before Ruth Aguilar, a Certified Shorthand Reporter of the
State of Texas (State Certificate #7450).

6

1 **A. University of North Texas.**

2 Q. Did you get a degree from North Texas?

3 **A. Yes.**

4 Q. What degree?

5 **A. BBA in finance.**

6 Q. What year?

7 **A. 1981.**

8 Q. Did you do any postgraduate work at that

9 university?

10 **A. Yes.**

11 Q. Where?

12 **A. I went back to North -- University of North**

13 **Texas.**

14 Q. Is this MBA program or what kind of program was

15 this?

16 **A. My intent was to get -- to sit for my CPA so I**

17 **was getting more accounting studies.**

18 Q. And did you ever sit for a CPA?

19 **A. No.**

20 Q. Do you have any kind of certifications of any

21 sort?

22 **A. No.**

23 Q. How long have you been a director at

24 AlixPartners?

25 **A. I was appointed director in 2008.**

7

1 Q. What was your title before you became director in

2 2008?

3 **A. I was a vice president.**

4 Q. Where -- when you initially were hired by

5 AlixPartners, did you have the title vice president?

6 **A. I got -- when I was originally hired, I was an**

7 **associate.**

8 Q. Okay. And that was about 2000?

9 **A. 2002.**

10 Q. 2002. Were you assigned to any particular

11 division or department in AlixPartners or group?

12 **A. I was in the information management service**

13 **group, IMS group.**

14 Q. Have you remained in the IMS group your entire

15 time at AlixPartners?

16 **A. Yes.**

17 Q. And explain just generally what the information

18 management services group does or what they focus on.

19 **A. Right. So we have different practices within our**

20 **group, our service lines. We have a bankruptcy practice.**

21 **We have e-discovery. We have data analytics. We have**

22 **litigation support. And I'm in the bankruptcy end.**

23 Q. Bankruptcy, is that like a subgroup of the IMS

24 group?

25 **A. It is -- it is part of IMS, yes.**

8

1 Q. Okay. And IMS also includes, you said,

2 e-discovery and document management. Is that right?

3 **A. E-discovery, data analytics and litigation**

4 **support.**

5 Q. And you're part of the -- your focus is on

6 bankruptcy work. Is that right?

7 **A. Restructuring, yes.**

8 Q. And what -- what do you normally do in your

9 employment as a director in IMS group with a focus on

10 bankruptcy and restructuring?

11 **A. I usually get assigned to engagement and help the**

12 **client that I'm working through or working with with a**

13 **contingency plan in bank -- bankruptcy court reporting and**

14 **any other requirements that they may have.**

15 Q. Do you know approximately how many bankruptcy

16 cases you've worked on?

17 **A. More than 10.**

18 Q. Do you know more than 10, less than 20, less

19 than -- I mean I know it's just a ballpark but --

20 **A. Right.**

21 Q. Certainly less than 50?

22 **A. Certainly less than 50. Certainly less than 20.**

23 Q. Okay. Somewhere between 10 and 20?

24 **A. Yes.**

25 Q. Fair enough.

9

1 Have you -- or strike that.

2 In the 10 to 20 bankruptcy matters you've

3 worked on, has it always been on behalf of the debtor?

4 **A. Yes.**

5 Q. Have they all been chapter 11 bankruptcies?

6 **A. Yes.**

7 Q. Have you ever worked on a bankruptcy involving a

8 hospital before?

9 **A. No.**

10 Q. Any debtor in the medical profession?

11 **A. Yes.**

12 Q. What type of entity was that?

13 **A. It was Rotech Healthcare. They provide oxygen**

14 **and CPAP devices to patients.**

15 Q. Any other debtors in the medical industry?

16 **A. No.**

17 Q. Have you ever worked on a bankruptcy involving a

18 not-for-profit organization?

19 **A. No.**

20 Q. Have you ever served as a CRO in a bankruptcy?

21 **A. No.**

22 Q. Have you ever served as like the interim CEO for

23 a debtor?

24 **A. No.**

25 Q. Have you served as a CFO for a debtor?

10

1 **A. No.**

2 Q. Chief financial officer.

3 Is that no? Sorry. I kind of talked over

4 you.

5 One of the things you said you normally do,

6 I believe, is that you help a client with contingency

7 planning. Is that correct?

8 **A. Yes.**

9 Q. And what do you mean by contingency planning?

10 **A. What I do is I come in, gather information**

11 **related to the client's creditors so we have a --**

12 **preparing a creditor matrix. I help them with first stay**

13 **motions, any information that needs to be completed in the**

14 **first stay motions.**

15 Q. Okay. Anything else?

16 **A. AP segregation responsibilities,**

17 **prepetition/postpetition.**

18 Q. Okay. Anything else? I'm sure there's others

19 but --

20 **A. Yes.**

21 Q. Okay. And so -- and, again, I'm just trying to

22 get an idea sort of of your role and where you fit in the

23 puzzle. Because you're in the IMS group and you mentioned

24 you gather information, would you -- would you say your

25 role is more involved with gathering and collecting

11

1 information as opposed to sort of strategic planning and

2 decision making?

3 **A. That's correct.**

4 Q. So for like for instance, when you have a debtor

5 in a bankruptcy who is going to eventually propose a plan

6 and offer some type of restructuring, is -- is your role

7 to come up with the proposed restructuring structure or do

8 you sort of provide support in the form of data and

9 information?

10 **A. I do provide support data information.**

11 Q. Do you also make the strategic decisions?

12 **A. No.**

13 Q. And so in this particular case of El Paso

14 Children's Hospital, would you say on the AlixPartners'

15 team that the strategic decisions are made more by

16 Mr. Herbers?

17 **A. Yes.**

18 Q. Anyone else at AlixPartners that you would say is

19 involved in the strategic decision-making process other

20 than Mr. Herbers?

21 **A. I do have -- there are two other managing**

22 **directors, but they are there for support for Mr. Herbers.**

23 Q. And is that Ms. Rolf and Mr. Folsie?

24 **A. Yes, Becky Roof.**

25 Q. Roof. Sorry.

12

1 **A. And Barry Folsie.**

2 Q. Thank you for that.

3 **A. Sure.**

4 Q. Obviously you're familiar with cash collateral

5 budgets. Correct?

6 **A. Yes.**

7 Q. Do you -- or strike that.

8 In this case were you responsible for

9 developing the cash collateral budget?

10 **A. Yes.**

11 Q. In how many of the 10 to 20 bankruptcies that

12 you've been involved in was it your responsibility to

13 develop cash collateral budget?

14 **A. This is my first.**

15 Q. Have you previously, in your other bankruptcy

16 cases, provided data or information to other team members

17 who were preparing the cash collateral budget?

18 **A. Yes.**

19 Q. And in this case have you prepared -- did you

20 prepare the first interim cash collateral budget that was

21 filed with the court?

22 **A. Yes.**

23 Q. And the subsequent ones that have been prepared,

24 has that also been you that's done that?

25 **A. Yes.**

13

1 Q. Okay. Have you had anybody assist you with the

2 preparation of those cash collateral budgets?

3 **A. No.**

4 Q. Mr. Adams, I've handed you what the court

5 reporter has marked as Exhibit 1 to your deposition -- or

6 your 2004 examination. If you'd like to take a minute and

7 look through that, please.

8 Do you recognize Exhibit 1 as a Third

9 Interim Order authorizing the debtors' use of cash

10 collateral?

11 (Exhibit 1 marked.)

12 **A. Yes.**

13 Q. (BY MR. DRAKE) And do you see the -- at the end

14 of this Exhibit 1, there is a printed spreadsheet that in

15 the -- if you turn it to a landscape orientation at the

16 bottom right, it's got a note in the footer that says

17 exhibit A and then there's page 1 of 2 and page 2 of 2.

18 Do you see that?

19 **A. Yes.**

20 Q. Do you recognize that exhibit A?

21 **A. Yes.**

22 Q. Could you identify it for the record, please.

23 **A. This is the weekly cash forecast report for**

24 **June 26, 2015.**

25 Q. Did you prepare this document?

14

1 **A. Yes.**

2 MR. DRAKE: We can staple it at the end or

3 now. It's up to you. Sometimes people like to be able to

4 break it apart.

5 (Exhibit 2 marked.)

6 Q. (BY MR. DRAKE) Mr. Adams, I've handed you what's

7 been marked as Exhibit 2 to your examination. Do you

8 recognize this document?

9 **A. I recognize the information in it, but I've never**

10 **printed this document this way.**

11 Q. So can you identify the information contained in

12 it?

13 **A. This information is again a weekly cash forecast**

14 **for June 26, 2015, that includes not only the 13 weeks but**

15 **also 26 weeks.**

16 Q. And the previous Exhibit 1 that was the cash

17 collateral order that had the two-page exhibit A in the

18 back, that was just the 13-week forecast. Correct?

19 **A. Yes.**

20 Q. And I understand you testified that you recognize

21 the information, but you've never printed the information

22 in this format. Is that correct?

23 **A. Yes.**

24 Q. Okay. I'll represent to you that debtor's

25 counsel produced to us in the electronic files and that we

15

1 printed this for the purpose of this examination today.

2 This is easier than bringing -- bringing the electronic

3 file.

4 **A. Right.**

5 Q. So is it -- is it fair to say that the

6 information in the 13-week forecast contained in Exhibit 1

7 is the same 13-week forecast that's on page 1 of 4 in

8 Exhibit 2?

9 **A. Yes.**

10 Q. And then if you flip to page 2 of 4 in Exhibit 2,

11 that is weeks 14 through weeks 26. Correct?

12 **A. Yes.**

13 Q. And did you prepare the forecasts for weeks 14

14 through 26 also?

15 **A. Yes.**

16 Q. If -- if you could, please go back to page 1 of

17 that Exhibit 2, I'd just like to ask a couple questions.

18 On -- on the first page, do you see at the

19 very top we have rows for patient-related receipts.

20 Correct?

21 **A. Yes.**

22 Q. And explain to me, if you would, please, what all

23 is included if the row of patient-related receipts.

24 **A. These are cash collections from patients.**

25 Q. Does it include -- when you say from patients,

16

1 does it also include collections from payors such as

2 insurance companies who make payments on behalf of

3 patients?

4 **A. Yes.**

5 Q. And then below that there's a row that titled

6 "other receipts." Do you see that?

7 **A. Yes.**

8 Q. Okay. And not every week has a entry for other

9 receipts. Correct?

10 **A. Yes.**

11 Q. And according to this there's receipts forecasted

12 in weeks 4, 8 and 13 in the amount of \$100,000. Correct?

13 **A. Yes.**

14 Q. Okay. What -- what is -- what is included in the

15 forecasted other receipts of \$100,000 for those three

16 weeks.

17 **A. El Paso Children's receives other income from**

18 **foundation money, grant money and other resources. That's**

19 **what this estimate's for.**

20 Q. So foundation money. And is that the UMC

21 foundation?

22 **A. Yes.**

23 Q. Grant money. That would be from grants,

24 obviously.

25 Now, how -- and then other sources. Do you

17

1 know what the other sources are?

2 **A. That could be money that -- well, in this -- in**

3 **this scenario the amounts that are there aren't related to**

4 **them, but it could be DSH money, disproportionate income.**

5 **It could include other income.**

6 Q. Do you -- were you the one that came up with the

7 estimate of \$100,000 a month or was that number given to

8 you and you just plugged it into your model?

9 **A. No. I mean I did have additional people that**

10 **reviewed the model and Mark Herbers and I sat down and**

11 **came up with those numbers or with that number.**

12 Q. Do you know the breakdown of the \$100,000 as far

13 as how much roughly was foundation money, how much was

14 grant money and how much was attributable to other

15 sources?

16 **A. I do not have a breakdown.**

17 Q. You're familiar with El Paso First. Correct?

18 **A. Yes.**

19 Q. Any payments received by El Paso First -- strike

20 that.

21 Any payments received by the Children's

22 Hospital from El Paso First, would they be included in the

23 first line patient-related receipts or second line other

24 receipts?

25 **A. They would be included in that first line**

18

1 **patient-related receipts.**

2 Q. So if Mr. Herbers testified that El Paso First

3 money would be on the other receipts line, do you believe

4 that would be incorrect?

5 A. **When we originally estimated, put -- put numbers**

6 **together with Mark Herbers, we -- we identified that there**

7 **will be an increase for El Paso First. In those**

8 **preliminary 13-week forecasts, they were identified**

9 **separate and apart from the other receipts. But the**

10 **amounts are now located in the patient-related receipts**

11 **line.**

12 Q. Okay. So just to be clear, I just want to make

13 sure you understand correctly. In Exhibit 2 and Exhibit 1

14 which is the -- the 13-week forecast filed with the court,

15 but in both these two exhibits, the moneys forecasted to

16 be received from El Paso First on these two documents are

17 reflected in the first line patient-related receipts.

18 Correct?

19 A. **That's correct.**

20 Q. And do these forecasts include the expected

21 increase in money from El Paso First as a result of

22 renegotiation?

23 A. **Those amounts are in that first line.**

24 Q. The expected increase?

25 A. **Yes.**

19

1 Q. Okay. So then the third line is total receipts

2 and that's just that. Right? It's the receipts from the

3 patient-related receipts other the receipts totaled

4 together for each week. Correct?

5 A. **Yes.**

6 Q. So then below that we have a disbursements

7 section the forecast and it breaks out forecasted

8 disbursements by the various entities or groups. Correct?

9 A. **Yes.**

10 Q. Mr. Herbers testified yesterday that the week 1

11 and week 3 forecasts of \$500,000 to UMC is for adequate

12 protection. Is that also your understanding?

13 A. **Yes.**

14 Q. Okay. And then beginning in week 5, it looks

15 like there's a forecasted monthly payment to UMC in the

16 amount of 1,228,000. Correct?

17 A. **Yes.**

18 Q. Did you calculate that amount the \$1.228 million?

19 A. **Yes.**

20 Q. Okay. And how did you arrive at that amount?

21 A. **These are estimates that are based upon**

22 **historical information related to UMC's invoice.**

23 Q. And I believe that the \$1.228 million is made up

24 of three components. One being the IT lease, two being

25 the medical equipment lease and three being the expected

20

1 payments under the ASA is CSA. Is that correct?

2 A. **Yes.**

3 Q. And it does not include any expected payments

4 under the lease agreement. Correct?

5 A. **The facility lease agreement.**

6 Q. Yes, sir.

7 A. **And it doesn't include any interest as well.**

8 Q. Okay. And do you know sitting here today the

9 breakdown of the \$1,228 million between the three

10 categories that we talked about, the IT lease, the medical

11 equipment lease and the ASA/CSA payments?

12 A. **I -- I don't know the breakdowns. I'm sorry.**

13 (Exhibit 3 marked.)

14 Q. (BY MR. DRAKE) Mr. Adams, I'm handing you what

15 the court reporter has marked as Exhibit 3 to your

16 examination which again I'll represent to you is a

17 printed -- a printout from an electronic file produced by

18 debtor's counsel which I believe is a summary of the

19 Children's Hospital receivables and associated payback.

20 Do you recognize of information contained in

21 this Exhibit 3?

22 A. **Yes.**

23 Q. And was this a spreadsheet that you prepared?

24 A. **No.**

25 Q. Do you know who did prepare this?

21

1 A. **Yes.**

2 Q. Who would that be?

3 A. **I believe it was UMC, Lety Flores.**

4 Q. Is this something you've reviewed though in

5 connection with your role in preparing the weekly cash

6 forecasts?

7 A. **Yes, I reviewed it.**

8 Q. Okay. So if -- the pages aren't numbered, but if

9 you flip to the third page, you'll see at the top in a

10 green bar it says IT lease. Do you see that?

11 A. **Yes.**

12 Q. Okay. And then the third column in is the -- is

13 titled "monthly." Do you see that?

14 A. **Yes.**

15 Q. And it looks to be the monthly amounts under the

16 IT lease agreements for various months beginning in

17 February of 2012 through September of 2015. Did I get

18 that right?

19 A. **Yes.**

20 Q. Okay. And it looks like beginning in September

21 of 2013 that the monthly invoiced amount under the IT

22 lease agreement is \$145,716 -- I did this yesterday too.

23 Strike that.

24 It looks to be that beginning in September

25 of 2013, the invoiced amount under the IT lease agreement

22

1 is \$145,716.65. Is that correct?

2 **A. Yes.**

3 Q. And that's the number used all the way through

4 the September 2015 estimate. Correct?

5 **A. Yes.**

6 Q. And that's as you noted the amount without

7 including the interest payment. True?

8 **A. Yes.**

9 Q. And so is that the number \$145,716 that was used

10 in calculating the \$1.228 million?

11 **A. I believe so.**

12 Q. And I do believe that's the case as well. If the

13 next page is a similar formatted sheet -- but this is for

14 the medical equipment lease. Correct?

15 **A. Yes.**

16 Q. Beginning in October of 2013, the monthly amount

17 is a little over \$108,000. Correct?

18 **A. Yes.**

19 Q. Specifically \$108,695.50. Right?

20 **A. Yes.**

21 Q. And do you believe that was the amount used for

22 the medical equipment lease of the \$1.228 million?

23 **A. I believe so, yes.**

24 Q. And then two pages back, you'll see that there is

25 a similarly formatted page for the ASA and CSA payments.

23

1 Correct?

2 **A. Yes.**

3 Q. And if you review that page and look at the

4 monthly payments, you'll see that, unlike the IT lease and

5 the medical equipment lease, they tend to vary month to

6 month. Correct?

7 **A. Yes.**

8 Q. And my understanding is because the services

9 provided, such as the amount of laundry or whatever, may

10 have varied month to month and caused the invoiced amount

11 to vary slightly. Is that also your understanding?

12 **A. I believe that there are some services that have**

13 **a variable component to them, yes.**

14 Q. It looks like to me that the January 2015 monthly

15 amount was \$973,715.36. Do you see that?

16 **A. Which month was that again?**

17 Q. January of 2015. 973,715.

18 **A. Yes.**

19 Q. I believe that was the number used in calculating

20 the \$1.228 million. Do you know if that's correct?

21 **A. I do not know.**

22 Q. Okay. Do you -- if I told you that when you add

23 that number approximately 973,000 with the first two

24 numbers that we talked about, the medical equipment lease

25 and the IT lease that it adds up to approximately \$1.228

24

1 million, would it -- would it make sense, then, that that

2 was the number used, the 973,000 --

3 **A. Yes.**

4 Q. -- January of 2015.

5 And that's also the last actual monthly

6 payment that the debtor probably had before -- well,

7 strike that.

8 When -- when did you first begin to prepare

9 a weekly cash forecast?

10 **A. I first came on -- on board here in El Paso**

11 **Children's Hospital first week of March. One of my first**

12 **projects was to build a cash flow forecast.**

13 Q. So if you were preparing a cash flow forecast in

14 the first week of March, it would -- it would probably be

15 the case that the last actual amount invoiced you had for

16 the ASA and the CSA was the January 2015 number. Is that

17 right?

18 **A. That would be correct.**

19 Q. Did you make the decision not to include the

20 payment under the facility lease agreement or did someone

21 else instruct you not to include that?

22 **A. Somebody else instructed me not to.**

23 Q. And what about the interest payments, did you

24 make that decision or did someone instruct you not to

25 include that.

25

1 **A. I received advice from counsel to exclude it.**

2 Q. Okay. And who advised you not to include the

3 facility lease agreement in the forecast.

4 **A. Again I received advice from counsel to exclude**

5 **it.**

6 Q. Did you have discussions about whether or not to

7 include the lease with nonlawyers outside the presence of

8 your lawyers?

9 **A. No.**

10 Q. And I don't want to get into what your counsel

11 advised you, but did you ever formulate your own opinion,

12 not based on counsel's advice, whether or not the facility

13 lease payment should be included?

14 **A. Can you restate that.**

15 Q. Yeah, sure. Did you ever develop your own

16 independent opinions about whether or not the facility

17 lease payment should be included in the cash forecast.

18 **A. I participated in discussions with my colleague**

19 **Mark Herbers and the counsel to discuss different**

20 **strategies or different scenarios of what -- what that**

21 **would be.**

22 Q. Okay. Did you ever perform an analysis of

23 whether or not the amounts that -- or strike that.

24 Did you ever perform an analysis of whether

25 or not the amounts invoiced that totaled up to the

26

1 \$1.228 million were appropriate.

2 **A. Can you rephrase that.**

3 Q. Yeah, sure. Did you ever do an analysis of

4 whether the \$1.228 million should be disputed by the

5 debtor.

6 **A. There were different scenarios that were devised**

7 **that incorporated disputed amounts related to the services**

8 **that were included in the cash -- cash collateral.**

9 Q. Did you ever do an analysis of what amount if any

10 of the \$1.228 million you thought should be disputed by

11 the debtor?

12 **A. Can you restate that.**

13 Q. Yeah, sure. So your forecast includes a monthly

14 payment to UMC approximately \$1.228 million. Correct?

15 **A. Yes.**

16 Q. And that was the expected amounts invoiced under

17 the IT lease agreement, the medical equipment lease and

18 the ASA and CSA. Correct?

19 **A. Yes.**

20 Q. Did you ever do an analysis of what you thought

21 would be an appropriate amount under those agreements for

22 UMC to charge the debtor?

23 **A. I -- I did it with the assistance of my colleague**

24 **Mark Herbers and the advise of counsel.**

25 Q. Do you believe that any portion of the

27

1 \$1.228 million should be disputed by the debtor as not

2 appropriate?

3 **A. Yes.**

4 Q. And have you put a dollar amount to what you

5 believe is inappropriate?

6 **A. No.**

7 Q. Have you put a percentage to what you believe is

8 inappropriate?

9 **A. No.**

10 Q. Can you provide any quantification as to what

11 portion of \$1.228 million you view as inappropriate?

12 **A. No.**

13 Q. And when -- I've been asking you if you view the

14 amount as inappropriate and you said you did view that

15 some of that \$1.228 million is inappropriate. Correct?

16 **A. Yes.**

17 Q. Okay. And what do you mean when you say it's

18 inappropriate.

19 **A. I believe that the services are being disputed.**

20 **I don't under- -- I don't have what -- what that amount**

21 **should be to be or the amount that's being disputed.**

22 Q. Sure. And you see the services are being

23 disputed, do you believe that there's a dispute about

24 whether the services were in fact provided or the dispute

25 is about how much should be charged for the services that

28

1 were provided.

2 **A. I don't know.**

3 Q. Okay. So you don't have any personal knowledge

4 one way or the other if the dispute is the services aren't

5 being provided or it's just about how much should be

6 charge. Is that right.

7 **A. That's correct.**

8 Q. And as far -- if it's the latter and there's a

9 dispute about how much should be charge, do you have any

10 personal knowledge of how much should be charged by UMC to

11 the hospital under these agreements?

12 **A. I do not.**

13 Q. I asked you earlier about your experience working

14 for debtors and specifically debtors in the medical

15 industry. Do you remember that?

16 **A. Yes.**

17 Q. Outside the context of a bankruptcy, have you

18 done any work for hospitals?

19 **A. No.**

20 Q. Okay. Have you, other -- than the -- the company

21 that sold the CPAP devices, have you ever been involved

22 working with a -- a hospital in connection with evaluating

23 pricing of services provided to a hospital?

24 **A. No.**

25 Q. Do you have anything in your experience or

29

1 background that would allow you to testify as an expert on

2 what appropriate pricing for services provided to a

3 hospital was?

4 **A. I do not.**

5 Q. Okay. Do you also have responsibility in this

6 bankruptcy for the day-to-day management of cash for the

7 Children's Hospital.

8 **A. Yes.**

9 Q. Do you have a responsibility to monitor debtors'

10 adherence to this proposed budget?

11 **A. Yes.**

12 Q. Do you have to approve all disbursements?

13 **A. Yes.**

14 Q. Is there anyone else that can approve

15 disbursements under the proposed budget other than you?

16 **A. All approvals are done by either Mark Herbers,**

17 **Elias before they're actually made -- a disbursement's**

18 **made.**

19 Q. And is there more than one -- I'll say for lack

20 of a better word -- signature required for a disbursement

21 or do you, Mr. Armendariz and Mr. Herbers all have the

22 ability to independently approve a disbursement?

23 **A. Can you restate -- rephrase that.**

24 Q. Sure. I'm just trying to figure out how the

25 approval process works.

30

1 **A. Right.**

2 Q. So to make a disbursement under this budget,

3 someone has to approve it. Right?

4 **A. Right.**

5 Q. And you mentioned you have the ability to approve

6 a disbursement. Is that right?

7 **A. Yes.**

8 Q. Did Mr. Herbers or Mr. Armendariz also does?

9 **A. Yes.**

10 Q. So my question is just can anyone of you do it by

11 yourself or does it require more than one person to

12 approve it.

13 **A. Like I said the approval process for all expenses**

14 **go through a process. They have to be approved, entered**

15 **into your accounts payable system and then they get**

16 **scheduled for payment.**

17 Q. Who is responsible for entering them into the

18 accounts payable system?

19 **A. We have two AP clerks that enter the invoices**

20 **into the AP system.**

21 Q. Are they employed by the hospital or by

22 AlixPartners?

23 **A. They are employed by the hospital.**

24 Q. I believe when I asked earlier you said that you

25 were aware that the amounts invoiced by UMC were disputed

31

1 but you didn't have personal knowledge of nature of the

2 dispute or amount. Is that right?

3 **A. That's correct.**

4 Q. And do you know who if anyone has done a

5 calculation of what amount of \$1.228 million should be

6 disputed by the debtor?

7 **A. Mark Herbers has done a calculation.**

8 Q. And do you know how Mr. Herbers did that

9 calculation?

10 **A. He based it, I assume, on his experience.**

11 Q. But just to make sure I understood you correctly,

12 you didn't assist Mr. Herbers in making that calculation.

13 Is that correct?

14 **A. You are correct.**

15 Q. What type of reports do you get in order to allow

16 you to monitor the day-to-day cash management?

17 **A. I get a daily cash report that identifies what**

18 **receipts have been received, what -- and a recap of all**

19 **you disbursements that have -- that have occurred.**

20 Q. And who do you receive that from.

21 **A. I receive that from a hospital employee,**

22 **Manny Ramos.**

23 Q. That electronic or par cat (phonetic)?

24 **A. It's electronic.**

25 Q. Is it part of some type of software program as

32

1 far as the accounting IT system or is it like an Excel

2 spreadsheet?

3 **A. It's an Excel spreadsheet.**

4 Q. And do you know whether it's an export from the

5 accounting IT system or if he creates it?

6 **A. He creates it.**

7 Q. Do you have receive anything on a daily basis

8 other than the spreadsheet you just described in

9 connection with monitoring day-to-day cash management?

10 **A. I receive a lot of other financial information.**

11 Q. Sure.

12 **A. But that is the only one that has -- I take that**

13 **back. I do receive an additional daily report from med**

14 **assets that does a detail of the actual receipts that are**

15 **received broken down by provider.**

16 Q. Did you receive any sort of census or bed count

17 report on a daily basis?

18 **A. I do.**

19 Q. Is that contained in one of the two reports you

20 previously described or is that yet another report?

21 **A. That's another report.**

22 Q. Is that a census report or what is it called?

23 **A. Statistics report. Census report, yeah.**

24 Q. What all is contained within the census reports

25 you receive daily?

33

1 **A. So the census report includes admissions,**

2 **discharges, transfers and current -- current bed -- bed**

3 **count, you know, current people in beds.**

4 Q. Sure.

5 **A. Right.**

6 Q. Does it have any sort of comparative analysis of

7 week to week or year over year or is it just literally a

8 current report?

9 **A. It's -- it's a monthly -- it's -- there's two**

10 **pieces to the puzzle. Right? There's a monthly report**

11 **that's a comparative to prior year. And then there's a**

12 **detailed daily staff report.**

13 Q. And are these reports just raw number, they don't

14 contain patient names, patient information. Is that

15 right.

16 **A. Yes.**

17 Q. Yes, I'm right --

18 **A. Yes, you're right.**

19 Q. -- they don't include?

20 **A. They don't include.**

21 Q. Appreciate that. That was my poor wording.

22 Okay. Back to the weekly forecast. On page

23 2 of Exhibit 2, you'll see this vertical dotted line

24 between week 22 and week 23. Do you see that?

25 **A. Yes.**

34

1 Q. Okay. And Mr. Herbers testified that that was to
 2 indicate a anticipated emergence from bankruptcy. Is that
 3 what you intended to note in this document with that
 4 dotted line?

5 A. Yes.

6 Q. Did you make a determination of when you might
 7 expect for the debtor to emerge from bankruptcy or was
 8 that provided to you by somebody else?

9 A. No, that was my decision, yeah.

10 Q. Okay. How did you make the determination that
 11 the debtor might emerge from bankruptcy roughly by end of
 12 November of 2015?

13 A. So what I did is is estimate -- I understood that
 14 the case needed to be resolved quickly, it's on an
 15 expedited path and I understood the timing of when certain
 16 things the bar date for claims and I did some analysis
 17 based upon when that is and when the plan would have to be
 18 submitted and came up with an estimate.

19 Q. And you said that the case is on expedited path
 20 and needed to be resolved fairly quickly. Was that a
 21 determination you made or was that something somebody told
 22 you?

23 A. No, from advice from counsel.

24 Q. If you'll look at the bottom line there which is
 25 the available cash number. Do you see that?

35

1 A. Yes.

2 Q. Okay. It looks like that week 22 is the first
 3 week that the debtor is forecasted to go to cash negative.
 4 Correct?

5 A. That's correct.

6 Q. And was that one of the factors you used to
 7 determine that the debtor needed to emerge from bankruptcy
 8 roughly by the end of November?

9 A. No.

10 Q. Did that have any bearing on your decision of
 11 when you thought the debtor needed to emerge from
 12 bankruptcy?

13 A. I knew the debtor -- can you restate that.

14 Q. Yeah, sure. The -- the fact that the debtor is
 15 forecasted by you to go cash negative the same week that
 16 you indicated the debtor needed to emerge from bankruptcy
 17 was the fact that the debtor's forecasted to go cash
 18 negative in week 22 a factor in deciding the emergence
 19 date?

20 A. I told you that it was not.

21 Q. Not at all?

22 A. Not at all.

23 Q. Just total coincidence?

24 A. Yes.

25 Q. Okay.

36

1 A. These numbers are -- are variable. I mean
 2 they'll change over the course of the week -- the actual
 3 weeks that come in.

4 Q. The -- which numbers will change?

5 A. The available cash.

6 Q. Okay. And so one of the -- one of the factors I
 7 think you used to decide this date end of November for
 8 emergence was that the debtor needed to have quick
 9 resolution. Correct?

10 A. Yes.

11 Q. And you also said you worked backwards from some
 12 of the dates and deadlines. Is that right?

13 A. Yes.

14 Q. And what were those dates and deadlines that
 15 you -- that you looked at?

16 A. So one of the dates that I used was the bar date.
 17 The bar date was September 29th, I believe, or in that
 18 range.

19 Q. Sure.

20 A. That day range.

21 Q. Any other dates you looked at besides the bar
 22 date?

23 A. No.

24 Q. So you basically looked at bar date and added two
 25 months, 60 days?

37

1 A. Yes.

2 Q. And why in your opinion did you think it was
 3 appropriate for emergence roughly two months after the bar
 4 date?

5 A. I believe we want to keep the cost of -- of the
 6 restructuring down and there was expedited path to get the
 7 bankruptcy complete and resolved and -- and timely.

8 Q. And what is the expedited path you saw to get the
 9 bankruptcy resolved timely?

10 A. Excuse me --

11 Q. I thought you said you felt there was an
 12 expedited path. Did I hear that correctly? Or was the
 13 expedited path doing it 60 days after the bar date?

14 A. That was my estimate.

15 Q. And one of the reasons was because you want to
 16 keep the cost of the bankruptcy down. Right?

17 A. Yes.

18 Q. That's because you have all these nonoperating
 19 cash flow entries that are attributable to the bankruptcy.
 20 Right?

21 A. Yes.

22 Q. And over the 13-week total, those nonoperating
 23 cash flows attributable to the bankruptcy are about
 24 1.5 million. Right?

25 A. Yes.

38

1 Q. For the 26-week forecast through the year end,
 2 the cost attributable to the bankruptcy is little over
 3 three half million dollars. Is that right?
 4 **A. Yes.**
 5 Q. And so one of your -- one of your goals was to
 6 choose an emergence date that would eliminate the need
 7 to -- to pay those professional fees. Is that right?
 8 **A. Yes. Going forward, yes.**
 9 Q. The -- while we're on professional fees. The
 10 professional fees for the first 13 weeks it looks like,
 11 you know, there's a monthly payment in July, August and
 12 September of \$500,000. Is that right?
 13 **A. Yes.**
 14 Q. And that's for the AlixPartner fees and the
 15 Jackson Walker law firm fees. Is that right?
 16 **A. It'll include those as well as others, yes.**
 17 Q. Sure. And then I noticed in week 22, it goes
 18 from 500 to \$800,000. Do you see that?
 19 **A. Yes.**
 20 Q. And is that increase attributable to the
 21 AlixPartners' success fee?
 22 **A. No.**
 23 Q. What is the increase attributable to?
 24 **A. It is a catch-up payment for all professional**
 25 **fees at emergence?**

39

1 Q. For the holdback?
 2 **A. Yes.**
 3 Q. Okay. And then is the 250- -- 250,000 in week 23
 4 the success fee?
 5 **A. Yes.**
 6 Q. Have you prepared a model like this that included
 7 the payment under the facility lease agreement?
 8 **A. No.**
 9 Q. Have you -- have you done any analysis of what
 10 the impact on debtor would be if it included in the
 11 monthly disbursements to UMC a payment under the facility
 12 lease agreement?
 13 **A. No, I have not.**
 14 Q. Okay. Just looking at this document and based on
 15 your daily management monitoring of the daily cash
 16 management of the debtor, is it fair to say that the
 17 debtor was able in June of 2015 to make the lease payment
 18 of just under \$1 million to UMC?
 19 **A. Can you restate that.**
 20 Q. Sure. Was the debtor capable of making the
 21 monthly lease payment under the facility lease agreement
 22 to UMC in June of 2015?
 23 **A. So you're asking whether or not whether they have**
 24 **enough cash to pay --**
 25 Q. Sure.

40

1 **A. -- the facility lease for that month of June?**
 2 Q. Right?
 3 **A. And the answer would be, yes, they had enough**
 4 **cash.**
 5 Q. So the debtor could have made the facility lease
 6 payment in June of 2015 if it had elected to?
 7 **A. Yes.**
 8 Q. And is that also true for July of 2015.
 9 **A. They have enough cash to make that payment, yes.**
 10 Q. And in fact they would have enough cash to make
 11 that payment throughout the 26 weeks. Is that right?
 12 **A. No.**
 13 Q. How -- how many months would the debtor be
 14 financially able to make the lease payment to UMC?
 15 **A. If the court required them to make that payment,**
 16 **they probably could make it through based upon this 26**
 17 **weeks to week 17.**
 18 Q. So that would be the June payment, the July
 19 payment, the August payment, the September payment and the
 20 October payment?
 21 **A. That's correct?**
 22 Q. Is this the latest weekly cash forecast you've
 23 prepared, the most recent?
 24 **A. No.**
 25 Q. There's a -- what is the most recent weekly cash

41

1 forecast you've prepared?
 2 **A. I just completed through July 17th -- or July**
 3 **10th so I have one that's dated July 10th that's**
 4 **completed.**
 5 Q. Do the disbursement numbers remain the same in
 6 the model you've just completed?
 7 **A. Yes.**
 8 Q. Do the --
 9 **A. Thirteen weeks, that would be correct.**
 10 Q. Yeah. 13 week disbursements remain the same?
 11 **A. Yes.**
 12 Q. Have you changed the anticipated emergence date?
 13 **A. No.**
 14 Q. Do the patient-related receipt numbers remain the
 15 same as what's forecast in the model marked as Exhibit 2?
 16 **A. No.**
 17 Q. Do they go up or do they go down?
 18 **A. The receipts for -- the actual receipts for July**
 19 **the 3rd -- maybe July the 10th went down a little bit.**
 20 **And then estimates for July 17th are down.**
 21 Q. So that's the week of July 17 estimates are down?
 22 **A. Yes.**
 23 Q. Any other weeks that went down in your model you
 24 just prepared?
 25 **A. No.**

42

1 Q. Did any weeks go up?

2 **A. No.**

3 Q. So is it fair to say the most recent forecast

4 that you just finished preparing is a little bit worse

5 than the picture painted in Exhibit 2?

6 MR. SPROUSE: I'm going to object to the

7 form of the question the term "worse" as being undefined.

8 Q. (BY MR. DRAKE) You can answer. Do you

9 understand my question? I mean is a forecast of

10 financial --

11 **A. The numbers are down.**

12 Q. The numbers are down. Fair enough.

13 **A. Yes.**

14 Q. More accurate than what I've said. Thank you for

15 that. So that it's true that the most recent forecast

16 based on the most recent available information, the

17 numbers are down from Exhibit 2. Is that true?

18 **A. Patient receipts are down.**

19 Q. Were there any other receipts that were up on the

20 most recent forecast you just created? You said

21 patient-related receipts are down. True?

22 **A. Yes. Yes.**

23 Q. Were the other receipts up, down or constant from

24 what's in Exhibit 2?

25 **A. There hasn't been any change in the model.**

43

1 Q. Okay. So the model remained the same for other

2 receipts. True?

3 **A. Yes.**

4 Q. So the total receipts are down in the model you

5 just created. Is that true?

6 **A. Yes.**

7 Q. And so would it also then be true if

8 disbursements are constant that the net cash flow and

9 available cash numbers are also down in the model you just

10 created?

11 **A. Can you rephrase that again.**

12 Q. Sure. Total receipts are down in the model you

13 just created from Exhibit 2. Correct?

14 **A. 13 weeks, yes.**

15 Q. And what about 26 weeks?

16 **A. I don't know.**

17 Q. Okay. But you don't remember increasing any of

18 the weekly forecast or patient-related receipts in your

19 new model. Is that true?

20 **A. I believe so, yes.**

21 Q. So if that's true that you didn't increase any of

22 the weekly forecasts, 26 week number would also be down.

23 Is that right?

24 **A. Yes.**

25 Q. And so the total receipts in the model you just

44

1 created are down from Exhibit 2. True?

2 **A. Yes.**

3 Q. And the disbursements did not change in the new

4 model from what's in Exhibit 2. Right?

5 **A. The disbursements did change.**

6 Q. Okay. And which disbursements changed?

7 **A. So we had the actuals for July the 3rd week and**

8 **we had the actuals for July the 10th week.**

9 Q. Do you recall whether those --

10 **A. Those are favorable variances.**

11 Q. Okay. And do you recall the amount of the

12 variance in the debtor's favor?

13 **A. I don't recall.**

14 Q. Okay. Do you recall which specific disbursements

15 had a variance?

16 **A. I know that the UMC for week seven three, that**

17 **\$500,000 payment, was made. I believe that all the -- all**

18 **the lines that you did take a look at that have amounts**

19 **there changed. They're not those amounts.**

20 Q. Do you recall whether on the new model the -- the

21 net cash flow for the 13-week period went up or down from

22 this Exhibit 2, the 13-week forecast?

23 **A. Right. The net cash flow did go up.**

24 Q. Do you remember how much it went up.

25 **A. I do not.**

45

1 Q. Do you remember whether it was significant in

2 your opinion?

3 **A. I don't know how to measure significant.**

4 Q. Sure.

5 **A. Yeah.**

6 Q. Do you remember on your latest model when the

7 debtor is anticipated to go cash negative?

8 **A. I know that it's later than the November 27 date**

9 **that's in this model.**

10 Q. Do you know how much later?

11 **A. I believe it may have been pushed into December.**

12 Q. Is this model something you have -- you do on

13 your computer?

14 **A. Yes.**

15 Q. Is that computer you have here at Children's

16 Hospital.

17 **A. It's -- it's in my backpack, yes.**

18 MR. DRAKE: Can we maybe get a copy of this?

19 MR. SPROUSE: I think that was provided to

20 Ms. Boydston by e-mail yesterday.

21 MR. SPRINGER: So this is the Thursday

22 report?

23 MR. SPROUSE: Yes.

24 MR. DRAKE: We'll check. We may have it.

25 Q. (BY MR. DRAKE) Oh, did you -- I'm sorry. I

46

1 think you said you did not. But did you change the date
 2 of anticipated emergence?
 3 **A. No, I did not.**
 4 MR. SPROUSE: Mr. Drake, we've been on the
 5 record for over an hour. Can we take a break?
 6 MR. DRAKE: Sure. Take a break. Go off the
 7 record.
 8 (A break taken.)
 9 Q. (BY MR. DRAKE) Mr. Adams, we're back on the
 10 record. We were -- we were talking about the -- the new
 11 model you prepared and you talked about positive
 12 variances. Correct?
 13 **A. Yeah. Not -- there was no unfavorable variances,**
 14 **right, under disbursements line.**
 15 Q. Under disbursements, right.
 16 **A. Yeah.**
 17 Q. Do you get daily or weekly variance reports?
 18 **A. Do I get daily or weekly variance reports on?**
 19 Q. On variances from your forecast. Do you get any
 20 kind of report that details the variances?
 21 **A. No.**
 22 Q. Do you prepare reports that detail variances?
 23 **A. I do prepare, yes.**
 24 Q. And do you prepare those on a weekly basis?
 25 **A. Yes.**

47

1 Q. Those Excel formatted spreadsheets?
 2 **A. Yes.**
 3 Q. And do you prepare that like the same day every
 4 week or when do you prepare that?
 5 **A. It -- it depends, it varies and then I update it.**
 6 **I may start on Tuesday and then complete it on Thursday.**
 7 Q. And do you -- you provide those to -- or strike
 8 that.
 9 Who did you provide those to? Anybody
 10 besides yourself or do you just -- are you the only one
 11 that uses these?
 12 **A. I do provide an updated 13-week cash forecast, a**
 13 **cash collateral budget and a variance reports to my**
 14 **counsel or the attorneys.**
 15 Q. I believe I understood that for the forecasted
 16 disbursements that at least for UMC you didn't calculate
 17 the \$1.228 million. That -- that somebody else did. Is
 18 that right? Or did you calculate it?
 19 **A. 1.228?**
 20 Q. Yes, sir.
 21 **A. Yeah, that's my number.**
 22 Q. That's your number. You have not done a
 23 calculation of what might be an appropriate amount. That
 24 was Mr. Herbers. Is that right?
 25 **A. Yes.**

48

1 Q. Okay. Is the Texas Tech disbursement forecast
 2 your number or somebody else calculated it?
 3 **A. I did speak with the Texas Tech finance and**
 4 **accounting folks and we came up with the appropriate**
 5 **number.**
 6 Q. What about the other disbursement numbers? Let's
 7 first pharmaceutical/medical supply. Did you calculate
 8 the forecasted disbursement numbers for pharmaceuticals
 9 and medical supplies?
 10 **A. Yes.**
 11 Q. How did you do that?
 12 **A. So I based it on historical payments that have**
 13 **been made and I relied upon prior cash forecast model that**
 14 **was prepared by hospital employees at that time.**
 15 Q. Did anyone assist you with calculating the
 16 forecasted disbursement amounts or did you do it yourself?
 17 Anyone from Alix?
 18 **A. No, it was me.**
 19 Q. You consulted hospital employees?
 20 **A. I consulted hospital employees.**
 21 Q. But as far as AlixPartners, it was just you?
 22 **A. I mean I did review these with Mr. Herbers and**
 23 **the managing directors, both Barry Folse and Rebecca Roof.**
 24 Q. The physicians disbursement line, how did you
 25 calculate that forecasted amount?

49

1 **A. Again it was historical payments and -- based**
 2 **upon historical payments.**
 3 Q. What about other disbursements -- first of all
 4 what is other disbursement?
 5 **A. It's everything else that doesn't fit in the**
 6 **other categories above. It's contract labor, it's a**
 7 **other -- other payments that are being made to the -- like**
 8 **for example, the El Convento that we lease, could be that**
 9 **rent and it could be a lot of other things that go into**
 10 **that that don't belong -- that's not in the other three or**
 11 **four categories up above.**
 12 Q. Is there any like separate spreadsheet that lists
 13 what the other disbursement categories are?
 14 **A. Are you asking me for a breakdown?**
 15 Q. Yeah. I just didn't know if there -- like the
 16 other disbursements like pharmaceuticals and medical
 17 supplies and things you looked at historical numbers to
 18 calculate those forecasts. Is that right?
 19 **A. Yes.**
 20 Q. Okay. And so did you look to historical --
 21 **A. I did. Historical numbers for other**
 22 **disbursements and totaled those and determined that those**
 23 **are the amounts based on the payments that have been made**
 24 **historically over all the weeks and then determined what**
 25 **the amount to be.**

50

1 Q. And to gather those historical numbers, is there
 2 like something in the accounting system that was just
 3 categorized as other or how did you gather the historical
 4 numbers for sort of an undefined category?

5 **A. So normally I take the highest creditors that we**
 6 **pay, right, and I identify those into which category that**
 7 **they need to go into. And the majority the category**
 8 **breakdowns that I was able to discover was physicians and**
 9 **pharmaceuticals and then everything else fit -- fit into**
 10 **that category.**

11 Q. Okay. What about nonrecurring? It looks like
 12 there's just the 20 -- the one \$20,000 payment in week 3.

13 **A. Right.**

14 Q. And what is that?

15 **A. That is an adequate protection payment being made**
 16 **to -- if you look at page 3, it will show you the**
 17 **breakdown. So it was adequate payments to Cardinal and**
 18 **AB- -- ABDC.**

19 Q. Okay.

20 **A. Yep.**

21 Q. So I've totally forgotten what you said. The
 22 calculations patient-related receipts, those were forecast
 23 based on historical information as well?

24 **A. Historical receipts, yes.**

25 Q. Is that a calculation you did or somebody gave to

51

1 you?

2 **A. I did the calculations?**

3 Q. Anyone assist you in that?

4 **A. I used the hospital staff, the accounting finance**
 5 **guy that was actually doing the -- the cash flow modeling**
 6 **before I picked it up, I used his used his -- used his**
 7 **information that he had as well.**

8 Q. Who -- what was his name?

9 **A. His name was Jim Schmidt.**

10 Q. Mr. Schmidt was the interim controller. Is that
 11 right?

12 **A. Yes.**

13 Q. Did Mr. Schmidt give you his old models and
 14 electronic files when he rolled off his engagement?

15 **A. Yes.**

16 Q. Do you still have those?

17 **A. Yes.**

18 Q. Did you initially review his models in order to
 19 prepare your own model?

20 **A. Oh, yes, of course.**

21 Q. So you relied on those at least in part to come
 22 up with your own model.

23 **A. Right.**

24 MR. DRAKE: So I don't think we have the new
 25 model, at least we have said we haven't received it. So I

52

1 don't know if you can check on your end.

2 MR. SPROUSE: I'll check.

3 MR. DRAKE: Yeah, that'd be great.

4 Q. (BY MR. DRAKE) Okay. And then, Mr. Adams, on
 5 page 1 of Exhibit 2 the professional fees we already
 6 walked through. And then the bottom half of that page,
 7 those then are all just sort calculations that flow from
 8 the forecast receipts and disbursements. Right?

9 **A. Yes, and that cash flow is down below in the**
 10 **summation of the cash balances.**

11 Q. Okay. Have you -- have you done any analysis of
 12 what if any sort of additional financing the debtor may
 13 use if it does not emerge from bankruptcy by the
 14 forecasted date when the debtor is expected to go cash
 15 negative?

16 **A. No, I have not.**

17 Q. Is that something that you would be responsible
 18 analyzing or someone else on the team?

19 **A. I believe I would be.**

20 Q. Okay. Have you formulated any type of plan on
 21 how creditors will continue to be paid once the debtor is
 22 cash negative?

23 **A. I have not.**

24 Q. If the forecast holds true in that the debtor is
 25 cash negative by the end of November, are you aware of a

53

1 way that the hospital would be able to make disbursements
 2 to creditors after week 22?

3 **A. I believe that there could be different scenarios**
 4 **that could play into it and the DIP financing would be one**
 5 **of those ways.**

6 Q. Any other scenarios besides DIP financing?

7 **A. I can't think of anything right now.**

8 Q. Okay. Have you been asked to do any analysis of
 9 whether DIP financing is necessary?

10 **A. No, I have not.**

11 Q. Have you done that analysis on your own? Not
 12 being asked, but just have you done it on your own in the
 13 last --

14 **A. No, I have not.**

15 Q. If requested would you be able to provide UMC
 16 copies of the weekly variance report in cash collateral
 17 budgets in native format? You said you'd provide it to
 18 counsel. Right?

19 **A. Yeah, I think I provided the 13-week model that I**
 20 **currently use to your financial advisers.**

21 Q. Okay. Well, what about the weekly variance
 22 report?

23 **A. It's included in that model.**

24 Q. Is that -- so do you -- do you prepare a weekly
 25 cash forecast every week?

54

1 **A. Yes.**

2 MR. SPROUSE: Off the record for a minute.

3 MR. DRAKE: Sure.

4 (Discussion off the record.)

5 (Exhibit 4 marked.)

6 Q. (BY MR. DRAKE) Mr. Adams, I've handed you what

7 the court reporter's marked as Exhibit 4 which is two

8 printed pages again from an electronic file that the

9 debtor produced to us.

10 Do you recognize the information contained

11 on these two pages?

12 **A. Yes, sure.**

13 Q. Will you flip to the second printed page which

14 has a heading at the top Actual Current Year 2015. Do you

15 see that?

16 **A. Uh-huh.**

17 Q. Can you describe what information is contained on

18 this page.

19 **A. The second page is admissions, registrations,**

20 **transports, emergency department.**

21 Q. And so that -- that shows the number of patients

22 that have come in to the hospital each month. Is that

23 right?

24 **A. I believe so.**

25 Q. And so where it says October fiscal year 2015,

55

1 that's actually October of 2014. Right?

2 **A. Yeah, because the fiscal year -- our fiscal year**

3 **or the hospital's fiscal year ends September 30th.**

4 Q. So it's October 1, 2014, through September 30,

5 2015. Is that right?

6 **A. Yes.**

7 Q. So this is showing actual patient visits for the

8 months October 2014 through June of 2015. Is that right?

9 **A. I believe so.**

10 Q. Are reports and information like this part of

11 what you considered when coming up with your weekly

12 forecast for patient-related receipts?

13 **A. No, I didn't look at this.**

14 Q. At least one of the variables for how -- how many

15 dollars are going to be received for patients will be

16 dependent on how many patients are actually coming through

17 the doors. Is that right?

18 **A. There's a lot of factors that are part of it and,**

19 **yes, that is one of the parts.**

20 Q. This -- this report indicates that in April 2015

21 the subtotal of outpatient visits was 1,718 people. Is

22 that right?

23 **A. 1,718, yep.**

24 Q. And then in May there's 1,646. Is that right?

25 **A. Yes.**

56

1 Q. And then the debtor filed for bankruptcy in May.

2 Is that right?

3 **A. Yes.**

4 Q. And then it looks to me like in June, the number

5 of patient visits went down to 1,154. Is that right?

6 **A. Again, this is emergency department only. Right?**

7 Q. Correct. But that the -- at least the emergency

8 department visits was --

9 **A. So for emergency departments that answer is**

10 **correct, but it's not correct for total admissions.**

11 Q. And is there a place on this page that shows the

12 total admissions?

13 **A. Total outpatient visits/total inpatient**

14 **visits/grand total.**

15 Q. And so that -- that's the bottom line. Right?

16 That's the bottom -- the bottom four lines of this -- this

17 page. Right?

18 **A. Right.**

19 Q. That's where you're looking.

20 And so for -- for April or backing up to

21 March, March 2015 the grand total of patient visits was

22 2,043. Correct?

23 **A. What day was that again?**

24 Q. March. March of 2015.

25 **A. According to this report, yes.**

57

1 Q. And then in April the grand total of patient

2 visits was down to 1,874. Is that right?

3 **A. According to this report, yes.**

4 Q. And then in May it was -- it was down a little

5 bit more to 1,812, right, according to this report?

6 **A. Yes.**

7 Q. And then this report indicates that for June

8 there was a drop to 1,299. Is that right?

9 **A. That's what this report shows.**

10 Q. And do you have any reason to believe that this

11 report provided to UMC by debtor's counsel is inaccurate?

12 **A. I have not reviewed this report and I don't**

13 **prepare this report.**

14 Q. Do you know who does prepare the report?

15 **A. I do not.**

16 Q. And is it your experience that the reports

17 provided -- or excuse me. Strike that.

18 Is it your experience that the reports

19 prepared by employees of the Children's Hospital that are

20 provided to UMC in connection with this case are accurate

21 or inaccurate?

22 **A. I don't know how to answer that.**

23 Q. Well, I mean you -- you've reviewed various

24 reports prepared by hospital employees.

25 **A. There have been errors in the reports that I've**

58

1 discovered, yes.

2 Q. And would you expect that the reports produced in

3 connection with the bankruptcy to the hospital's creditors

4 should be accurate or inaccurate?

5 A. I would hope that they were accurate.

6 Q. Do you -- do you think that the creditors such as

7 UMC can rely on the reports that are provided by the

8 hospital to them in connection with this bankruptcy?

9 MR. SPROUSE: I object to the form of the

10 question, calls for speculation.

11 You can answer.

12 A. UMC has access to all our accounting records. If

13 they want to see what the numbers are, they can look at it

14 because we are using their accounting systems. We are

15 using census systems. So that if they need to validate to

16 make sure that these numbers are right, they have a way to

17 do that.

18 Q. (BY MR. DRAKE) Now, do you believe that UMC can

19 access -- has access to the Children's Hospital records on

20 its own?

21 A. Do they have to request to get the privilege to

22 do that?

23 Q. Right.

24 A. I believe that they should, yes.

25 Q. Do you know whether they have to request the

59

1 information from the Children's Hospital or UMC can just

2 access it directly because it's on the same system?

3 A. The information is on the same system. They have

4 an ability to access the information if they choose to.

5 Q. Without permission from the Children's Hospital?

6 A. They have access rights to the same data that we

7 have.

8 Q. And do you know that, how? How do you know that?

9 A. Based upon so many requirements that -- to get

10 information about our -- our accounting information, we

11 have to go through UMC to get it.

12 Q. Okay. Well, back to the June numbers, according

13 to this report, are 1,154. Is that right? Strike that.

14 According to this report the grand total of

15 patient visits for June 2015 is 1,299. Correct?

16 A. That's what it says.

17 Q. Do you know from any other reports that you have

18 reviewed whether or not the patient totals for June 2015

19 were down from May of 2015?

20 A. I have not seen any -- this is the first time

21 I've anything that reflected a down of admissions. I've

22 not -- the reports that I see -- the daily status reports

23 that I see don't reflect this -- this kind of information.

24 Q. Have you seen any sort of monthly census report

25 that indicates whether patient visits in June of 2015 were

60

1 up or down from May 2015?

2 A. I -- I don't recall.

3 Q. You don't recall?

4 A. No.

5 Q. Is that something that in connection with making

6 projections for the patient-related receipt in the 13 and

7 26 weeks going forward you would want to know what the

8 patient trends are?

9 A. Yeah, that is one of the factors that will be

10 used to determine what those numbers should be.

11 Q. And is that -- is that a factor that you have

12 used in connection with preparing your previous forecast?

13 A. No, I have not.

14 Q. You have not considered patient trends?

15 A. No.

16 Q. And for like example, one of the things is the

17 debtors filed bankruptcy in May of this year. Right?

18 A. Yes.

19 Q. And have you done any sort of the study or

20 analysis of what impact if any the filing of bankruptcy

21 has had on patient visits.

22 A. The only -- what analysis that has been done has

23 been compiled by Mark Herbers in our response or reply to

24 our objection for retention.

25 Q. But you haven't consulted the patient census

61

1 reports in connection with preparing your previous weekly

2 cash flow forecastings?

3 A. I do not.

4 (Exhibit 5 marked)

5 Q. (BY MR. DRAKE) Mr. Adams, I've handed you what's

6 been marked as Exhibit 5 to this examination. It's a

7 document that's been filed in the bankruptcy by the debtor

8 which specifically is an amended application to employ AP

9 Service, LLC, and to designate Mr. Herbers as CEO and CRO.

10 Have you seen this filing before?

11 A. Yes.

12 Q. Did you assist in preparing this document?

13 A. I've read it and reviewed it.

14 Q. Did you read it and review it prior to it getting

15 filed with the court or after?

16 A. Yes, prior.

17 MR. DRAKE: Go off the record.

18 (Discussion off the record.)

19 Q. (BY MR. DRAKE) Mr. Adams, just a point of

20 clarification for the record. If you see at the top,

21 there's a header that's electronically generated by the

22 patient filing system. It says Doc number 94, filed June

23 17th, '15?

24 A. Yes.

25 Q. Then it has pages. First page is page 1 of 41.

62

1 Do you see that?

2 **A. Yes.**

3 Q. If you'll turn to page 25 of 41, please.

4 **A. Okay.**

5 Q. You'll see this is a declaration of Mr. Herbers'.

6 Right by paragraph 25 on this copy, you'll see a

7 handwritten star. Do you see that?

8 **A. Yes.**

9 Q. Okay. I'll just note for the record that's not

10 part of the original document, but the only copy we had

11 available had that star on there. So just -- so there's

12 not a misunderstanding about where that came from.

13 Did -- were you involved in negotiating the

14 terms of engagement between the hospital AlixPartners?

15 **A. No.**

16 Q. Do you know who on half of AlixPartners

17 negotiated the terms of the engagement?

18 **A. I believe Mark Herbers negotiated the terms.**

19 Q. When -- when were you first asked to become

20 involved with the Children's Hospital?

21 **A. Mid-February.**

22 Q. Okay. Where -- did you participate in the

23 presentation AlixPartners made when the hospital was

24 considering different --

25 **A. No, I did not.**

63

1 Q. So were you -- were you aware that the

2 AlixPartners was -- was making a presentation to

3 potentially be engaged by the hospital?

4 **A. Can you restate that.**

5 Q. Yeah, sure. You weren't part of the presentation

6 where AlixPartners was trying to get hired. Is that

7 right?

8 **A. That's correct.**

9 Q. Were you aware though that even though you

10 weren't participating in it that AlixPartners was pitching

11 to get this engagement?

12 **A. Not until after it was already pitched.**

13 Q. And so who first called you about becoming

14 involved in the Children's Hospital engagement?

15 **A. Barry Folse gave me a call.**

16 Q. Had the AlixPartners already been selected by the

17 time you were called?

18 **A. I believe that they were going into make that**

19 **pitch that week when I got the call.**

20 Q. Have -- do you work normally with Mr. Folse?

21 **A. Yes.**

22 Q. And what -- strike that.

23 What did Mr. Folse ask of you when he called

24 you about this engagement?

25 **A. I believe he asked me how much work I was**

64

1 **currently doing on a prior engagement and whether or not**

2 **I'd be available to participate in this work going forward**

3 **because originally it was proposed that I would just be**

4 **part time for a period of time.**

5 Q. Part time on this engagement?

6 **A. Yes, the original engagement letter was me**

7 **originally being at a part-time bases.**

8 Q. And had they -- and this was before Mr. Folse

9 called you or was this when he called you --

10 **A. You're asking me what I said to Mr. Folse. And**

11 **he asked me what -- what -- what questions -- I mean he**

12 **asked me what I was doing in relationship to my current**

13 **engagement and whether or not I'd be available for this**

14 **one on a part-time basis.**

15 Q. So when he first called you -- Mr. Folse first

16 called you in February, originally he asked if you had

17 enough availability you could get involved with the

18 Children's Hospital on a part-time basis?

19 **A. That's correct.**

20 Q. Do you know when it moved from part time to full

21 time?

22 **A. I believe the new engagement stated that it was**

23 **effective on the petition date. I don't recall exactly**

24 **when it -- when it started.**

25 Q. Do you know why your involvement moved from

65

1 full -- part time to full time?

2 **A. Mr. Schmidt left the company and I fulfilled his**

3 **role primarily.**

4 Q. So as a result of Mr. Schmidt leaving, there was

5 additional work that somebody had to do?

6 **A. That's correct.**

7 Q. And you were --

8 **A. I was tagged.**

9 Q. You were lucky enough to be the guy.

10 **A. Yes.**

11 Q. Do you know then when it was originally

12 anticipated that Mr. Schmidt would be involved, whether

13 you or Mr. Schmidt would be preparing the weekly cash

14 forecasts and cash collateral budgets?

15 **A. Can you restate that.**

16 Q. Sure. Originally it was intended that you were

17 going to be part time on this project. Correct?

18 **A. Yes.**

19 Q. And Mr. Schmidt was previously preparing weekly

20 cash forecasts. Correct?

21 **A. His weekly cash forecasts were four week, no**

22 **longer than that.**

23 Q. Four week?

24 **A. Well, four-week cash forecast.**

25 Q. And so by the time that your firm AlixPartners

66

1 is -- is engaged, you know, its -- there's a need to do
 2 longer than four-week cash forecasts. Right?
 3 **A. Yes.**
 4 Q. And so when it was expected that you and
 5 Mr. Schmidt were going to be working on this project, do
 6 you know whether you or Mr. Schmidt was going to have
 7 primary responsibility for preparing those cash forecasts?
 8 **A. I understood that I had the responsibility.**
 9 Q. So even when you are going to be part time, it
 10 was always going to be your responsibility for preparing
 11 the cash forecasts?
 12 **A. Yes.**
 13 Q. Do you normally charge clients hourly for your
 14 services?
 15 **A. Yes.**
 16 Q. And what is your standard hourly rate?
 17 **A. Like here on page 25 it states my hourly rate at**
 18 **695.**
 19 Q. And that's your hourly rate for this engagement?
 20 **A. I believe our engagements are a flat-fee**
 21 **engagement of \$180,000 per month.**
 22 Q. But if you didn't have a flat-fee and were
 23 charging clients hourly, it would be that rate, 695?
 24 **A. On a bankruptcy engagement, yes.**
 25 Q. Do you have a rate for nonbankruptcy matters?

67

1 **A. No. I believe that that hourly rate -- it may**
 2 **get discounted on a nonbankruptcy engagement.**
 3 Q. And we talked about the 10 to 20 bankruptcies
 4 you've worked on. How -- how much work do you do on
 5 nonbankruptcy engagements?
 6 **A. I do some.**
 7 Q. Would you say there's a percentage of your work
 8 that's nonbankruptcy work?
 9 **A. It's a small percentage.**
 10 Q. And what types of things do you do on
 11 nonbankruptcy engagements?
 12 **A. So on nonbankruptcy engagements, I was -- I**
 13 **project managed a Sarbanes-Oxley compliance. I worked on**
 14 **some performance improvement related to tracking --**
 15 **performance improvements engagement that I was responsible**
 16 **for tracking how the project -- what -- what -- what --**
 17 **what tasks need to be -- had more priority -- more of a**
 18 **priority type status. I even worked on a data analytics**
 19 **engagement with a -- a casino company for a short period.**
 20 Q. And do you know what rate you charged clients on
 21 those engagements?
 22 **A. No, I do not know.**
 23 Q. Do you -- how often do you work with Mr. Folse?
 24 **A. I worked with Mr. Folse on the last engagement.**
 25 Q. And what was that?

68

1 **A. I worked on Nautilus Holdings Company, it's a**
 2 **shipping company based in Cypress.**
 3 Q. And where was that engagement? That was a
 4 bankruptcy. Right?
 5 **A. Yes, filed in the Southern District of New York.**
 6 Q. And what is Mr. Folse's -- does he have an
 7 industry focus?
 8 **A. I'm not sure.**
 9 Q. Do you know whether Mr. Folse has ever worked on
 10 a hospital case before?
 11 **A. I do not know.**
 12 Q. Are you aware of any hospital cases Mr. Folse has
 13 ever worked on?
 14 **A. I do not know.**
 15 Q. And what about Ms. Roof, do you work with her
 16 regularly?
 17 **A. No, I do not. I do not.**
 18 Q. Have you ever worked with Ms. Roof before?
 19 **A. Yes.**
 20 Q. And what case was that?
 21 **A. 2002 case. It's been a long time.**
 22 Q. Do you remember what kind of case that was?
 23 **A. I believe it was a mortgage financing company.**
 24 Q. Do you know whether Ms. Roof has ever work on a
 25 hospital case before?

69

1 **A. I do not.**
 2 Q. Do you -- well strike that.
 3 How often do you consult Mr. Folse on the
 4 hospital case going on right now?
 5 **A. At least weekly.**
 6 Q. And what -- what types of things does Mr. Folse
 7 do on the El Paso Children's Hospital engagement?
 8 **A. What he -- what does he do is what you're asking**
 9 **me?**
 10 Q. Yeah, sure. You're responsible for instance for
 11 preparing the cash collateral budget, weekly forecast and
 12 day-to-day cash forecast.
 13 **A. Right.**
 14 Q. Does Mr. Folse have any sort of the designated
 15 responsibility?
 16 **A. I believe he's overseeing the engagement.**
 17 Q. And what do you mean by he's overseeing the
 18 engagement? Relationship with the clients?
 19 **A. No, he -- he oversees it on the basis of**
 20 **providing strategy and guidance for Mr. Herbers and**
 21 **myself.**
 22 Q. Has he provided any strategy or guidance on the
 23 cash collateral budget?
 24 **A. He's reviewed it, yes?**
 25 Q. Has he offered any comments or changes upon his

70

1 review of that?

2 **A. I can't recall.**

3 Q. Had -- did Mr. Folse offer any suggestions when

4 you initially were preparing your model on how to make

5 forecasts for the receipts or disbursements?

6 **A. I believe he reviewed the calculations and**

7 **assumptions. I believe that he made some suggestions,**

8 **yes, but I don't recall what they are.**

9 Q. And so when Mr. Folse reviews the calculations

10 and assumptions is this something you sit down with him in

11 a room and around a conference table or is this something

12 you do over the phone or e-mail?

13 **A. Normally the way this was done was over phone and**

14 **e-mail and many conversations regarding the cash**

15 **collateral budget.**

16 Q. So I assume you would e-mail him your draft.

17 **A. Yes.**

18 Q. And then he would -- does he is e-mail you back

19 suggesting revisions?

20 **A. Either we would call and speak about what**

21 **revisions need to be in place and then we'd make the**

22 **revisions. There's many revisions that were done early**

23 **on.**

24 Q. Sure. And so -- but did he actually like get

25 into your spreadsheets and make changes and send them back

71

1 to you so you could look at his suggestions?

2 **A. No, he did not.**

3 Q. Is this something where you would take notes

4 during these calls to, you know, help yourself remember

5 what suggestions Mr. Folse was making?

6 **A. I believe so.**

7 Q. And do you keep those notes in any kind I of

8 file?

9 **A. I keep a notebook, yes.**

10 Q. And you still have those notes?

11 **A. I believe so.**

12 Q. What else -- so if Mr. Folse is largely

13 responsible for advising on sort of overall strategy. Is

14 that right?

15 **A. Yeah. Yes, he provides guidance and discusses**

16 **strategy with us.**

17 Q. Did you consult with Mr. Folse about how to pick

18 anticipated emergence date for the debtor?

19 **A. I did not.**

20 Q. Did you -- have you consulted with Mr. Folse

21 about overall strategy for a plan of reorganization?

22 **A. I believe the exit strategy is in progress. I**

23 **don't -- I don't know when -- when that date is going to**

24 **happen.**

25 Q. Are you involved in developing the exit strategy?

72

1 **A. Not yet.**

2 Q. Who at AlixPartners is involved in developing the

3 exit strategy?

4 **A. I would believe it's Mark Herbers with the**

5 **guidance and assistance from Becky Roof and Barry Folse.**

6 Q. So you're aware they are in the process of trying

7 to develop an exit strategy but you're not certain where

8 they are in that process. Is that fair?

9 **A. That's correct. We also rely upon our -- our**

10 **counsel, as well. The attorneys are very critical in**

11 **preparing the exit strategy.**

12 Q. Is there anything else that you're aware that

13 Mr. Folse is doing on weekly basis for the Children's

14 Hospital?

15 **A. Oh, for Children's Hospital? I'm not aware that**

16 **he's doing -- other than participating on the conference**

17 **calls discussions and strategy with Mr. Herbers, I'm not**

18 **aware of any.**

19 Q. Based on your interaction with Mr. Folse, can you

20 give me an estimate of about how much hours a week he's

21 working on the Children's Hospital engagement?

22 **A. I believe it's less than five hours a week.**

23 Q. Are you required to record your time on this

24 engagement?

25 **A. Yes.**

73

1 Q. And you keep daily timekeeping records?

2 **A. Yes.**

3 Q. Is that a paper record or do you have a

4 timekeeping system?

5 **A. We have a timekeeping system.**

6 Q. Is that an AlixPartners' timekeeping system? I

7 mean is it the hospital's system or is it --

8 **A. No, it's AlixPartners'.**

9 Q. Yeah. And is that the same system that Mr. Folse

10 and Ms. Roof would have to use?

11 **A. Yes.**

12 Q. And are you required to enter your time on a

13 daily basis or a weekly basis?

14 **A. Weekly.**

15 Q. What is Ms. Roof's role in the Children's

16 Hospital engagement?

17 **A. Again she provides guidance and strategy for**

18 **Mr. Herbers and myself.**

19 Q. So similar role to what Mr. Folse has?

20 **A. She -- she is -- Mr. Folse is in the same group**

21 **that I'm in, the IMS group. Ms. Roof or Rebecca, Becky**

22 **Roof, she's in the TRS group.**

23 Q. What's TRS stand for?

24 **A. Turnaround restructuring services.**

25 Q. And so is there any sort of delineation between

74

1 what Mr. Folsie does and what Ms. Roof does?
 2 **A. I believe that they have different expertise and**
 3 **each of different areas so, yes, I believe there's some**
 4 **delineation.**
 5 Q. And so what would you say is Mr. Folsie's area of
 6 expertise that he provides on this -- the Children's
 7 Hospital engagement?
 8 **A. As I explained to you the IMS group, we do**
 9 **contingency planning, we do bankruptcy reporting. That's**
 10 **the expertise that Mr. Folsie gives.**
 11 Q. And so when you say the bankruptcy reporting, is
 12 that sort of the routine in required collection of data
 13 and formatting them into the required reports for the
 14 bankruptcy court?
 15 **A. Like the monthly operating report, that's**
 16 **correct. SOFAs and schedules, statements. Yes,**
 17 **statements of financial affairs, those are all part of**
 18 **what needs to be filed with the bankruptcy court.**
 19 Q. And so the information group is responsible for
 20 sort of the assimilation and formatting of that
 21 information into the required format. Is that fair?
 22 **A. We -- we do, yes. That's -- I guess that's fair.**
 23 Q. Well, as opposed to Ms. Roof's restructuring
 24 group that's -- does that involve more sort of the overall
 25 strategic issues of trying to restructure an entity's --

75

1 **A. I believe that her expertise is there, yes.**
 2 Q. And so is there anything else that Ms. Roof is
 3 doing on the Children's Hospital engagement other than
 4 providing overall restructuring strategy?
 5 **A. Not that I'm aware of.**
 6 Q. So is -- do you therefore consult Mr. Folsie more
 7 often than Ms. Roof since you're both in the information
 8 systems group?
 9 **A. That is a good -- yes, correct assumption.**
 10 Q. Is there anything that you are doing on the
 11 hospital engagement that requires you to consult Ms. Roof
 12 directly?
 13 **A. The cash forecasts she had input in that -- that**
 14 **regards, yes.**
 15 Q. And what -- what specifically on a cash forecast
 16 did Ms. Roof have a hand in developing?
 17 **A. I believe she asked questions regarding the**
 18 **receipts and how they were built (phonetic).**
 19 Q. Was this done in collaboration with Mr. Folsie as
 20 well or did you have separate discussions with Ms. Roof?
 21 **A. In collaboration.**
 22 Q. So it was all three of you together?
 23 **A. Mark Herbers as well.**
 24 Q. And everybody got on a conference call together?
 25 **A. Yes.**

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1 Q. Got it. Do you remember any specific suggestions
 2 Ms. Roof had on the patient receipts?
 3 **A. I don't recall.**
 4 Q. Do you send Mr. Folsie or Ms. Roof the daily cash
 5 report?
 6 **A. Daily cash report? No.**
 7 Q. What reports -- what regular reports do you send
 8 to Ms. Roof or Mr. Folsie?
 9 **A. I know that I sent them information related to**
 10 **the -- any bankruptcy court filings that we've done. And**
 11 **the cash collateral -- 13-week cash collateral forecast.**
 12 Q. Do you -- do you know what AlixPartners considers
 13 to be its specialized practices?
 14 **A. Can you restate that.**
 15 Q. Yeah, sure. Do you know what AlixPartners
 16 considers to be among its specialized practices?
 17 **A. Specialized practices. So are you talking about**
 18 **our -- like the groups like IMS group, the TRS group --**
 19 Q. If you look at page 9 of this 9 of 41 -- oh --
 20 What is this? I'm sorry page 8 of 41,
 21 paragraph 26. You see in this exhibit on paragraph 26,
 22 page 8 of 41, it talks about to the extent APS requires
 23 services of its international division or personnel from
 24 its specialized practices, standard rates for that
 25 international division or specialized practice will apply.

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1 Do you see that? Do you know what is meant
 2 by specialized practice?
 3 **A. No, I do not.**
 4 Q. Have you ever in your 15 years --
 5 **A. 13.**
 6 Q. 13. Sorry. In your 13 years with AlixPartners,
 7 have you ever heard of any personnel referred to as coming
 8 from a specialized practice?
 9 **A. That could be like e-discovery, maybe someone**
 10 **that would come in in that regards, litigation support. I**
 11 **don't -- I don't know exactly what a specialized practices**
 12 **are meant here.**
 13 Q. Okay. Do you do you know whether AlixPartners
 14 has engaged any independent contractors in connection with
 15 the Children's Hospital engagement to date?
 16 **A. They have not.**
 17 Q. Do you know whether AlixPartners intends to
 18 employ any independent contractors on this engagement?
 19 **A. I do not believe so.**
 20 Q. You're not aware of any at least?
 21 **A. I'm not aware of any.**
 22 Q. Based on your interaction with Ms. Roof, do you
 23 have any estimate of how many hours a week she's working
 24 on this engagement?
 25 **A. I believe it's less than five.**

78

1 Q. And Ms. Roof's required as well to enter her time
 2 into the same system as you and Mr. Folse?
 3 **A. That's correct.**
 4 Q. Compared to the 10 or 20 other bankruptcies
 5 you've worked on previously, how complicated would you say
 6 this debtor's capital structure is?
 7 **A. Capital structure?**
 8 Q. Right.
 9 **A. Well, we don't have a capital structure. I don't**
 10 **think this one has much of a capital structure.**
 11 Q. Just -- I mean they have few creditors. Right?
 12 **A. They have a number of creditors, yes, they do.**
 13 **You got to think about all the patients that they had**
 14 **that -- that maybe do credit refunds that -- that's a**
 15 **number of patients so it's not few creditors. There's a**
 16 **good number of creditors.**
 17 Q. There is -- other than UMC, you'd agree, there's
 18 minimal secured debt. Is that fair?
 19 **A. That's fair.**
 20 Q. Are you aware of any bond debt that Children's
 21 Hospital has?
 22 **A. No.**
 23 Q. Are you aware of any shareholders that Children's
 24 Hospital has?
 25 **A. No.**

79

1 Q. And it's a not-for-profit corporation?
 2 **A. Yes.**
 3 Q. Are you aware that the debtor has sought
 4 permission to employ Miller Buckfire an investment banker
 5 in connection with this bankruptcy?
 6 **A. Yes.**
 7 Q. And you understand that's to explore a potential
 8 sale process?
 9 **A. Yes.**
 10 Q. Have you been asked to be involved with exploring
 11 a potential sale process?
 12 **A. What do you mean by being involved.**
 13 Q. I mean has -- other than being aware that it's
 14 going on, has anyone asked you to get involved in any way
 15 in the sale process?
 16 **A. No.**
 17 Q. Are you aware of whether or not Mr. Folse or
 18 Mr. Roof -- or Ms. Roof have been asked to get involved in
 19 the sale process?
 20 **A. I believe our -- our attorneys have asked us to**
 21 **be involved in that -- in that regard, yes.**
 22 Q. You say "us," is that --
 23 **A. No. Alix, no. Ones that have relationships like**
 24 **Ms. Roof.**
 25 Q. Relationships with?

80

1 **A. Potential clients.**
 2 Q. Have you ever been involved in a sale process in
 3 any of your other bankruptcies?
 4 **A. Yes.**
 5 Q. What -- what was your involvement in the sales
 6 process?
 7 **A. I really didn't have an involvement. I wasn't**
 8 **involved, but there are -- there were -- there was an**
 9 **engagement that I was on that did have a sales process.**
 10 Q. So you've worked on cases where there was a sales
 11 process, it's just your role didn't include the sales
 12 process?
 13 **A. That's correct.**
 14 Q. And when you say Ms. Roof has relationships with
 15 potential clients, does that mean potential buyers or
 16 strategic partners?
 17 **A. Yes.**
 18 Q. Have you had -- have you been asked to identify
 19 any potential buyers or strategic partners?
 20 **A. No.**
 21 Q. Do you know what role that AlixPartners may have
 22 in the sales process?
 23 **A. Can you restate that.**
 24 Q. Yeah, sure. I believe you're aware generally
 25 that AlixPartners has asked to become involved in the

81

1 sales process. Is that right?
 2 **A. Right.**
 3 Q. Do you know what role AlixPartners has been asked
 4 to take in that sales process?
 5 **A. I do not know.**
 6 Q. Is there anyone else at AlixPartners that's
 7 working on this engagement besides you, Mr. Herbers, Mr.
 8 Folse and Ms. Roof?
 9 **A. Yes.**
 10 Q. Okay. And who are -- who else besides the four
 11 of you.
 12 **A. So I -- I involved a -- an associate within the**
 13 **IMS group to provide some assistance in preparing or**
 14 **gathering information related to executory contracts. Her**
 15 **name's Barbara Ferguson.**
 16 Q. Is Ms. Ferguson in Dallas?
 17 **A. She is.**
 18 Q. And have you asked her to do anything besides
 19 what you just described?
 20 **A. No, that's it.**
 21 Q. And is that an ongoing role she'll have or was
 22 that sort of a one-time project.
 23 **A. I believe it's a one-time project.**
 24 Q. Have you -- how long do you expect to take her to
 25 do what you've asked of --

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1 **A. She's already done it.**

2 Q. Do you have any idea how long it took her?

3 **A. Maybe a week.**

4 Q. Full time?

5 **A. I believe so. I haven't seen her time.**

6 Q. Have you involved themselves from AlixPartners

7 beside Mr. Ferguson.

8 **A. We have.**

9 Q. Who is?

10 **A. Mark Armstrong.**

11 Q. What does Mr. Armstrong do?

12 **A. He's very similar to Mr. Herbers. He's a**

13 **director in a FAS group. He has health care experience**

14 **and he's been asked to provide some analysis.**

15 Q. Is that by -- has he been asked you or been asked

16 by Mr. Herbers?

17 **A. He's been asked by Mr. Herbers.**

18 Q. Is Mr. Armstrong -- and FAS is that like

19 financial accounting standards group?

20 **A. Financial advisory services.**

21 Q. Advisory services. Okay. And is he in Dallas?

22 **A. No.**

23 Q. Do you know where he is?

24 **A. No.**

25 Q. That's all right. Do you interact with Mr.

83

1 Armstrong or is it primarily Mr. Herbers?

2 **A. Primarily Mr. Herbers, but I have interacted with**

3 **him.**

4 Q. And do you believe that Mr. Armstrong is going to

5 have a continuing role on this engagement as long as it

6 goes forward?

7 **A. I -- I did not know.**

8 Q. Do you know if the FAS group is a specialized

9 practice? In your opinion is it?

10 **A. I believe that we're not going to be charging for**

11 **Mr. Armstrong's work that he's currently doing, if that's**

12 **the question.**

13 Q. How is it you believe that you're not charging

14 for Mr. Armstrong's work?

15 **A. Based upon conversations with Mr. Herbers.**

16 Q. What about Ms. Ferguson, did he charge for her

17 time?

18 **A. I believe that she will not be charged that will**

19 **be part of the flat-fee engagement.**

20 Q. Your understanding is that Mr. Armstrong and Ms.

21 Ferguson's time will be considered part of flat-fee

22 arrangement?

23 **A. That's what I understand.**

24 Q. What -- anybody else besides Ms. Ferguson and

25 Mr. Armstrong, other than the four we've already talked

84

1 about being you, Mr. Herbers, Mr. Folse and Ms. Roof?

2 **A. No, that's -- not that I'm aware of.**

3 MR. DRAKE: Want to take a break?

4 MR. SPROUSE: Sure.

5 MR. DRAKE: Off the record.

6 (A break taken.)

7 Q. (BY MR. DRAKE) Mr. Adams, we're back on the

8 record after a lunch break. Are you familiar with the

9 motion debtors filed earlier this week asking the court to

10 extend the period of exclusivity to file its plan of

11 reorganization?

12 **A. I'm aware of it.**

13 Q. Is that something you reviewed prior to it being

14 filed?

15 **A. No, I did not.**

16 Q. Are you aware that one of the bases that the

17 debtor asserts is a reason that exclusivity should be

18 extended relates to financial losses of UMC? Are you

19 familiar with that?

20 **A. No, I'm not.**

21 Q. Were you ever asked to calculate the losses or

22 look at the losses -- at the financial losses of UMC for

23 the 2014 year?

24 **A. I did not look at that.**

25 Q. Have you ever tried to do any type of calculation

85

1 of how much losses if any of UMCA are attributable to the

2 Children's Hospital?

3 **A. I have not been involved it that analysis.**

4 Q. Do you know who may have?

5 **A. I believe Mark Herbers has.**

6 Q. Okay. Now, we -- we looked at the Exhibit 5

7 which is the application to employ AlixPartners and the

8 filing includes exhibit C, I believe. Yeah, exhibit C

9 which is an engagement letter between AP Services and

10 El Paso Children's Hospital?

11 **A. Yes.**

12 Q. Do you have that in front of you?

13 **A. Yes.**

14 Q. Have you ever reviewed this engagement letter

15 before?

16 **A. I have read the engagement letter.**

17 Q. Did you have any involvement in preparing this

18 engagement letter? This was dated May 14, 2014. Correct?

19 **A. Yes, that's day, May 14, 2015.**

20 Q. And so you're actively involved by May 14, 2014,

21 with the Children's Hospital engagement. Correct?

22 **A. Yeah. I believe that this is a first amendment**

23 **to the original agreement.**

24 Q. Have you seen the original agreement?

25 **A. I have, yes.**

86

1 Q. Okay. And I don't know that I have. Can you
 2 tell me what you remember about the terms of the original
 3 agreement.
 4 A. I believe that they were pretty much the same as
 5 these. I don't recall exactly what the changes are. I
 6 know that one of the changes was related to me being full
 7 time rather than part time. And that the fee -- monthly
 8 fee is now one -- \$108,000 per month.
 9 Q. It reflects in paragraph 1 of this May engagement
 10 letter that the original engagement letter between
 11 AlixPartners and the debtor -- or excuse me, El Paso
 12 Children's Hospital was dated February 18, 2015. Do you
 13 see that in paragraph 1?
 14 A. Yes, I do.
 15 Q. Does that sound about right?
 16 A. Yes, it does.
 17 Q. And you got involved around that time. Is that
 18 right?
 19 A. Right.
 20 Q. And I've been saying AlixPartners. This says AP
 21 Services, LLC. Is that a part of or related to
 22 AlixPartners?
 23 A. Yes, it is.
 24 Q. And what's the relationship with AP Services and
 25 AlixPartners?

87

1 A. I believe -- I believe it's a subsidiary.
 2 Q. Do you know -- you said that one of the things
 3 you think changed is that this letter dated May 14, 2015,
 4 changed the fee to \$180,000 a month. Is that right?
 5 A. Yes.
 6 Q. Do you know what the previous terms were?
 7 A. I believe that it was 125-.
 8 Q. Do you know whether in the paragraph 2 of this
 9 May engagement letter it reflects the fact that
 10 AlixPartners understands that the Children's Hospital
 11 plans to file for Chapter 11. Do you see that in
 12 paragraph 2.
 13 A. Yes, assist in preparation required for Chapter
 14 11 proceeding in the event -- event covenant relief is not
 15 obtained through the amendment process.
 16 Q. Yeah, that's second bullet there. Right?
 17 A. Yes.
 18 Q. The paragraph above the bulleted list says that
 19 AlixPartners understands that Children's Hospital is going
 20 to file. Right?
 21 A. It does say that, yes.
 22 Q. Okay. And that then it lists in a bulleted
 23 format some of the roles that AlixPartners will take in
 24 connection with that bankruptcy. Correct?
 25 A. That's correct.

88

1 Q. Do you know if the original engagement from
 2 February 18, 2015, contemplated a bankruptcy filing or
 3 more of like a just a turnaround strategy?
 4 A. I believe that there was contingency plans put in
 5 place. I don't know exactly what the actual engagement
 6 letter said.
 7 Q. And what do you mean by contingency plans?
 8 A. That the preparation for creditor -- the creditor
 9 matrix, getting of the first-day orders prepared, those
 10 kind of things.
 11 Q. Sure. Contingency plan in the event the company
 12 decides to file --
 13 A. Yes.
 14 Q. Do you know whether AlixPartners ever prepared
 15 sort of a strategic plan for turning the company around
 16 outside of the bankruptcy proceeding?
 17 A. I do not know.
 18 Q. You've never seen it if they have?
 19 A. I have not seen it.
 20 Q. Continuing on. There's a schedule to the exhibit
 21 C which is the May 14, 2015, letter. Do you see schedule
 22 1, fees and expenses? It's page 4 of 5 on exhibit C?
 23 A. Okay.
 24 Q. Okay. And paragraph 1, Fees, that reflects the
 25 fact that there's going to \$180,000 flat fee. Right?

89

1 A. Yes.
 2 Q. And then that first sentence also says that it's
 3 subject to the scope, assumptions and personnel
 4 requirements set fourth on exhibit A herein. Right?
 5 A. Yes.
 6 Q. And that -- that exhibit A is on the preceding
 7 page which is page 3 of 5. Is that right?
 8 A. Yes.
 9 Q. And that lists Mr. Herbers as temporary staff of
 10 the debtor. And then it lists you, Mr. Folse and Ms. Roof
 11 as additional temporary staff. Right?
 12 A. Yes.
 13 Q. And this reflects that you're going to be full
 14 time.
 15 A. Yes.
 16 Q. And so then looking back on schedule 1, the
 17 second paragraph of the fee paragraph in the amendment
 18 number 1 says that in addition to the above monthly rate,
 19 which is 180,000 a month, AlixPartners' fees for any
 20 temporary staff full or part time in addition to those
 21 individuals set for on exhibit A or any time spent by
 22 Barry Folse or Becky Roof above and beyond the time noted
 23 on exhibit A will be invoiced at APS's hourly rates which
 24 are and then it has a table. Do you see that?
 25 A. Yes.

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1 Q. So is it your understanding that if Mr. Folsie or
 2 Ms. Roof works more than five hours a week that their time
 3 will be paid according to the schedule in that table.
 4 **A. I believe we have the ability to bill above**
 5 **what's in that schedule.**
 6 Q. And do you know whether AlixPartners intends to
 7 bill what's above -- for time above five hours.
 8 **A. I do not know.**
 9 Q. And then it also says that any temporary staff
 10 full or part time in addition to the individuals on
 11 exhibit A will be -- will be invoiced according to the
 12 hourly rates on that table. Is that right?
 13 **A. Yes, that's what it says.**
 14 Q. And so according just to this letter at lease if
 15 someone from AlixPartners, other than Mr. Herbers, Adams,
 16 Folsie or Ms. Roof that works on the case that AlixPartners
 17 can bill the debtor according to this table on page 4 of
 18 5. Is that right?
 19 **A. That's what it says we have an ability to do**
 20 **that, yes.**
 21 Q. And I believe your testimony though was at least
 22 for Mr. Armstrong and Ms. Ferguson that AlexPartners
 23 doesn't intend to bill for their time. Is that right?
 24 **A. That's correct.**
 25 Q. And these rates -- do you know, looking at these

91

1 rates on this chart on page 4 of 5 is that their standard
 2 what I would say full rate that AlexPartners personnel
 3 charges?
 4 **A. That's correct.**
 5 Q. And then there's sometimes, you testified earlier
 6 that on nonbankruptcy matters you may discount the rates.
 7 Is that right?
 8 **A. I believe so.**
 9 Q. But to the best of your knowledge, these are the
 10 full standard rates?
 11 **A. These are full rates.**
 12 Q. Okay. Now, looking back at the first -- first
 13 paragraph of the letter, page 1 of 5 for exhibit C, it --
 14 it says this letter represents the first addendum. And
 15 then it defines the letter as such to the February 18
 16 engagement letter. Is that right?
 17 **A. Yes, it does.**
 18 Q. And then the next sentence says: Unless
 19 otherwise modified herein, the terms and conditions of the
 20 Engagement Letter --
 21 And that refers Engagement Letter to the
 22 February 18 letter. Right?
 23 **A. Yes, it does.**
 24 Q. And that: Unless modified specifically in this
 25 addendum the terms of the February 18 Engagement Letter

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1 remain in full force and effect. Right?
 2 **A. Yes.**
 3 Q. Okay. So to be able to understand all of the
 4 terms and conditions of the engagement between El Paso
 5 Children's Hospital and AlixPartners, you need to look not
 6 just at this addendum but also the original engagement
 7 letter. Right?
 8 **A. That would be my understanding.**
 9 Q. And you can't actually evaluate all of the terms
 10 of the engagement without you February letter. Is that
 11 right?
 12 **A. That would be my understanding.**
 13 Q. Now, I've forgotten, did you review this motion
 14 before it was filed with the court?
 15 **A. I believe I did, yes.**
 16 Q. Did -- did you -- did you ask anyone why the
 17 February engagement letter isn't attached as an exhibit to
 18 the motion?
 19 **A. I did not.**
 20 Q. Would you agree with me for parties to be able to
 21 evaluate whether or not the terms of proposed employment
 22 of AlixPartners is appropriate that you would need to see
 23 the February engagement letter?
 24 **A. Based upon that paragraph that you read, I would**
 25 **say yes.**

93

1 Q. If we could look back at the cash collateral --
 2 or excuse me. Strike that.
 3 Exhibit 2 to your deposition is the -- is
 4 the weekly forecast model you created. Right?
 5 **A. Yes.**
 6 Q. And one of the things I failed to ask you about
 7 is we talked about the fact that on the bottom half of the
 8 page it has net cash flow numbers for each week. Right?
 9 **A. Yes.**
 10 Q. Right about the middle?
 11 **A. Yes.**
 12 Q. And that's based on the difference between the
 13 total receipts and then the total disbursements, that gets
 14 you the operating cash flow. Right?
 15 **A. Yes.**
 16 Q. Then we talked about the fact there are these
 17 nonoperating cash flows which are costs associated with
 18 the bankruptcy, right, for professional fees?
 19 **A. Oh, yeah, yes.**
 20 Q. And that gets you a net cash flow number. Right?
 21 **A. Yes.**
 22 Q. And that's right about the middle of the page.
 23 At the very bottom of page, though, we have
 24 an available cash number which is different from your --
 25 your net cash flow number, obviously. Right.

94

1 **A. Obviously.**

2 Q. Yeah. And what the available cash shows is just

3 that, right, how much cash is available to the debtor in

4 it's various accounts. Is that right?

5 **A. That's correct.**

6 Q. And at least according to Exhibit 2 for the week

7 of June 27, 2015, the available cash is 10,905,000. Is

8 that right?

9 **A. Yes.**

10 Q. And so if we look at that week, it looks like

11 there's -- it says cash balance book excluding STIMVACCT.

12 Do you see that?

13 **A. Short-term investment account.**

14 Q. Perfect. So that is the short-term investment

15 account. Is that right?

16 **A. Yes.**

17 Q. So that line shows you what the beginning cash

18 balance was, not including the short-term investment

19 account. Is that right?

20 **A. Yes.**

21 Q. And it's three -- a little more than 3.4 million.

22 **A. Yes.**

23 Q. And then it subtracts the net cash flow for that

24 week which was negative \$630,000. Right?

25 **A. Yes.**

95

1 Q. And it shows you the ending cash balance not

2 including the short-term investment account is

3 2.785 million. Did I get that right?

4 **A. Yes.**

5 Q. But then you also have a short-term investment

6 account balance of \$81.12 million. Correct?

7 **A. 8,120,000.**

8 Q. Yes. Thank you. And so if you add the

9 short-term investment account to the other cash balance,

10 you have a total available cash number of 10,905,000. Is

11 that right?

12 **A. Yes.**

13 Q. Okay. What is the short-term investment account?

14 **A. That is the money that we have in Texas Capital**

15 **Bank that is collateralized.**

16 Q. Okay. And what do you mean by that?

17 **A. The investments that we have are collateraled**

18 **back by the government.**

19 Q. Okay. And where does the money come from that

20 goes into that short-term investment account?

21 **A. Where did it come from?**

22 Q. Yes, sir.

23 **A. It came from the receipts that El Paso Children**

24 **received.**

25 Q. Okay. That 8 million -- roughly \$8 million

96

1 arrest built up from receipts that the Children's Hospital

2 received. Is that right?

3 **A. Yes.**

4 Q. And then over the course of your 26-week

5 projection, the cash balance in that short-term investment

6 account gradually goes down. Is that right?

7 **A. Yes, we need to use it.**

8 Q. Correct. And you can see where money is

9 transferred from the short-term investment account to

10 other accounts, you've got that reflected with blue font

11 under the line net investment account transfer. Is that

12 right?

13 **A. Yes.**

14 Q. Okay. During the 26 weeks, you're not building

15 up the short-term investment account. In fact you're

16 taking from it. Right?

17 **A. Yes.**

18 Q. And eventually you use it all?

19 **A. Yes.**

20 Q. Okay. Do you know, sir, how that \$8 million was

21 built up? It was it was done, as you said, through

22 patient receipts. Correct?

23 **A. It was done there receipts, that's correct.**

24 Q. Was the -- was the -- you know, the financial

25 history of the hospital since it's opened in 2012 has been

97

1 that it's been operating at a loss. Is that right?

2 **A. I believe so, yes.**

3 Q. And so is it true that the way that that

4 \$8 million was built up through receipts was by not paying

5 certain creditors?

6 **A. That has a factor into it, yes.**

7 Q. And if you'll look at Exhibit 3 to your

8 deposition which is your summary of receivables and

9 payback, page 3 of that was the IT lease. Do you remember

10 when we looked at that page?

11 **A. Yes.**

12 Q. Okay. And is it -- is it accurate that according

13 to this document from February of 2012 through April of

14 2015, there were no payments made on the IT lease

15 according to this document?

16 **A. What was the dates again?**

17 Q. February of 2012 through April 2015.

18 **A. Yeah, I don't see any payments in those columns.**

19 Q. Are you aware of any payments made a IT lease

20 during that time period?

21 **A. I'm not aware of any.**

22 Q. And then on the next page, that's the medical

23 equipment lease. Do you remember this page?

24 **A. Yes.**

25 Q. Okay. And same true that there's no payments

98

1 reflected on from February 12 -- February of 2012 to May
 2 of 2014.

3 **A. Right, I don't see any payments listed.**

4 Q. And if we look at the net amount due for the
 5 medical equipment lease, you can see that that amount --
 6 that amount is -- is increasing each month with the
 7 exception of the June to September 2013 period. Is that
 8 right?

9 **A. Yeah, I see those credits. I don't understand
 10 those credits.**

11 Q. Yeah. But absent those credits, during June,
 12 July, August and September of 2013, the amount's going up
 13 each month to reflect that there hasn't been any payment
 14 made. Is that right.

15 **A. It shows that there's no payment made. But I
 16 don't understand the credits.**

17 Q. And then if you flap two pages further to the
 18 ASA/CSA page we looked at earlier, you can see for the --
 19 the ASA and CSA, there are some months where this document
 20 reflect payments are made. Right?

21 **A. Yes.**

22 Q. For instance the February of '13, the document
 23 show that a \$26,250 payment was made. Right?

24 **A. Yes.**

25 Q. And then there's other payments described in the

99

1 document that for 2013 total \$247,639.38.

2 **A. Is there a question?**

3 Q. Is that right?

4 **A. I don't -- I don't see that -- oh, for the total?**

5 Q. Yeah, for a total for 2014?

6 **A. Yes.**

7 Q. And then the total for 2014 according to this
 8 document is \$941,047.80. Is that right?

9 **A. Yes.**

10 Q. But during that same time, by the end of
 11 September 2014, this shows that the amounts due is in
 12 excess of \$43 million. Is that right?

13 **A. Yes, that's what the report shows.**

14 Q. Okay. So after -- after looking at these
 15 reports, is it then fair to say that one of the ways that
 16 the hospital was able to -- to build up this \$8 million in
 17 its short-term investment account was by not paying some
 18 of its creditors.

19 MR. SPROUSE: I'm going to object, calls for
 20 speculation.

21 Q. (BY MR. DRAKE) You can answer.

22 **A. I believe that there's a lot of factors that are
 23 part of this, yes.**

24 Q. And what are the other factors you believe that
 25 allowed the Children's Hospital to build up an \$8 million

100

1 balance in its short-term investment account while
 2 maintaining a negative operating cash flow?

3 **A. They did involve AlixPartners to provide some
 4 structure and guidance and the hired us to come on board.
 5 There was some additional receipts that were received.**

6 Q. Are you aware of any month since the hospital
 7 opened where there was -- or strike that.

8 Are you aware of any year where the hospital
 9 was profitable?

10 **A. In a year?**

11 Q. Any fiscal year 2012 or --

12 **A. I do not believe that they were profitable in any
 13 of those years reported.**

14 Q. Have you reviewed the audited financial
 15 statement?

16 **A. I did review it. I've seen it. Yes, I've read
 17 it.**

18 Q. So other than not paying creditors, are you aware
 19 of any way that the hospital was able to build up an
 20 \$8 million balance in its investment account?

21 **A. I believe that that's part of it, yes.**

22 Q. And so we've agreed that one of the ways it was
 23 able to build up that balance is not paying creditors.
 24 Are you aware of anything other than just merely not
 25 paying creditors those moneys which instead stayed in;

101

1 their cash accounts, if there's anything else that
 2 attributed to the build up of \$8 million?

3 **A. Like I said before there were receipts -- they
 4 received other receipts that came in that helped in
 5 building the reserve.**

6 Q. You mean other -- other receipts meaning not
 7 patient-related receipts?

8 **A. Yes.**

9 Q. Okay. And what were those?

10 **A. DSH some DSH funds came in 4.1 million.**

11 Q. Do you know when that came in?

12 **A. At the time of the filing.**

13 Q. Was that before or after the filing? Do you know
 14 if that was --

15 **A. We received 1.6 million that Monday before the
 16 filing and the remaining amount 2.5 after the filing.**

17 Q. Okay. Now, you mentioned that one of the things
 18 was that AlixPartners was engaged to help with
 19 restructuring of the debtor. That was in February of this
 20 year. Right?

21 **A. I believe the initial engagement was to provide
 22 El Paso Children's with -- with some analysis that needed
 23 to be done and I don't know if it was -- if it was a
 24 engagement for restructuring.**

25 Q. Have you done any calculation of what the

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1 financial impact of AlixPartners restructuring services
 2 have been in the months since it was engaged?
 3 **A. Other than raise -- other than when you first --**
 4 **when I first stepped through the doors, the cash balance**
 5 **was about \$2.9 million. Today we're looking at**
 6 **\$10.9 million. There's an impact.**
 7 Q. And so say that again. It was how much when you
 8 walked in the door?
 9 **A. At the end of February, it was about**
 10 **\$2.9 million.**
 11 Q. And it's 10.9?
 12 **A. Yes.**
 13 Q. And so there's about \$8 million difference. Is
 14 that right?
 15 **A. Yes.**
 16 Q. And I believe you said they received -- was it \$1
 17 million right before the filing?
 18 **A. 1.6.**
 19 Q. Okay. And then the postpetition DSH payment was
 20 how much?
 21 **A. 2.5.**
 22 Q. So that's the \$4.1 million difference. Right?
 23 **A. Yes.**
 24 Q. Okay. And so where did the other \$4 million come
 25 from? Would that just from not paying certain invoices?

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1 **A. We received some other grant money on the phase 1**
 2 **of the -- I'll get it wrong. Phase -- electronic medical**
 3 **records. I can't remember the name, but we received some**
 4 **money regarding that as well.**
 5 Q. Do you know how much that is?
 6 **A. I believe it was about 1.6.**
 7 Q. When was that received?
 8 **A. First part of May, I believe. Maybe end of**
 9 **April.**
 10 **There was also some money from the --**
 11 **another grant that came in for \$3,002,000. That was**
 12 **related to the GM -- graduate medical grant, something**
 13 **like that.**
 14 Q. The GME grant?
 15 **A. Yes.**
 16 Q. Thank you.
 17 **A. Sure.**
 18 Q. About 300,000 -- 300,200?
 19 **A. Yes.**
 20 Q. And then the 1.6 that was the electronic records
 21 at that EHR grant?
 22 **A. EHR, yep.**
 23 Q. Okay. And that was in May?
 24 **A. Yes.**
 25 Q. So if we look back at Exhibit 3, which is the

104

1 summary of the hospital receivables and associated
 2 **payback, the third page is IT lease page that we've talked**
 3 **about. Okay. So tell me at the end of January of 2015,**
 4 **according to this, the amounts owed on the IT lease is a**
 5 **little more than \$6.5 million. Is that correct.**
 6 **A. At the end of January of 2015?**
 7 Q. Yeah.
 8 **A. I show --**
 9 Q. Oh, I guess I got sideways there. A little over
 10 6.3 million?
 11 **A. Yes, 6.3 million is what I show.**
 12 Q. So 6,376,084.58 to be precise. Is that right?
 13 **A. Yes.**
 14 Q. Okay. So by the end of May that -- that is up to
 15 almost 7.1 million. Is that right?
 16 **A. I believe it's less than that because this**
 17 **doesn't reflect a payment that was made for a portion of**
 18 **May's billing.**
 19 Q. Okay. And how much was that payment?
 20 **A. We made a payment to UMC for fees service, the**
 21 **IT -- IT lease, the medical equipment and the ACH pro---**
 22 **pro rata 13 of 31 days for the month of May.**
 23 Q. Okay. So probably less than half of what's due.
 24 **A. Yes. I think -- I think the amount that we pay**
 25 **was like 500 -- a little over \$500,000.**

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1 Q. There it is 501.
 2 **A. It's got to be 501.**
 3 Q. Okay. So -- and a portion of that 501 you
 4 believe went to the IT lease?
 5 **A. Yes. Yes.**
 6 Q. So then the next page is the medical equipment
 7 lease and the amount outstanding by end of January 2015
 8 was \$3,934,777.12. Correct?
 9 **A. Yep.**
 10 Q. Okay. And by the end of May that is up to
 11 4,391,298.24. Correct? According to this document.
 12 **A. According to this document, right. But we did**
 13 **make a payment from that.**
 14 Q. Sure. This document doesn't show the \$501,000
 15 payment, a portion of which you say went towards the
 16 medical services.
 17 **A. Yeah.**
 18 Q. And then, as we've discussed, there was no
 19 payments made on facility lease agreement. Correct?
 20 **A. Yes, that's correct.**
 21 Q. And then the next page a CSA sheet and according
 22 to this at the end of January of '15, it's just a little
 23 under \$49 million that is owed. Correct?
 24 **A. That's correct.**
 25 Q. And not including the \$501,000 payment.

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1 According to this document by end of May, the amount owed
 2 is \$53,825,180.53. Is that right?

3 **A. According to this document, yes.**

4 Q. Okay. So if we just sort of do a rough estimate,
 5 not including \$501,000 payment, it looks like the -- the
 6 amounts owed on the ASA and CSA went up by about \$5
 7 million from the end of January to end of May. Is that
 8 right?

9 **A. Yeah, the billings are -- monthly billings are**
 10 **900 and some odd thousand per month and then you have the**
 11 **monthly interest that they're accumulating as well.**

12 Q. So a little under \$5 million during that time
 13 period.

14 **A. From January through May? Yes. Five months'**
 15 **worth?**

16 Q. Right.

17 **A. I believe it would be more than \$5 million.**

18 Q. So more than 5 million.

19 And then on the medical equipment lease that
 20 same time period, end of January to end of May, how much
 21 roughly did the amount owed increase?

22 **A. Probably a little over \$500,000.**

23 Q. And then what about on the IT lease, how much did
 24 the amount owed go up from the end of January 2015 to the
 25 end of May 2015?

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1 **A. Close to \$1 million.**

2 Q. Okay. So we have close to \$1 million, a little
 3 over half a million dollars and probably over \$5 million.
 4 So something over six and a half million dollars it went
 5 up during at that time period and there was a \$501,000
 6 payment. Is that right?

7 **A. Yes.**

8 Q. Okay. So including any payments made during that
 9 time period, the amounts owed to UMC increased somewhere
 10 around \$6 million.

11 MR. SPROUSE: I'm going to object, calls for
 12 speculation.

13 Q. (BY MR. DRAKE) Based on everything we've just
 14 reviewed?

15 **A. Based on what we've reviewed, you are connect.**

16 Q. Ask that does not include the facility lease?

17 **A. That's correct.**

18 (Exhibit 6 marked)

19 Q. (BY MR. DRAKE) Mr. Adams, I'm handing you what's
 20 been mark Exhibit 6 to your deposition. Do you recognize
 21 this document?

22 **A. Yes.**

23 Q. Could you identify it, please.

24 **A. This is a weekly cash forecast for the week**
 25 **ending July 10th, 2015.**

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1 Q. Now, is this the document you were discussing
 2 earlier when you indicated that you had prepared a more
 3 recent forecast than the one ending June 26?

4 **A. That's correct.**

5 Q. So if we were to compare the 13-week totals for
 6 your newest model for week of July 10 compared to the
 7 model for week of June 26, it appears to me that you're --
 8 you're total receipts in the latest model, which is
 9 Exhibit 6, are down by \$300,000?

10 **A. So what week was that again?**

11 Q. Yeah, just the 13-week totals?

12 **A. Oh, 13-week totals. So this 13 week on July the**
 13 **10th shows 19,478. Right? And this -- the first one we**
 14 **were talking about earlier which is Exhibit 2 is 19**
 15 **million 757- so so I see a difference of -- of, yeah,**
 16 **\$300,000.**

17 Q. Okay. And that's because the -- the actual -- or
 18 strike that.

19 All right. And then, if we look at the
 20 disbursements, the total disbursements in the June 26
 21 report for the 13 weeks was 25,119,000. Is that right?

22 **A. Yes.**

23 Q. And for in the latest model, which is marked as
 24 Exhibit 6, the 13-week total for disbursements is about
 25 24,502,000. Is that right?

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1 **A. Yes.**

2 Q. And so that's where you had indicated that there
 3 were some favorable variances on disbursement side. Is
 4 that right?

5 **A. Yeah, this forecast it's difficult to compare**
 6 **like that. I think what the favorable variance that you**
 7 **can see is if you can compare that the actual week on 7/10**
 8 **shows \$10.9 million of available cash.**

9 Q. Uh-huh.

10 **A. And in Exhibit 2, that same week was \$10.3**
 11 **million so there's a \$600,000 increase in available cash**
 12 **between the two weeks -- between the two reports.**

13 (Exhibit 7 marked)

14 Q. (BY MR. DRAKE) Mr. Adams, I'm handing you
 15 Exhibit 7. Can you identify that, please.

16 **A. Yes, this is the weekly cash variance report for**
 17 **July the 10th, 2015.**

18 Q. And so if -- if we look at this report and, for
 19 instance, we look at week 6, which is the week of June 26,
 20 2015. Right?

21 **A. Right.**

22 Q. And this is the actual numbers that the hospital
 23 experienced for that week. Correct?

24 **A. This is the variance report.**

25 Q. Right. But when it says "actual" it -- is what

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1 that means is is that it's the difference between what was
 2 forecast and what actually happened?
 3 **A. That's correct.**
 4 Q. Okay. And that's what's called a variance.
 5 **A. Right.**
 6 Q. So where there's a negative number marked by a
 7 parentheses, does that mean that the actual number was
 8 lower than with what's forecast?
 9 **A. Unfavorable is in brackets.**
 10 Q. And by unfavorable -- just so we make sure we're
 11 on the same page. Unfavorable means the actual result was
 12 worse than what was forecast.
 13 **A. That's correct.**
 14 Q. And on the flip side of that where you see a
 15 positive number that means what actually happened was
 16 better than what was forecast.
 17 **A. Better, yes.**
 18 Q. And so when we're talking about receipts, better
 19 or favorable means you received more money than what you
 20 expected.
 21 **A. Yeah, favorable is a positive number. Negative**
 22 **is a negative number.**
 23 Q. Right, but for receipts on -- as opposed
 24 disbursements, if you see a positive number on receipts
 25 that means you collected more in actuality than what you

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1 forecast?
 2 **A. That's correct.**
 3 Q. But on disbursements a favorable variance means
 4 you spent less than what you forecasted. Is that right?
 5 **A. Which -- now, are we talking about receipts or**
 6 **are we talking about disbursements?**
 7 Q. Disbursements. So disbursements is a little
 8 different. A favorable or a positive number means you
 9 actually paid out less in actuality than what you
 10 forecast.
 11 **A. That's correct.**
 12 Q. Okay. And so if we look at the favorable
 13 variances on the disbursement side of things, it looks to
 14 me that on all of the weeks where we have actual data,
 15 there's a favorable variance for the other disbursement
 16 line. Is that true?
 17 **A. Yes.**
 18 Q. Have you been able to figure out why it is that
 19 there's this repeating favorable variance for other
 20 disbursements?
 21 **A. When I put the original cash collateral together,**
 22 **I anticipated that they'll be some cash demands up front**
 23 **to pay some prepayments based upon losing the ability to**
 24 **use terms with some -- some of the creditors and we were**
 25 **able to negotiate with all lot of these creditors to**

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1 **continue to honor and provide us terms going forward.**
 2 **And, therefore, we weren't able to dip into our reserves**
 3 **related to the cash that I had originally forecasted.**
 4 Q. So is it fair to say that some of the other
 5 disbursements that you originally anticipated having to
 6 make, you just haven't had to make them?
 7 **A. Yeah, because -- because creditors extended us --**
 8 **continue to extend us credit.**
 9 Q. Okay. So is it accurate to say that -- or strike
 10 that.
 11 So it's not the case that the other
 12 disbursements, the variance has been favorable because you
 13 just haven't either been billed yet or you're late paying
 14 them. The fact is you just don't expect to ever have to
 15 make these disbursements.
 16 **A. There are some timing variances and some**
 17 **permanent variances.**
 18 Q. Have you done an analysis of what percentages of
 19 timing variance versus a permanent variance?
 20 **A. I reviewed the actual disbursements to the**
 21 **forecast and there are some -- I don't know -- I don't**
 22 **know what percentage.**
 23 Q. Now, if you'll look out on this variance report,
 24 I'll see in future weeks 10, 11, 12 and 13, I do note some
 25 unfavorable variances on other disbursements. Can you

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1 explain those?
 2 **A. Yeah, so a lot of these are if you're looking at**
 3 **the disbursements for weeks 10 through 13, the significant**
 4 **disbursement difference or variance is in week 11 for**
 5 **\$292,000, that's related to the med assets invoice that**
 6 **we'll need to pay. And that originally was forecasted in**
 7 **week 9 and so you see a positive forecast in week 9 for**
 8 **disbursements of 3874. So I originally estimated -- it's**
 9 **just a timing difference.**
 10 Q. Sure. So is it accurate that the variances for
 11 the forecasted weeks in the future, that's obviously not
 12 what the actual variance is. That's just what you're now
 13 predicting --
 14 **A. That's what I'm projecting, yes.**
 15 Q. And so do you know in week 3 why there was the
 16 \$459,000 favorable variance on other disbursements?
 17 **A. Again, I anticipated certain creditors to ask for**
 18 **cash in debt. I thought med assets would come and say,**
 19 **you know, "I need to get paid in advance." And their**
 20 **monthly billing is close to \$300,000 so I was anticipating**
 21 **that to happened. And it didn't.**
 22 Q. And so that anticipated cash in advance, that's
 23 again just to make sure we're on the same page, that's for
 24 services or goods the hospital is purchasing and you
 25 expected because of the bankruptcy some suppliers or

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1 service providers may want of the money upfront?

2 **A. That's correct.**

3 Q. And so what's actually happened is you were able

4 to negotiate where you didn't have to make the upfront

5 payment. Is that right?

6 **A. That's correct.**

7 Q. But if you still buy those services or goods,

8 you're going to have to make the payment. It may just be

9 on normal terms. Is that fair?

10 **A. That's fair.**

11 Q. So disbursements are still going to be made, it's

12 just they're going to be made at a later time?

13 **A. Yeah, this money that was identified was more**

14 **like a deposit. Right? So we anticipated paying them on**

15 **normal terms.**

16 Q. Right.

17 MR. DRAKE: Can we go off the record.

18 Q. (BY MR. DRAKE) Mr. Adams, just -- I asked -- I

19 think I asked about whether you were aware of any sort of

20 strategic plan that was developed by any AlixPartners or

21 the filing of the bankruptcy and you said you were not

22 aware. Is that correct?

23 **A. I was not aware.**

24 Q. Are you aware of whether anyone in AlixPartners

25 has prepared any sort of strategic turnaround plan since

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1 the bankruptcy has been filed?

2 **A. I'm not aware.**

3 Q. And you haven't been asked to assist in that

4 obviously if you're not aware of it.

5 **A. Right.**

6 Q. Did you or have you seen UMC's motion for this

7 rule 2004 exam?

8 **A. I believe I have read it, yes.**

9 Q. And were you -- just to sort of close of loop

10 from this is morning. You -- you have appeared as

11 representative of the debtor's financial representative --

12 excuse me. Strike that.

13 You've appeared today as AlixPartners'

14 representative in connection with that 2004 motion.

15 Correct?

16 **A. Yes.**

17 MR. DRAKE: Pass the witness.

18 MR. SPROUSE: I reserve my questions for

19 trial. Thank you.

20 (Examination concluded at 2:06 p.m.)

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1 CERTIFICATE

2 THE STATE OF TEXAS)

3)

4 COUNTY OF EL PASO)

5

6 I, Ruth Aguilar, a Certified Shorthand Reporter

7 in and for the State of Texas, do hereby certify that this

8 transcript is a true record of the testimony given in said

9 proceedings, and that said transcription is done to the

10 best of my ability.

11

12 Given under my hand and seal of office on this

13 18th day of July, 2015.

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Ruth Aguilar, Texas CSR 7450
Firm Registration No. 734
420 E. San Antonio, 2nd Floor
El Paso, Texas 79901
My Commission Expires: 12/31/16

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1 CORRECTION SHEET

2 PAGE	LINE	CORRECTION	REASON
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1 I, RAYMOND ADAMS, have read the foregoing
2 deposition and hereby affix my signature that same is true
3 and correct, except as noted above.

4
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6

RAYMOND ADAMS

7 The State of Texas)
8 County of El Paso)

9
10 Before me, _____, on this day
11 personally appeared RAYMOND ADAMS, known to me (or proved
12 to me under oath or through _____) to be the
13 person whose name is subscribed to the foregoing
14 instrument and acknowledged to me that they executed the
15 same for the purposes and consideration therein expressed.

16 Given under my hand and seal of office this
17 ____ day of _____, 2015.

18
19

Notary Public in and for
El Paso County, Texas
My commission expires:

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