UNITED STATES BANKRUPTCY COURT,
EASTERN DISTRICT OF NEW YORK

In re:	:	
	:	Chapter 11
CARITAS HEALTH CARE, INC., et al.,	:	Case Nos. 09-40901 (CEC) through 09-40909 (CEC)
Debtors.	:	(Jointly Administered)

SECOND AMENDED DISCLOSURE STATEMENT, PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE, FOR SECOND AMENDED PLAN OF LIQUIDATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE OF CARITAS HEALTH CARE, INC., ET AL.

THIS IS NOT A SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT.

PROSKAUER ROSE LLP
Jeffrey W. Levitan
Adam T. Berkowitz
Eleven Times Square
New York, New York 10036
Tel: (212) 969-3000
Fax: (212) 969-2900
E-mail: jlevitan@proskauer.com
aberkowitz@proskauer.com

Counsel for the Debtors
and Debtors in Possession

Dated: February 22, 2012
New York, New York

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY

A. Overview

Caritas Health Care, Inc. ("Caritas"), Caritas Anesthesia Services, P.C., Caritas Cardiology Services, P.C., Caritas Emergency Medical Services, P.C., Caritas Family Health Services, P.C., Caritas Medical Services, P.C., Caritas OB/GYN Services, P.C., Caritas Pediatric Services, P.C. and Caritas Radiology Services, P.C. (collectively, the "Debtors") transmit this Second Amended Disclosure Statement (as may be further amended, the "Disclosure Statement") pursuant to Section 1125(b) of Title 11, United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code") and Rule 3017 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), in connection with their Second Amended Plan of Liquidation Under Chapter 11 of the Bankruptcy Code, dated February 22, 2012 (as may be further amended, the "Plan"), in order to provide adequate information to enable holders of Claims that are impaired under (and entitled to vote on) the Plan to make an informed judgment in exercising their right to vote for acceptance or rejection of the Plan. A copy of the Plan is annexed hereto as Exhibit A. All capitalized terms used but not defined in this Disclosure Statement shall have the respective meanings ascribed to them in the Plan, unless otherwise noted.

The Plan provides a means by which the proceeds of the liquidation of the Debtors' assets will be distributed under Chapter 11 of the Bankruptcy Code, and sets forth the treatment of all Claims against and Interests in the Debtors. As described in more detail below, the Debtors have consummated the sale of substantially all of their physical assets pursuant to orders of the Court authorizing the Debtors to sell (i) their equipment and medical supplies and (ii) their real estate assets. The Plan implements the distribution of the proceeds of such asset sales to holders of allowed Claims, and provides for liquidation of any remaining assets and a process for recovery of any causes of action belonging to the Debtors' and their estates.

THE DEBTORS AND THE COMMITTEE STRONGLY URGE ACCEPTANCE OF THE PLAN, AND URGE ALL CREDITORS ENTITLED TO VOTE THEREON TO VOTE TO ACCEPT THE PLAN.

Attached as Exhibits to this Disclosure Statement are copies of (i) the Second Amended Plan of Liquidation Under Chapter 11 of the Bankruptcy Code of Caritas Health Care, Inc., *et al.* (Exhibit A); (ii) an Order of the Court dated _____, 2012 (the "Disclosure Statement Approval Order"), without exhibits, which, among other things, approves the Disclosure Statement and establishes certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan (Exhibit B).

The Disclosure Statement Approval Order sets forth in detail the deadlines, procedures and instructions for voting to accept or reject the Plan and for filing objections to confirmation of the Plan, the record date for voting purposes, and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each holder of a Claim entitled to vote on the Plan should read this Disclosure Statement, the Plan, the Disclosure Statement Approval Order and the instructions accompanying the Ballot in their entirety before voting on the Plan. These documents contain, among other things, important information concerning the classification of Claims and Interests for voting purposes and the tabulation of votes. No solicitation of votes to accept the Plan may be made except pursuant to Section 1125 of the Bankruptcy Code.

B. Summary of Classification and Treatment Under the Plan

In general, and as more fully described herein, the Plan (i) divides Claims and Interests into 4 unclassified categories and 5 classes, (ii) sets forth the treatment afforded to each category and class, and (iii) provides the means by which the proceeds of sales of the Debtors' assets will be distributed. The following table sets forth a summary of the treatment of each class of Claims and Interests under the Plan (a more detailed description of the Plan is set forth in Section IV of this Disclosure Statement entitled "Overview of The Plan").[1]

Class	Type of Claim or Interest	Treatment of Allowed Claims and Interests
—	Administrative Claims	Each holder of an Allowed Administrative Claim, in full and complete satisfaction of such Claim, shall receive Cash from the Remaining Cash in an amount equal to such Allowed Administrative Claim on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date on which such Claim becomes Allowed, unless such holder shall agree to a different, less favorable, treatment of such Claim. The Plan Administrator may, in the ordinary course of business, satisfy any liabilities, expenses and other Claims incurred by the Plan Administrator after the Effective Date in the ordinary course of business without further order of the Court.
—	Priority Tax Claims	Unless the holder thereof shall agree to a different, less favorable, treatment, each holder of an Allowed Priority Tax Claim, in full and complete satisfaction of such Allowed Claim, shall receive, payment in Cash from the Remaining Cash in an amount equal to such Allowed Priority Tax Claim on or as soon as reasonably practicable after the later of (a) the Effective Date and (b) the date on which such Claim becomes Allowed. Any Claim or demand for penalty relating to any Priority Tax Claim (other than a penalty of the type specified in Section 507(a)(8)(G) of the Bankruptcy Code) shall be Disallowed, and the holder of an Allowed Priority Tax Claim shall not assess or attempt to collect such penalty from the Estates or any of their respective property or Assets.
—	Professional Fee Claims	Each holder of an Allowed Professional Fee Claim shall be paid in Cash from the Remaining Cash in an amount equal to such Allowed Professional Fee Claim on or as soon as reasonably practicable after the first Business Day following the date upon which such Claim becomes Allowed by Final Order, unless such holder shall agree to a different, less favorable, treatment of such Claim.

[1] This summary contains only a brief and simplified description of the classification and treatment of Claims and Interests under the Plan. It does not describe every provision of the Plan. Accordingly, reference should be made to the entire Disclosure Statement (including exhibits) and the Plan for a complete description of the classification and treatment of Claims and Interests.

Class	Type of Claim or Interest	Treatment of Allowed Claims and Interests
—	U.S. Trustee Fees	All outstanding pre-confirmation quarterly fees payable pursuant to Section 1930 of Title 28 of the United States Code, plus accrued interest payable, if any, pursuant to Section 3717 of Title 31 shall be paid on or before the Effective Date. The Plan Administrator shall pay all statutory fees due and payable pursuant to Section 1930 of Title 28 of the United States Code, plus accrued interest, if any, payable pursuant to Section 3717 of Title 31, on all disbursements, including plan payments and disbursements inside and outside of the ordinary course of business until the entry of a final decree closing the Cases, dismissal of the Cases, or conversion of the Cases to chapter 7 cases under the Bankruptcy Code. The Plan Administrator shall file quarterly post-confirmation disbursement reports until entry of a final decree closing the Cases, dismissal of the Cases or conversion of the Cases to cases under chapter 7 of the Bankruptcy Code.
1	Secured Claims	Each holder of an Allowed Secured Claim shall receive, in full and complete satisfaction of such Claim, one of the following alternative treatments, at the election of the Plan Administrator: (a) payment in full in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date the Claim becomes due and payable by its terms; (b) the legal, equitable and contractual rights to which such Claim entitles the holder, unaltered by the Plan; (c) the treatment described in Section 1124(2) of the Bankruptcy Code; or (d) all collateral securing such Claim, without representation or warranty by or recourse against the Debtors. To the extent that the value of the Collateral securing each Allowed Secured Claim is less than the amount of such Allowed Secured Claim, the undersecured portion of such Claim shall be treated for all purposes under the Plan as a General Unsecured Claim and shall be classified as such. Class 1 is an Unimpaired Class and is deemed to have accepted the Plan.
2	Other Priority Claims	Each holder of an Allowed Other Priority Claim, in full and complete satisfaction of such Claim, shall be paid in full in Cash in an amount equal to its Allowed Other Priority Claim on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date on which such Claim becomes Allowed, unless such holder shall agree to a different, less favorable, treatment of such Claim (including, without limitation, any different treatment that may be provided for in the documentation governing such Claim or in a prior agreement with such holder).

Class	Type of Claim or Interest	Treatment of Allowed Claims and Interests
3	Unsecured Claims	After the payment of or reserving in full for all Administrative Claims, Professional Fee Claims, Priority Tax Claims and Other Priority Claims, each in accordance with the provisions of the Plan, the holders of Allowed Unsecured Claims, in full and complete satisfaction of such Allowed Claims, shall receive Pro Rata distributions of Cash from the Net Proceeds. The Debtors anticipate that Unsecured Claims will receive a recovery of between 1% and 3%.
4	Medical Malpractice Claims	(a) Each holder of a timely or deemed timely Medical Malpractice Claim may elect to be granted relief from the automatic stay imposed under section 362(a) of the Bankruptcy Code to litigate such holder's Medical Malpractice Claim in state court provided that, if such election is made, any recovery on account of such Medical Malpractice Claim shall be limited to available insurance, if any. Each holder of a Medical Malpractice Claim that asserts a claim against any Covered Person for claims that would entitle such Covered Persons to an Indemnification Claim may not make this election unless such holder affirmatively elects to either release such Covered Person from any liability or look only to available insurance with respect to such Covered Person prior to pursuing such election. (b) Holders of Medical Malpractice Claims which become Allowed, in full and complete satisfaction of such Allowed Claims, shall receive a Pro Rata distribution, capped at fifty percent (50%) of the amount of any Allowed Medical Malpractice Claim, of the Medical Malpractice Reserve of $450,000. No distributions from the Medical Malpractice Reserve shall be made, and the Mediation Order shall remain in full force and effect, until all Medical Malpractice Claims have been Allowed or Disallowed as the case may be pursuant to the Mediation Procedures.
5	Interests	On the Effective Date, all Interests shall be cancelled, annulled and extinguished, and holders of Interests and Claims in Class 5 shall not be entitled to receive or retain any property or interest in property under the Plan on account of such Interests or Claims.

THIS DISCLOSURE STATEMENT HAS BEEN APPROVED BY ORDER OF THE COURT AS CONTAINING INFORMATION OF A KIND, AND IN SUFFICIENT DETAIL, TO ENABLE HOLDERS OF CLAIMS TO MAKE AN INFORMED JUDGMENT IN VOTING TO ACCEPT OR REJECT THE PLAN. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION OR RECOMMENDATION BY THE COURT AS TO THE FAIRNESS OR THE MERITS OF THE PLAN.

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. WHILE THE DEBTORS BELIEVE THAT THESE

SUMMARIES ARE FAIR AND ACCURATE AND PROVIDE ADEQUATE INFORMATION WITH RESPECT TO THE PLAN, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF THE PLAN. IN THE EVENT OF ANY CONFLICT, INCONSISTENCY, OR DISCREPANCY BETWEEN THE TERMS AND PROVISIONS IN THIS DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS IN THE PLAN, THE PLAN SHALL GOVERN FOR ALL PURPOSES. ALL HOLDERS OF CLAIMS AND INTERESTS SHOULD READ THIS DISCLOSURE STATEMENT, THE PLAN, AND THE EXHIBITS TO THIS DISCLOSURE STATEMENT IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN.

THE STATEMENTS CONTAINED HEREIN HAVE BEEN MADE AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED. HOLDERS OF CLAIMS AND INTERESTS REVIEWING THIS DISCLOSURE STATEMENT SHOULD NOT INFER AT THE TIME OF SUCH REVIEW THAT THERE HAVE BEEN NO CHANGES IN THE FACTS SET FORTH HEREIN UNLESS SO SPECIFIED. WHILE THE DEBTORS HAVE MADE EVERY EFFORT TO DISCLOSE WHERE CHANGES IN PRESENT CIRCUMSTANCES REASONABLY CAN BE EXPECTED TO AFFECT MATERIALLY THE VOTE ON THE PLAN, THIS DISCLOSURE STATEMENT IS QUALIFIED TO THE EXTENT THAT CERTAIN EVENTS, SUCH AS THOSE MATTERS DISCUSSED IN SECTION VII BELOW ENTITLED "RISK FACTORS" DO OCCUR.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAW OR OTHER APPLICABLE NON-BANKRUPTCY LAW. PERSONS OR ENTITIES HOLDING OR TRADING IN, OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING CLAIMS AGAINST, THE DEBTORS, SHOULD EVALUATE THIS DISCLOSURE STATEMENT IN LIGHT OF THE PURPOSE FOR WHICH IT WAS PREPARED.

WITH RESPECT TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER PENDING OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT AND THE INFORMATION CONTAINED HEREIN SHALL NOT BE CONSTRUED AS AN ADMISSION OR STIPULATION, BUT RATHER AS STATEMENTS MADE IN SETTLEMENT NEGOTIATIONS.

C. Voting and Confirmation Procedures

As set forth above, accompanying this Disclosure Statement are copies of, among other things, the following documents:

(i) the Plan, which is annexed hereto as Exhibit A, and

(ii) the Disclosure Statement Approval Order, which is annexed hereto as Exhibit B, (a) approving this Disclosure Statement as containing adequate information pursuant to Section 1125 of the Bankruptcy Code, (b) approving procedures for the solicitation and tabulation of votes to accept or reject the Plan, including establishing that certain disputed or unliquidated claims in class 3 and all claims in class 4 shall be allowed in the amount of $1.00 solely for purposes of voting on the Plan, and (c) the fixing and notice of (1) the time for submitting acceptances or rejections to the Plan, (2) the hearing to consider confirmation of the

Plan, (3) the time for filing objections to confirmation of the Plan and (4) other deadlines and notice procedures.

The forms of Ballots, and the related materials delivered together herewith, are being furnished, for purposed of soliciting votes on the Plan, to Classes 3 and 4, which are the only impaired classes of Claims that are entitled to vote on the Plan. The Disclosure Statement is also available at no cost upon request to holders of Claims in Classes 1 and 2 (which classes are unimpaired and therefore deemed to accept the Plan), and holders of Interests in Class 5 (which class is not receiving or retaining property under the Plan and therefore is deemed to reject the Plan), and other entities, solely for informational purposes.

(1) Who May Vote

Pursuant to the provisions of the Bankruptcy Code, impaired classes of claims or interests are entitled to vote to accept or reject a plan of reorganization. A class which is not "impaired" is deemed to have accepted a plan and is not entitled to vote. A class is "impaired" under the Bankruptcy Code unless the legal, equitable, and contractual rights of the holders of claims or interests in such class are not modified or altered. As set forth above, Class 1 and 2 Claims are unimpaired and deemed to accept the Plan; Class 3 and 4 Claims are impaired and entitled to vote on the Plan; and Class 5 Interests are deemed to reject the Plan.

(2) Voting of Claims. Each holder of an Allowed Claim in an Impaired Class which receives or retains property under the Plan shall be entitled to vote separately to accept or reject the Plan and indicate such vote on a duly executed and delivered Ballot as provided in the order entered by the Court establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan, or any other controlling order or orders of the Court.

(3) Voting Procedures

All votes to accept or reject the Plan must be cast by using the form of Ballot. No votes other than ones using such Ballots will be counted except to the extent the Court orders otherwise. The Court has fixed _____.m., prevailing Eastern Time, on _____, 2012 (the "Voting Record Date") as the time and date for the determination of holders of record of Claims who are entitled to (a) receive a copy of this Disclosure Statement and all of the related materials and (b) vote to accept or reject the Plan. After carefully reviewing the Plan and this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan on the appropriate Ballot and return such Ballot in the enclosed envelope to:

IF BY FIRST CLASS MAIL:

Caritas Health Care, Inc. Ballot Processing
c/o Epiq Bankruptcy Solutions, LLC
FDR Station P.O. Box 5014
New York, New York 10150-5014

IF BY OVERNIGHT MAIL OR HAND DELIVERY:

Caritas Health Care, Inc. Ballot Processing
c/o Epiq Bankruptcy Solutions, LLC
757 Third Avenue, 3rd Floor
New York, New York 10150-5014

BALLOTS MUST BE RECEIVED ON OR BEFORE _____.M. (PREVAILING EASTERN TIME) ON _____, 2012 (THE "VOTING DEADLINE"). THE FOLLOWING BALLOTS SHALL NOT BE COUNTED OR CONSIDERED FOR ANY PURPOSE IN DETERMINING WHETHER THE PLAN HAS BEEN ACCEPTED OR REJECTED: (A) ANY BALLOT THAT IS PROPERLY COMPLETED, EXECUTED AND TIMELY RETURNED TO THE VOTING AGENT, BUT DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN OR THAT INDICATES BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN, (B) ANY BALLOT ACTUALLY RECEIVED BY THE VOTING AGENT AFTER THE VOTING DEADLINE, UNLESS THE DEBTORS SHALL HAVE GRANTED IN WRITING AN EXTENSION OF THE VOTING DEADLINE WITH RESPECT TO SUCH BALLOT, (C) ANY BALLOT THAT IS ILLEGIBLE OR CONTAINS INSUFFICIENT INFORMATION TO PERMIT THE IDENTIFICATION OF THE CLAIMANT, (D) ANY BALLOT CAST BY A PERSON OR ENTITY THAT DOES NOT HOLD A CLAIM IN A CLASS THAT IS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN, (E) ANY BALLOT CAST FOR A CLAIM SCHEDULED AS UNLIQUIDATED, CONTINGENT OR DISPUTED FOR WHICH NO PROOF OF CLAIM WAS TIMELY FILED, (F) UNLESS EXPRESSLY AUTHORIZED BY THE APPROVAL ORDER, ANY UNSIGNED OR NON-ORIGINALLY SIGNED BALLOT, (G) ANY BALLOT SENT DIRECTLY TO ANY OF THE DEBTORS, THEIR AGENTS (OTHER THAN THE VOTING AGENT) OR THE DEBTORS' FINANCIAL OR LEGAL ADVISORS OR TO ANY PARTY OTHER THAN THE VOTING AGENT, (H) ANY BALLOT CAST FOR A CLAIM THAT HAS BEEN DISALLOWED (FOR VOTING PURPOSES OR OTHERWISE), AND (I) ANY BALLOT TRANSMITTED TO THE VOTING AGENT BY FACSIMILE OR OTHER ELECTRONIC MEANS.

If you have any questions regarding the procedures for voting on the Plan, please contact the Debtors' balloting agent, Epiq Bankruptcy Solutions, LLC, at the above address, or the following telephone number: 646-282-1800.

(4) Nonconsensual Confirmation. If any Impaired Class entitled to vote shall not accept the Plan by the requisite statutory majorities provided in Sections 1126(c) or 1126(d) of the Bankruptcy Code, as applicable, or if any Impaired Class is deemed to have rejected the Plan, the Plan Proponents reserve the right (a) to undertake to have the Court confirm the Plan under Section 1129(b) of the Bankruptcy Code and (b) subject to Section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019, to modify the Plan to the extent necessary to obtain entry of the Confirmation Order, provided such modifications are consistent with Section 11.1 of the Plan. At the Confirmation Hearing, the Plan Proponents will seek a ruling that if no holder of a Claim or Interest eligible to vote in a particular Class timely votes to accept or reject the Plan, the Plan will be deemed accepted by the holders of such Claims or Interests in such Class for the purposes of Section 1129(b).

II. THE DEBTORS' BUSINESS AND DEBT STRUCTURE AND EVENTS LEADING TO COMMENCEMENT OF CHAPTER 11 CASES

A. Organizational Structure and Acquisition of the Caritas Hospitals

Caritas is a New York not-for-profit corporation that was formed by Wyckoff Heights Medical Center, also a New York not-for-profit corporation ("Wyckoff"),[2] on March 9, 2006, for the purpose of acquiring from St. Vincents Catholic Medical Centers of New York ("SVCMC"), and thereafter operating, two hospitals and ancillary facilities in Queens, New York: Mary Immaculate Hospital and St. John's Queens Hospital.

On the filing date, Brooklyn-Queens Health Care, Inc., a New York not-for-profit corporation ("BQHC"), was the sole member of both Caritas and Wyckoff. As such, BQHC had the power to appoint the members of the Caritas and Wyckoff boards of trustees. Although there is some overlap in membership of these boards, each of the boards independently oversees the operations of its respective hospitals.

Caritas acquired its hospitals on January 1, 2007 from SVCMC pursuant to an Asset Purchase Agreement, dated May 9, 2006, which was approved by the Bankruptcy Court overseeing the SVCMC Chapter 11 Case. The purchase price was comprised of a $3,500,000 cash payment, $10,000,000 in secured notes (as described more fully below) and the assumption by Caritas of approximately $26,000,000 of SVCMC's liabilities. At the closing, Caritas sold Parsons Manor (a building located on the Mary Immaculate campus) for a $10,000,000 cash payment. Additionally, SVCMC agreed to continue to provide transitional information technology and other services to the Debtors until they had their own capability to do so, and Caritas agreed to reimburse SVCMC for the associated costs.

As set forth below, from the time they acquired the hospitals, the Debtors struggled to achieve financial stability. Prior to the Petition Date, for the fiscal year ended December 31, 2008, the Debtors incurred a net loss of approximately $64,000,000. In addition, as of November 30, 2008, Caritas had aggregate assets (at book value) and liabilities on a consolidated, unaudited basis of approximately $87,234,264 and approximately $188,277,388, respectively.

B. Pre-Petition Term Loan The cash portion of the purchase price paid by Caritas to acquire its hospitals was financed in part by a term loan in the initial amount of $15,000,000 provided by Healthcare Finance Group, Inc. and certain related entities ("HFG"). In order to fund a portion of the costs of the Debtors' pre-petition operations and to pay certain liabilities assumed from SVCMC, Caritas borrowed an additional $7,500,000 term loan from HFG. As of the Petition Date, the aggregate principal amount outstanding to HFG as a result of these term loans was approximately $13,900,000, plus interest, costs, fees, expenses and other charges.

To secure repayment of this obligation, HFG was granted a first priority lien on and security interest in substantially all of the assets of Caritas, including (a) the following real property: (i) the five buildings located on the campus of Mary Immaculate at 152-11 89th Avenue, Jamaica, New York; (ii) the main hospital building of St. John's located at 90-02 Queens Boulevard, Elmhurst, New York; (iii) a parking garage located on the campus of Mary

[2] Wyckoff owns and operates a 350 bed hospital in Brooklyn, New York.

Immaculate; (iv) a parking garage located at 87-28 58th Street, Elmhurst, New York; (v) two parking lots located on 88th Avenue in Jamaica, New York; and (vi) parking lots located at 57-28/58-00 Hoffman Drive, 57-30 Hoffman Drive and 57-32 Hoffman Drive, Elmhurst, New York; (b) all other tangible and intangible property of all kinds; (c) all receivables;[3] and (d) all proceeds of the foregoing. Pursuant to the DIP Facility (defined below), HFG applied the Debtors' post-petition receivables to satisfy this pre-petition obligation.

In a letter dated March 1, 2007, HFG notified Caritas of the occurrence and continuance of events of default under its loans. As a consequence thereof, no funds were ever advanced by HFG on a revolving basis to pay and discharge its term loan to Caritas, as was contemplated in the original arrangement entered into between such parties.

C. Seller Financing and Additional Notes

As part of the purchase price for its acquisition of its hospitals, Caritas delivered to SVCMC two secured promissory notes, each in the principal amount of $5,000,000. As of the Petition Date, the aggregate principal amount outstanding under these notes was approximately $9,100,000, plus interest, costs, fees, expenses and other charges. To secure repayment of this obligation, SVCMC was granted a lien on and security interest in the real property and related collateral located at 152-11 89th Avenue, Jamaica, New York, and 90-02 Queens Boulevard, Elmhurst, New York.

Pursuant to a Subordination Agreement, dated as of January 1, 2007, HFG and SVCMC agreed that SVCMC's lien and security interest in its collateral would be subordinate to the lien and security interest of HFG in that collateral until HFG's term loans were repaid.

D. Events of Default Under the HFG and SVCMC Agreements

As a result of its being in default to HFG, as set forth above, Caritas was prohibited from making payments to SVCMC in respect of the seller notes described above for a period of 180 days. Caritas was also financially unable to pay SVCMC for the transitional services described above. SVCMC thereupon withheld from Caritas approximately $6,000,000 in accounts receivable that had been collected on Caritas's behalf by SVCMC, and litigation respecting the foregoing was commenced in the Bankruptcy Court overseeing the SVCMC bankruptcy case.

Caritas and SVCMC settled their dispute and, together with HFG, entered into a Settlement Agreement, dated as of May 4, 2007, which provided, among other things, for the payment by SVCMC to Caritas of its accounts receivable and for the payment by Caritas to SVCMC, as prepayments of principal, of certain Medicaid reimbursement adjustment receipts as and when received by Caritas. Subsequently, Caritas, HFG and SVCMC negotiated a second settlement agreement that provided for Caritas to pay to SVCMC certain of the Medicaid receipts used by Caritas to pay operating expenses. On the Petition Date, approximately $9,100,000 was owed SVCMC, which was repaid in connection with the closing of the sales of the Debtors' real estate, described more fully below.

[3] HFG's lien on the Caritas's receivables excluded the gross receipts relating to the primary care facility known as the St. Dominic Family Health Center, discussed below.

E. DASNY Loans and Committee Adversary Proceeding

In order to enhance liquidity and provide additional working capital, Caritas sought and received loans from the Dormitory Authority of the State of New York ("DASNY"). As of the Petition Date, the aggregate principal amount outstanding to DASNY was approximately $60,950,000. To secure repayment with respect to $20,000,000 of these obligations, Caritas agreed to grant DASNY a lien on and security interest in the real property and related collateral located at 152-11 89th Avenue, Jamaica, New York, and 90-02 Queens Boulevard, Elmhurst, New York. Pursuant to agreements between DASNY, HFG and SVCMC, DASNY's lien on and security interest in SVCMC's collateral is subordinate to both HFG's and SVCMC's liens on and security interests in such collateral. With respect to $13,500,000 of the funds loaned to Caritas, however, DASNY did not record its mortgage until after the Petition Date. Accordingly, on May 26, 2009, the Committee (as defined below) commenced an adversary proceeding related to the Cases to avoid DASNY's mortgage. On October 30, 2009, the adversary proceeding was resolved by a stipulated order avoiding DASNY's aforementioned mortgage and providing that (i) $6,500,000 of DASNY's claim is allowed as a secured claim and (ii) $54,450,000 is allowed as an unsecured claim.

F. Primary Care Development Corporation

In 1996, SVCMC's predecessor, Catholic Medical Center of Brooklyn and Queens, Inc. ("CMC"), entered into a sale-leaseback transaction with DASNY and Primary Care Development Corporation ("PCDC"), pursuant to which CMC obtained financing to develop the St. Dominic Family Health Center on real property owned by CMC at 114-39-41 Sutphin Boulevard, Jamaica, New York (the "Sutphin Property"). Among the real property acquired by Caritas from SVCMC on January 1, 2007, was the Sutphin Property. Accordingly, in connection with that acquisition, Caritas assumed the obligations under the sale-leaseback arrangement, including SVCMC's obligations under an operating lease with PCDC. As of the Petition Date, the aggregate amount outstanding under the PCDC Operating Lease was approximately $5,540,000, plus any applicable attorneys' fees and disbursements.

G. Affiliate Obligations

Prior to January 1, 2007, in anticipation of cash flow and accounting system needs upon the acquisition of the hospitals by the Debtors, BQHC loaned Caritas $1,000,000 and Wyckoff entered into lease obligations for equipment provided to Caritas with an approximate value of not less than $3,000,000. In addition, as of the Petition Date, approximately $10,000,000 was owed by Caritas to Wyckoff for services provided by Wyckoff employees to Caritas.

H. Events Leading to the Chapter 11 Filing

Caritas' hospitals were financially troubled institutions for a significant period preceding Caritas' acquisition. In fact, if Caritas had not been able to acquire the hospitals, SVCMC had no alternative but to close them and was preparing for that possibility. Wyckoff, which formed Caritas, was the only bidder for the hospitals, and believed that it could successfully return them to viability based on its experience of operating a financially distressed hospital in a low-income urban area.

Unfortunately, the Debtors experienced financial difficulties from the date of Caritas formation up to the Petition Date, and incurred regular losses. The Debtors' difficulties were caused both by problems in existence prior to the acquisition and those arising in the course of the subsequent turn-around efforts. Moreover, the anticipated benefits and synergies of BQHC's joint administration of Wyckoff and Caritas never fully materialized, and fell short of expectations. It was contemplated that by consolidating the responsibility for general policies, financial management, strategic planning, legal counseling, and billing operations (among other things) of Wyckoff and Caritas, the financial situation of both entities would be enhanced. Unanticipated setbacks, delays, and disruptions in cash flow, mainly due to integration difficulties, impeded the turnaround effort. The additional burden of a January 1, 2008 drop in Medicaid reimbursement rates and the general difficulties of the currently tightened fiscal environment further accelerated the Debtors' losses.

To address these financial difficulties, prior to the Petition Date, the Debtors attempted, through various means, to achieve financial sustainability. In early 2007, Caritas obtained the first of the DASNY loans, and also increased its borrowing from HFG. Caritas also disposed of certain non-core assets, including two vacant parcels located at 88-09 153rd St. and 153-10 88th Avenue in Jamaica, New York. These loans and sales provided much needed liquidity, but the Debtors still struggled to achieve financial stability. Accordingly, in June, 2007, Caritas retained a health care restructuring firm to assist in its turnaround efforts. The firm provided Caritas with one of its principals to serve as the Chief Restructuring Officer of Caritas, as well as a new Chief Financial Officer, a new Patient Financial Services Director, a new Patient Access Director, and numerous support personnel. The firm undertook several initiatives in an effort to improve the financial performance of the Debtors, including employing additional physicians and upgrading and modernizing certain medical equipment. Unfortunately, these efforts did not result in a significant reduction of operating losses.

The Debtors also investigated the possibility of a strategic combination. The Debtors were able to identify several parties with an interest in a strategic transaction. The parties signed confidentiality agreements, conducted extensive due diligence and engaged Caritas in detailed negotiations over possible transaction structures. However, no combination was ever effectuated.

Caritas elected not to renew its agreement with the aforementioned restructuring firm when the term thereof expired at the end of September 2008. Instead, on October 1, 2008, Caritas retained JL Consulting LLC and its principal, John Lavan, as Chief Restructuring Officer, and on December 1, 2008, Caritas retained Montclair Partners LLC, and its principal, John Bruno, as financial advisor. In addition, in December, 2008, Caritas retained John Kastanis as its Chief Executive Officer, and in January, 2009, it retained Jerry Castoria as its Chief Financial Officer.

Following the retention of JL Consulting LLC, the Debtors instituted further initiatives in an effort to reduce operating losses. Notwithstanding those initiatives, it became clear that in order to keep the hospitals open, the Debtors needed to continue to receive financing from DASNY. However, in early 2009 DASNY and the New York State Department of Health (the "DOH") indicated that they no longer had the ability to continue to subsidize Caritas operating losses.

Despite these and other efforts to complete a successful turnaround, the Debtors, like many entities in this difficult economic environment, continued to experience significant losses. As the Debtors' financial condition continued to worsen, they found themselves unable to maintain their ongoing operations.

In early 2009, the Board directed management to develop a plan for closure of the hospitals and related programs. Caritas management developed several draft plans and solicited review and comment from the DOH. While working with the DOH to develop a closure plan, Caritas management also consulted with area hospitals that were impacted by the closures of Caritas' facilities, and reached out to alternate sponsors for several important ambulatory care programs.

After incorporating the various recommendations of the DOH, Caritas management submitted a closure plan as per a direction issued by the Board at a February 5, 2009 meeting. At a joint conference call with the DOH and Caritas management on February 6, 2009, agreement was reached on major elements of the closure plan and the DOH indicated their conditional approval of the plan. Following receipt of the DOH's conditional approval, Caritas initiated implementation of the closure plan. After considering the alternatives, the Debtors determined to file for Chapter 11 protection in order to obtain the financing necessary to implement the closure and to obtain protection from creditor actions in an effort to preserve and maximize the value of their assets for the benefit of all stakeholders, while at the same time safeguarding the welfare of their patients. The Debtors completed the closure plan within the first month of their Chapter 11 cases (the "Cases"), and ceased all health care operations beyond that point. The Debtors then pursued orderly liquidations of their tangible assets and have satisfied numerous secured and administrative expense claims, which efforts have positioned the Debtors to propose the Plan. The Debtors' efforts from commencement of the Cases up to the date hereof are set forth in more detail in the following section.

III. SIGNIFICANT EVENTS DURING THE DEBTORS' CHAPTER 11 CASES

A. Overview of Chapter 11 and Commencement of Chapter 11 Cases

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor is authorized to reorganize its finances and operations for the benefit of itself, its creditors and equity interest holders. In addition to permitting rehabilitation of a debtor, another goal of Chapter 11 is to promote the optimization of a debtor's assets and equality of treatment for similarly situated creditors and equity interest holders with respect to the distribution of a debtor's assets.

The commencement of a Chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the filing of the debtor's bankruptcy petition. The Bankruptcy Code provides that a Chapter 11 debtor may continue to operate its business and remain in possession of its property as a debtor-in-possession. The Debtors filed their Chapter 11 Cases with the Court on February 2, 2009. The Debtors' cases were assigned to the Honorable Carle E. Craig, Chief United States Bankruptcy Judge for the Eastern District of New York. The Debtors continue to operate their business and manage their properties as debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

Confirmation and consummation of a plan of reorganization or liquidation are the principal objectives of a Chapter 11 case. In general, confirmation of a plan by the bankruptcy

court makes the plan binding upon a debtor, any person acquiring property under the plan and any creditor or equity interest holder of a debtor. Before soliciting acceptances of a proposed plan, however, Section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment in voting to accept or reject the plan. The Debtors are submitting this Disclosure Statement to holders of impaired Claims against and Interests in the Debtors to satisfy the requirements of Section 1125 of the Bankruptcy Code.

The following is a brief description of some of the major events that have occurred in the Chapter 11 Cases.

B. First Day Orders

On or shortly after the Petition Date, the Court entered various orders designed to minimize the disruption of the Debtors' business affairs and facilitate the orderly administration of the Debtors' cases. These include:

a. an order authorizing the Debtors' payment of pre-petition employee wages, salaries and other compensation and maintenance of certain benefit programs [Docket No. 22];

b. an order granting an extension of time for the Debtors to file (a) statements of financial affairs and (b) schedules of assets and liabilities, current income and expenditures and executory contracts and unexpired leases [Docket No. 23];

c. an order waiving the requirement for the Debtors to file a list of creditors and mailing matrix with the court on the Petition Date, establishing noticing procedures, and authorizing the Debtors or their agent to mail notices upon request [Docket No. 25];

d. an interim order authorizing the Debtors to perform their obligations under an Administrative Services Agreement with Wyckoff, as set forth more fully below, which was ultimately granted on a final basis [Docket Nos. 24, 101];

e. an interim order enjoining utility providers from terminating service to the Debtors and establishing procedures for determining requests for additional adequate assurance, which was ultimately granted on a final basis [Docket Nos. 26, 103];

f. an order authorizing the Debtors to maintain their cash management system and existing bank accounts, and to use existing business forms [Docket No. 27]; and

g. an order granting procedural consolidation of the Debtors' Chapter 11 cases and authorizing joint administration thereof [Docket No. 28].

C. Retention of the Debtors' Chief Restructuring Officer

As set forth above, on October 1, 2008 the Debtors retained JL Consulting LLC and its principal, John Lavan, as Chief Restructuring Officer to replace Caritas' prior restructuring consultants. The Debtors were already familiar with JL Consulting, having periodically sought and retained its services in the two years prior to the Petition Date. This retention was approved

by the Bankruptcy Court on March 20, 2009 [Docket No. 139]. As an officer of Caritas, the CRO reports directly to the board of trustees of Caritas, and all senior management report, in turn, to the CRO. The CRO has performed as a key manager and officer of the Debtors, overseeing the Debtors' operations and winddown efforts throughout the Cases.

D. Retention of Debtors' Professionals

During the Cases, the Debtors obtained orders of the Court authorizing them to retain a number of professionals to assist them with conducting the Cases and various goals related thereto. These professionals are:

a. the law firm of Proskauer Rose LLP ("Proskauer"), retained as bankruptcy and reorganization counsel [Docket No. 137];

b. Epiq Bankruptcy Solutions, LLC ("Epiq"), retained as claims, noticing and balloting agent [Docket No. 41];

c. Kelley Drye and Warren LLP ("Kelley Drye"), retained as special labor counsel [Docket No. 138], and later succeeded by Littler Mendelson, P.C. [Docket No. 671];

d. BDO Seidman LLP, retained as special purpose auditor [Docket No. 235];

e. Montclair Partners, LLC, retained as financial advisor [Docket No. 247];

f. CB Richard Ellis, Inc. ("CBRE"), retained as real estate broker [Docket No. 252]; and

g. Garbarini & Scher, P.C. as Special Counsel Medical Malpractice Counsel [Docket No. 608].

E. Appointment of Creditors' Committee and Professionals

On or about February 13, 2009, the U.S. Trustee appointed an Official Committee of Unsecured Creditors (the "Committee") to represent the interests of the unsecured creditors of the Debtors. Since the formation of the Committee, the Debtors have extensively consulted and cooperated with the Committee concerning various aspects of the Cases. The members of the Committee appointed on the date set forth above are as follows:

- the 1199 SEIU National Benefit Fund for Health & Human Service Employees ("1199"),
- Aramark Healthcare Support Services, LLC,
- Cardinal Health,
- the New York State Nurses' Association, and
- New York Hyberbaric and Woundcare Centers, LLC.

The Committee has employed Alston & Bird LLP as its bankruptcy counsel [Docket No. 145], CBIZ Accounting, Tax & Advisory of New York, LLC and CBIZ, Inc. as its financial advisors [Docket No. 144] and SilvermanAcampora LLP as its conflicts counsel [Docket No. 246].

F. Use of Cash Collateral and Debtor in Possession Financing

On the Petition Date, the Debtors filed a motion for approval of post-petition financing in order to provide the funding critical to the wind down of the Debtors' operations and the administrative costs associated with the Cases. Initially, the post-petition financing was provided pursuant to a term sheet which outlined the main terms of a more detailed loan agreement, to which was attached a budget that projected the Debtors' monthly expenses during the initial period of the Cases, which term sheet was the product of intensive negotiations between the Debtors, their lenders, the Committee, and each party's respective counsel. On February 12, 2009, the Court entered an interim order, among other things, (i) authorizing the Debtors to incur post-petition indebtedness (the "DIP Facility") with administrative superpriority and secured by senior liens on substantially all assets pursuant to Subsections 364(c) and (d) of the Bankruptcy Code, (ii) authorizing the Debtors to utilize cash collateral pursuant to Section 363 of the Bankruptcy Code and (iii) granting adequate protection (the "Interim DIP Financing Order") [Docket No. 37]. The Interim DIP Financing Order authorized the Debtors to (i) borrow $8.2 million from HFG and $2.5 million from DASNY, (ii) use $2.6 million of HFG's cash collateral and (iii) grant HFG and DASNY superpriority administrative expense claims and first priority and senior liens with respect to all borrowings under the DIP Facility, all on an interim basis, pending a final hearing on the DIP Facility.

Thereafter, the parties continued to negotiate and ultimately executed formalized loan agreements regarding the DIP Facility. On March 4, 2009, the Court entered an order approving these agreements and the DIP Facility on a final basis (the "Final DIP Financing Order"). [Docket No. 89]. Pursuant to this order, the Debtors were authorized to borrow up to $13.6 million from HFG (inclusive of the $8.2 million described in the above paragraph). The DIP Facility provided the Debtors with the funding necessary to shut down their hospitals in a safe and orderly manner, and thereafter to generally conduct their Chapter 11 cases in a way that has maximized their estates to the benefit of their creditors and other parties-in-interest. All amounts owed by the Debtors and outstanding to HFG under the DIP Facility were repaid in full, and the DIP Facility was terminated with respect to HFG.

G. The Patient Care Ombudsman

On February 13, 2009, the U.S. Trustee appointed Daniel T. McMurray of Focus Management Group to serve as the patient care ombudsman required by 11 U.S.C. 333(a)(1) (the "PCO") to monitor the Debtors' quality of patient care and to represent the interests of the Debtors' patients. The Debtors' cooperated with the PCO as he evaluated the Debtors' efforts to complete a safe shut-down of all health care operations. The PCO filed a report regarding same on April 14, 2009, in which he generally found the quality of patient care and shut-down efforts to have been effected in a professional manner. He was excused from his responsibilities as of June 12, 2009, pursuant to a stipulation and order executed by and among the Debtors, the U.S. Trustee and the Committee and subsequently entered by the Court [Docket No. 300].

H. Transfers of the Debtors' Health Care Clinics

Although the Debtors commenced Chapter 11 proceedings to facilitate the shut-down of their health care operations, the Debtors desired to maintain ongoing ancillary patient care at certain outpatient facilities in order to pursue dispositions thereof as going concerns. More

specifically, early in the Cases, the Debtors effectuated transfers of certain of their medical clinics: (i) Saint Dominic's Family Health Center ("St. Dominic's") and (ii) the methadone clinics (the "Methadone Clinics") located on Archer Avenue in Jamaica, New York. St. Dominic's provided primary care to thousands of patients in the Jamaica, New York area, while the Methadone Clinics provided substance abuse and HIV/AIDS treatment, as well as methadone maintenance programs, to those in need.

With respect to St. Dominic's, the Debtors negotiated for transactions with a number of regional health care providers, and ultimately made a motion on February 25, 2009 for court approval of a transfer of St. Dominic's to the Joseph P. Addabbo Family Health Center, Inc. [Docket No. 67]. This transaction was approved by the Court on March 20, 2009 [Docket No. 135], and the Debtors thereafter consummated the transfer. With respect to the Methadone Clinics, the Debtors negotiated with SVCMC, the original operator of such clinics, for a transaction whereby SVCMC would assume the Debtors' obligations with respect thereto and resume operations at the clinics. The Debtors filed a motion on March 5, 2009 [Docket. No. 95] seeking approval of this transaction. After resolution of certain issues, the Court approved the transfer of the Methadone Clinics back to SVCMC pursuant to an order entered on April 6, 2009 [Docket No. 186]. These transactions allowed the Debtors to avoid costly administrative expenses and other liabilities related to operation of the clinics, while sparing the respective communities the loss of facilities that address important community healthcare needs.

I. The Records Retention Agreement

In the course of the Debtors' provision of health care services, the Debtors generated a large volume of patient medical records and samples (the "Patient Records"). Under various federal and state laws, the Debtors have obligations with respect to the long-term storage and provision of the Patient Records to patients upon receipt of appropriate requests. In order to provide for the discharge of these obligations in accordance with the requirements of law, the Debtors entered into an agreement with MetalQuest, Inc., pursuant to which MetalQuest agreed to retain the Patient Records and fulfill appropriate requests therefor. In a motion dated April 9, 2009 [Docket No. 188], the Debtors sought Court approval of this agreement. The Court entered an order approving same on April 27, 2009 [Docket No. 233]. Thereafter, the Debtors completed the transfer of the Patient Records to MetalQuest.[4]

J. Sales of the Debtors' Equipment and Medical Supplies

On April 30, 2009, the Debtors filed a motion seeking to establish procedures respecting an auction (the "Equipment Auction") for the sale of their medical equipment (the "Equipment") and supplies (the "Supplies"). Prior to filing the motion, the Debtors had entered into an Asset Purchase and Auction Agreement (the "APAA") with Centurion Service Group, LLC and Perfection Plant Liquidations, LLC (together, the "Liquidators"), pursuant to which the Liquidators agreed to serve as stalking horse bidders for the aforementioned auction. The Debtors had chosen the Liquidators out of a number of possible stalking horse bidders because the Liquidators' proposal maximized the value the Debtors would receive for the Equipment and Supplies. Under the terms of the APAA, if the Liquidators were the winning bidders at the

[4] In addition, certain records generated prior to January 1, 2007 were returned to SVCMC, and certain emergency room records remain with Iron Mountain subject to resolution of a payment dispute and eventual transfer to MetalQuest.

Equipment Auction, they would purchase the Equipment outright, and also serve as the Debtors' disposition agents to pursue sales of the Supplies to third parties. The Court entered an order approving the Equipment Auction procedures on May 20, 2009, and the Debtors solicited formal bids for the Equipment and Supplies. No competing bids were received for the Equipment and Supplies, and the Court entered an order on June 15, 2009 authorizing the Debtors to consummate the APAA. The Debtors then negotiated with the Liquidators to resolve a number of open issues and executed an amendment to the APAA memorializing the resolution. As a result, the Debtors were able to complete the APAA transaction, resulting in a payment of approximately $3 million into the Debtors' estates in respect of the Equipment and several hundred thousand dollars in additional proceeds realized upon sales of the Supplies. These sales allowed the Debtors to liquidate a significant portion of their assets and maximize the value of these assets, and were important steps toward achieving a resolution to the Debtors' Chapter 11 cases.

K. Sales of the Debtors' Real Estate

The Debtors' and their advisors' efforts to dispose of their real estate assets were substantial. At the outset, the Debtors coordinated with Proskauer and CBRE to design a process for sale of the Debtors' real estate which would maximize value therefor. The Debtors and their advisors met and corresponded with potential bidders and coordinated initial sale efforts, responding to issues raised by potential buyers, including with respect to possible structures of acquisition and due diligence concerns. Then, they negotiated stalking horse agreements with various interested parties. With respect to the Mary Immaculate property, these efforts culminated in a stalking horse agreement with Stessa Corp. carrying a purchase price of $4,351,000. With respect to the St. John's property, the Debtors negotiated an agreement with a primary bidder that ultimately declined to serve as a stalking horse. The Debtors then negotiated another stalking horse agreement with a new bidder. However, Caritas' board of trustees decided that it was in the best interests of the Debtors' estates to pursue sale of the St. John's property without a stalking horse, but with a minimum required bid of $13,500,000.

On August 8, 2009, the Debtors filed a motion for approval of procedures respecting an auction for the sale of their real estate assets (the "Real Estate Auction"), which included a stalking horse bidder for the Mary Immaculate property and an auction on the St. John's property. The auction process was ultimately approved by the Court on September 15, 2009. The Debtors solicited formal bids for purchase of the real estate, and received a number of bids from interested parties. Thereafter, a competitive auction was held, and Joshua Guttman was selected as the winning bidder for both the Mary Immaculate and St. John's properties. The court ultimately authorized the Debtors to consummate sales of the real estate to Mr. Guttman on November 3, 2009. These sales resulted in the realization of approximately $26.6 million by the Debtors' estates, thereby positioning the Debtors with the necessary liquidity to pursue resolutions of numerous matters and design and propose the Plan. Certain of these proceeds were escrowed with respect to mechanics' liens asserted against the properties and outstanding water and sewer charges, and other proceeds were used to satisfy SVCMC's liens as set forth above. The remainder were preserved by the Debtors for distribution to creditors pursuant to the Plan.

L. Billing Software Dispute with Meditech

During the Cases, a dispute arose between the Debtors and Medical Information Technology, Inc. ("Meditech"), the provider of certain medical billing software to the Debtors, under an agreement between Wyckoff and Meditech, that was critical to the Debtors' efforts to collect their receivables. Due to this dispute, Meditech sent the Debtors a termination letter under the agreement, after the Petition Date, purporting to cut off the Debtors' access to the software. The Debtors then negotiated a resolution between the parties that allowed Caritas continued access to the software in exchange for a payment from Wyckoff and the Debtors. The Court approved the final agreement between the Debtors, Wyckoff and Meditech on June 25, 2009 [Docket No. 317], and as a result the Debtors were able to continue their efforts to collect their receivables with minimal disruption and thereby maximize the value of their estates.

M. Exclusivity

Pursuant to Section 1121 of the Bankruptcy Code, (a) only the debtor may file a plan during the 120-day period following the commencement of a Chapter 11 case (the "Exclusivity Period") and (b) if the debtor files a plan during the Exclusivity Period, only the debtor may solicit acceptances of such plan, and no other party may file a competing plan, during the 180-day period following the commencement of a Chapter 11 case (the "Exclusive Solicitation Period"). On request of a party in interest, a bankruptcy court, for cause shown, may extend, shorten or terminate the Exclusivity Period or the Exclusive Solicitation Period. The Debtors obtained several extensions of their Exclusivity Period which provided the Debtors with time to work cooperatively with various parties-in-interest to design the Plan.

N. Claims Process and Bar Dates

On April 3, 2009, the Debtors filed their schedules of assets and liabilities and statements of financial affairs with the Court [Docket Nos. 162-179] (the "Schedules"), which set forth, among other things, amounts the Debtors believe they owe to various parties. In order to induce all parties that wish to assert claims against the Debtors to inform the Debtors of such claims and to foreclose the possibility that any party could assert a claim beyond a certain date, the Debtors requested that the Court establish a claims bar date. On November 24, 2009, the Court entered an order (the "Bar Date Order") setting January 15, 2010 at 4:30 p.m. (Prevailing Eastern Time) as the bar date for Creditors to file proofs of claim (the "Bar Date") [Docket No. 452]. The Bar Date Order provides, except as set forth therein, that any holder of a Claim that fails to file a timely proof of claim on or before the Bar Date shall not be permitted to vote to accept or reject any plan of liquidation or to participate in any distribution in the Cases on account of such Claim.

As of the date hereof, more than 4,000 filed and scheduled claims have been asserted against the Debtors' Estates with an aggregate asserted liability exceeding $2 billion and asserting varying levels of priority (*i.e.*, secured, administrative, priority and general unsecured claims). After a preliminary review of such Claims and a comparison thereto to their books and records, the Debtors believe that the foregoing claims include, among other things, invalid, overstated, duplicative, misclassified and/or otherwise objectionable claims and that many of such Claims will be eliminated after giving effect to the substantive consolidation provisions of the Plan. Thus, the Debtors believe that the foregoing Claim amounts are greatly overstated. Indeed, over the course of the Debtors' Chapter 11 cases, the Debtors have gained Court

approval of several omnibus claim objections, objections to other claims and motions to reclassify claims, which reduced, in the aggregate, administrative expense claims asserted against the Debtors by at least $50,000,000; priority claims by at least $175,000,000; and secured claims by at least $650,000

O. Center for Medicare and Medicaid Services Administrative Expense Claim

The Centers for Medicare and Medicaid Services, United States Department of Health and Human Services in Region II, on behalf of the United States filed a contingent and unliquidated administrative claim for all interim Medicare payments made to the Debtors during the Debtors final reporting period in the approximate amount of $11,104,732 (the "CMS Claim"). Notwithstanding the foregoing, upon the completion of a process which includes the filing of a terminating cost report by the Debtors and the acceptance and subsequent audit of such report by the government, the actual CMS Claim, if any, will be calculated as the overpayment to Debtors, if any, for services rendered during the post petition period.

Caritas could not file its terminating cost report until the government officially recognized that Caritas was closed and the Medicare "tie in" notice, which officially terminates the Medicare provider number, was processed by the government. The Debtors maintained regular contact with governmental officials but were unable to expedite the processing of the "tie in" notice. In or about January 2012, the Debtors became aware that the Medicare "tie in" notice had been processed, at which time the terminating cost report was submitted and accepted. While the terminating cost report remains subject to a governmental audit, according to the Debtors' books and records the Debtors did not receive any Medicare or Medicaid overpayments which would create a liability in the final reporting period and, as such, do not believe that the $11,104,732 claim is valid. The Debtors continue to work with the government in an attempt to resolve the CMS Claim.

In addition, it remains possible that additional amounts may be paid to Caritas from CMS upon completion of audits from the years prior to Caritas' ownership of the hospitals. The Debtors have also recorded open Medicare receivables for each of 2007 and 2008.

P. Stipulations Regarding Rejection of Collective Bargaining Agreements

As a part of the Debtors' efforts to resolve major outstanding issues and make progress in the resolution of their Cases, the Debtors, assisted by Proskauer and Kelley Drye, negotiated extensively with certain labor unions representing the Debtors' former employees to provide for the rejection of collective bargaining agreements and resolve issues with respect to the termination of union employees in connection with the Debtors' shut-down. These negotiations resulted in the submission to the Court of settlement agreements with each of (i) the New York State of Nurses Association ("NYSNA") and (ii) 1199, along with certain parties related thereto, which resolved nearly all outstanding issues between the Debtors, the unions, and the union members formerly employed by the Debtors. The settlements provide, among other things, a mechanism for severance to be paid to the union employees and for the related collective bargaining agreements to be rejected without subjecting the Debtors to the rigors of Section 1113 of the Bankruptcy Code. The settlements also provide certain mutual releases for the parties thereto, which provided the Debtors with finality and certitude regarding issues related to the involved unions and union employees. The settlements were approved by the Court on January

12, 2010 and February 23, 2010 [Docket Nos. 504 and 529, respectively], and thereafter the Debtors made the agreed severance payments to the union employees.

Q. Executory Contracts and Unexpired Leases

As of the Petition Date, the Debtors were party to numerous executory contracts (e.g. employment contracts, service agreements and equipment leases) and leases of non-residential real property. The Debtors, in consultation with Proskauer, determined which contracts and leases should be rejected, especially in the initial months of the case, in order to preserve the value of the estates and avoid accrual of unnecessary administrative expenses. The Debtors gained Court approval [Docket Nos. 208, 249 and 281] of three omnibus motions to reject certain agreements, preventing the diminution of estate assets in cases where administrative liability was accruing with respect thereto. In addition, the Debtors gained Court approval [Docket No. 248] of a motion to establish certain rejection procedures which allowed the Debtors to reject executory contracts expeditiously. The Debtors have also worked cooperatively with the counterparties to the aforementioned contracts and leases to manage any issues arising from the Debtors' decisions to reject or not reject certain agreements.

R. Motions for Examination Under Bankruptcy Rule 2004

During the Cases, two motions under Bankruptcy Rule 2004 for examination of the Debtors were made. The first such motion was filed by the Committee of Interns and Residents ("CIR") on May 4, 2009 [Docket No. 241]. CIR's motion sought the power to inquire into matters related to the Debtors' actions with respect to malpractice insurance. This motion was resolved by means of an agreed order pursuant to which the Debtors provided CIR with documentation responsive to its request, under the protection of a confidentiality agreement. The second such motion, concerning similar matters, was made by the Caritas Medical Board ("CMB") on June 3, 2009 [Docket No. 284]. Similarly, the Debtors met CMB's request by producing responsive documentation pursuant to an agreed order, under the protection of a confidentiality agreement.

S. Avoidance Actions

Pursuant to sections 546 and 549 of the Bankruptcy Code, the Debtors had two years from the Petition Date to commence actions under sections 544, 545, 547, 548, 549, 550 and 553 of the Bankruptcy Code to seek to avoid certain payments or transfers of their interests in property made prior to the Petition Date (the "Avoidance Actions"). Because the Debtors have only a few remaining employees, the Debtors did not have the necessary resources to review, analyze, and investigate all the documents and other materials required to bring the Avoidance Actions in a timely manner. Thus, the Debtors sought to hire professionals to assist in such analysis and pursuit of the Avoidance Actions.

As such, on January 7, 2011, the Debtors filed an application to employ The Receivables Management Services Corporation ("RMS") as collections agent. Pursuant to the terms of RMS's engagement, RMS was to assist the Debtors with, among other things, investigating and assessing Avoidance Actions, issuing demand letters to entities identified as recipients of avoidable transfers, and negotiating settlements of Avoidance Actions. On February 9, 2011, the

Court entered an order [Docket No. 993] approving the retention of RMS as collections agent. RMS is compensated on a contingency fee basis.

Further, on February 4, 2011, the Debtors, after consulting with RMS, filed an application to employ Whiteford Taylor & Preston LLP ("WT&P") as special counsel to assist the Debtors with pursuing the Avoidance Actions. On March 2, 2011, the Court entered an order [Docket No. 1008] approving the retention of WT&P as special counsel for the Debtors. Due to certain conflicts, WT&P could not be adverse to several potential defendants. Accordingly, on March 11, 2011, the Debtors filed an application to employ DiConza Traurig Magaliff LLP ("DTM") as special counsel to pursue those Avoidance Actions which WT&P could not. On April 4, 2011, the Court entered an order [Docket No. 1034] approving the retention of DTM as special conflicts counsel to pursue such actions. Both WT&P and DTM are compensated out of any contingency fees earned by RMS.

The Debtors sent demand letters to approximately 319 potential defendants seeking to recover certain payments or transfers made prior to the Petition Date. Thereafter, the Debtors commenced approximately 205 Avoidance Actions. On June 6, 2011, given the large number of Avoidance Actions, the Debtors filed a motion to establish certain procedures to apply to the settlement of Avoidance Actions asserted on behalf of the Debtors' estates. On August 5, 2011 the Court entered an order [Docket No. 1109] approving those procedures and on September 16, 2011, the Court amended and clarified its prior order [Docket No. 1126].

As of February 15, 2012, the Debtors reached settlements in principle with approximately 102 of the 319 potential defendants which the Debtors estimate will yield gross recoveries of approximately $2,251,269.13. The Debtors, and thereafter the Plan Administrator, together with RMS, WT&P and DTM, as applicable, intend to pursue the remaining Avoidance Actions, but due to the fact-specific nature of the Avoidance Actions and the various defenses that may be asserted by the defendants thereto, the Debtors cannot predict the amount of proceeds that will be realized from the remaining Avoidance Actions. Moreover, pursuant to the WARN Settlement Agreement, defined below, net proceeds of Avoidance Actions will be divided 50% to the WARN Class and 50% for Pro Rata distribution to unsecured creditors, until the WARN Class receives the entire WARN Settlement Amount (as defined below).

T. WARN Litigation

As set forth above, in connection with the Debtors' cessation of all health care operations, the Debtors terminated the vast majority of their employees. On or about February 24, 2009, a former employee of the Debtors commenced an adversary class-action proceeding related to the Cases, arising from alleged violations of the New York State and Federal Worker Adjustment and Retraining Notification Acts (the "WARN Acts") with respect to the terminations, encaptioned Curry v. Caritas Health Care, Inc., Adv. Pro. No. 09-01039 (the "Class Action"). The Debtors do not believe that they have any liability under the WARN Acts and have vigorously defended themselves against the Class Action complaint. Among other things, the Debtors have (i) filed an answer to the complaint commencing the Class Action; (ii) conducted extensive discovery; and (iii) prepared and briefed cross-motions for summary judgment. During the hearing on the cross-motions for summary judgment, the Debtors and the Class Action Plaintiffs agreed to non-binding mediation with respect to the issues raised in the

complaint. On October 29, 2010, counsel for the Debtors and the Class Action Plaintiffs, along with the Committee, undertook extensive and arms length mediation with Hon. Elizabeth S. Strong, United States Bankruptcy Judge for the Eastern District of New York. The mediation ultimately resulted in a settlement of the Class Action (the "WARN Settlement Agreement").

Pursuant to the WARN Settlement Agreement, the WARN Class will receive an Allowed class claim in the aggregate gross amount of two million six hundred and fifty thousand dollars ($2,650,000) (the "WARN Settlement Amount") in the Caritas bankruptcy case, inclusive of all Class Action Plaintiffs' fees and expenses. In addition, Caritas and the WARN Class have agreed to mutually release one another and their respective trustees, representatives, employees, agents and attorneys from any and all claims and causes of action arising out of or relating to the Class Action complaint and any filed proofs of claim asserting claims under the WARN Acts, except for any obligations arising from the WARN Settlement Agreement. Further, each member of the WARN Class agreed to waive any right to bring any claim in the future against Caritas before any court, agency or tribunal seeking any benefits or other recovery under the WARN Acts.

Pursuant to the WARN Settlement Agreement, on the Effective Date or as soon thereafter as reasonably practical, the Debtors shall make an initial distribution of the WARN Settlement Amount to the members of the WARN Class on a *pro rata* basis in the amount of eight hundred and fifty thousand dollars ($850,000), less WARN Class counsel's fees and certain expenses and one-time service payments. The Debtors also shall segregate for the benefit of the WARN Class up to an aggregate amount of one million eight hundred thousand dollars ($1,800,000), consisting solely of (x) 50% of net preference payments recoveries under section 547 of the Bankruptcy Code; (y) 50% of all cash that becomes available for distribution to unsecured creditors as a result of reducing any or all of the following: Allowed Secured Claims below $76,890, Allowed Administrative Claims below $2,999,978 or Allowed Priority Claims below $11,370,868; and (z) 50% of certain cash that comes into the Debtor's estate after the Effective Date. While the Plan authorizes the Plan Administrator to make distributions pursuant to the WARN Settlement Agreement, all such distributions shall be made pursuant to the WARN Settlement Agreement, and not the Plan, on a *pro rata* basis to members of the WARN Class whenever such segregated funds reach $500,000 or the distribution of a lesser amount is reasonably feasible.

On December 22, 2011, the Court entered an order that, among other things, (i) preliminarily approved the WARN Settlement Agreement; (ii) approved the form and manner of notice of the WARN Settlement Agreement to members of the WARN Class; and (iii) established February 22, 2012, at 1:30 p.m. EST as the hearing date to consider final approval of the WARN Settlement Agreement. At the February [__], 2012, hearing, the Court approved the WARN Settlement Agreement on a final basis.

U. Settlement with the New York State Department of Labor ("DOL")

As stated above, Caritas is a not-for-profit corporation under Section 501(c)(3) of the federal Internal Revenue Code, and, as such, it was able to elect one of two payment methods for discharging its unemployment obligations to the DOL, which are referred to as the "reimbursement" and "tax contribution" options. Those employers that elect the tax contribution

basis remit funds to the DOL periodically as a tax. This tax is based on the employer's applicable tax rate and the annual compensation paid to its employees. Employers that elect the reimbursement option, on the other hand, do not make periodic payments and instead are only obligated to repay the DOL for unemployment benefits actually paid out to former employees. From its inception, Caritas elected to satisfy its unemployment obligations on a reimbursement basis.

During the Debtors' Chapter 11 cases, the DOL filed proofs of claim[5] in respect of allegedly unpaid reimbursement obligations and other outstanding tax obligations[6] and asserted that the Debtors that Caritas' aggregate liability had grown to more than approximately $11 million. The Debtors believed that ultimately the potential liability could have reached $15 million. The DOL asserted that the majority of its claims were entitled to either administrative expense status under Section 503 of the Bankruptcy Code or priority status under Section 507 of the Bankruptcy Code. Caritas, however, asserted that the DOL's claim is a general unsecured claim because Caritas elected to satisfy its unemployment obligations on a "reimbursement" basis rather than on a "tax contribution" basis.

If Caritas had chosen to satisfy its obligations on a tax contribution basis, the aggregate amount owed to the DOL could have been entitled to priority claim status. In fact, the DOL indicated that it would permit Caritas to make use of statutory provisions enabling Caritas to retroactively change its election from a reimbursement basis to a tax contribution basis. If Caritas made such a change in its initial election, the DOL could have had a priority claim against the Debtors of up to approximately $3 million.

Given the uncertainty of litigation, however, and after good faith, arm's-length negotiations, the Debtors and the DOL reached a settlement, which was approved by order of the Court on May 24, 2010, whereby the Debtors discharged all obligations to the DOL for a payment of $1.5 million.

V. Medical Malpractice Insurance Funding Issues

Prior to the Petition Date, the Debtors intended to set aside a fund to serve as medical malpractice insurance to cover their physicians in the event of any medical malpractice or similar liability. The Debtors did not have the financial capability to set aside sufficient funds to provide for such coverage. After the Petition Date, CIR and CMB, on behalf of the Debtors' former physicians, asserted that the Debtors' trustees had liability with respect to the Debtors' decision not to provide medical malpractice insurance, self-funded or otherwise and requested that Debtors commence an action or requested authority to commence an action on behalf of the estate. The Debtors notified their D&O Carrier of CIR and CMB's assertions, and transmitted to the carrier a copy of a draft complaint prepared by CIR and CMB. The parties commenced discussions which resulted in an agreement where the D&O carrier will contribute to the Debtors estate $350,000 to fund a medical malpractice claims reserve. In exchange for such contribution, the insureds under the D&O polices granted certain releases in favor of the D&O carrier. These

---

[5] The proofs of claim were designated by the Court-approved claims agent in the Debtors' Chapter 11 cases (the "Claims Agent") as Claim Nos. 10, 40, 71, 72, 83, 124, 181, 182, 187, 188 and 425.

[6] The professional corporation Debtors against which Claim Nos. 40, 72, 83 and 124 were filed with respect to allegedly unpaid unemployment taxes of approximately $7,000 in the aggregate are not organized as not-for-profit corporations and are not, therefore, eligible for the reimbursement option.

contributions form the consideration for the injunctions and releases contained in the Plan enjoining any party from asserting against, and releasing any liability associated with, any claim against the Debtors' trustees for the alleged failure to fund self insured medical malpractice insurance reserves, maintain adequate medical malpractice reserves, or the cessation of the Debtors business operations. In addition, in consideration of not pursuing the draft complaint and the resultant settlement and establishment of the Medical Malpractice Reserve, all persons are enjoined from pursuing medical malpractice claims against the Debtors' former physicians and nurses.

IV. OVERVIEW OF THE PLAN

A. General

The following is a summary intended as a brief overview of the Plan and is qualified in its entirety by reference to the full text of the Plan, a copy of which is annexed hereto as Exhibit A. Holders of Claims and Interests are respectfully referred to the relevant provisions of the Bankruptcy Code and are encouraged to review the Plan and this Disclosure Statement with their counsel.

In general, a Chapter 11 liquidating plan of reorganization must (i) divide claims and interests into separate categories and classes, (ii) specify the treatment that each category and class is to receive under such plan, and (iii) contain other provisions necessary to implement the liquidation of a debtor. A Chapter 11 plan may specify that the legal, equitable, and contractual rights of the holders of claims or interests in certain classes are to remain unchanged by the liquidation effectuated by the plan. Such classes are referred to as "unimpaired" and, because of such favorable treatment, are deemed to vote to accept the plan. Accordingly, it is not necessary to solicit votes from holders of claims or interests in such "unimpaired" classes. Pursuant to Section 1124(1) of the Bankruptcy Code, a class of claims or interests is "impaired," and entitled to vote on a plan, unless the plan "leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest." 11 U.S.C. §1124(1).

B. Classification of Claims and Interests

Section 1122 of the Bankruptcy Code provides that a plan of reorganization shall classify the claims and interests of a debtor's creditors and equity interest holders. In compliance with Section 1122 of the Bankruptcy Code, the Plan divides the holders of Claims and Interests into 4 unclassified categories and 5 Classes, and sets forth the treatment offered to each Class.[7] These

[7] A plan proponent is required under Section 1122 of the Bankruptcy Code to classify the claims and interests of a debtor's creditors and interest holders into classes containing claims and interests that are substantially similar to the other claims or interests in such class. While the Debtors believe that their classification of all Claims and Interests is in compliance with the provisions of Section 1122 of the Bankruptcy Code, it is possible that a holder of a Claim or Interest may challenge the Debtors' classification scheme and the Court may find that a different classification is required for the Plan to be confirmed. In such event, it is the present intent of the Debtors, to the extent permitted by the Court, to modify the Plan to provide for whatever reasonable classification might be required by the Court for Confirmation, and to use the acceptances received by the Debtors from any holder of a Claim or Interest pursuant to this solicitation for the purpose of obtaining the approval of the Class or Classes of which such holder of a Claim or Interest is ultimately deemed to be a member.

Classes take into account the differing nature and priority of Claims against the Debtors. Section 101(5) of the Bankruptcy Code defines "Claim" as a "right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured" or a "right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured." 11 U.S.C. § 101(5). A "Claim" against the Debtors also includes a Claim against property of the Debtors, as provided in Section 102(2) of the Bankruptcy Code. 11 U.S.C. § 102(2). An "interest" is an equity interest in a debtor.

For the holder of a Claim to participate in a plan of reorganization and receive the treatment offered to the class in which it is classified, its Claim must be "Allowed." Under the Plan, "*Allowed*," with reference to any Claim, means: (a) such Claim is scheduled by the Debtors pursuant to the Bankruptcy Code and Bankruptcy Rules in a liquidated amount and not listed as contingent, unliquidated, zero, undetermined or disputed, or (b) a proof of such Claim was timely filed, or deemed timely filed, with the Court pursuant to the Bankruptcy Code, the Bankruptcy Rules, and/or any applicable Final Order; and, in either case, (x) is not objected to within the period fixed by the Bankruptcy Code, the Bankruptcy Rules, this Plan, and/or applicable Final Orders of the Court, (y) has been settled pursuant to either Section 9.2 of the Plan or Mediation Procedures, or (z) has otherwise been allowed, or in respect of Medical Malpractice Claims estimated, by a Final Order. An "*Allowed Claim*" shall be net of any valid setoff or recoupment amount based on a valid setoff or recoupment right. Except as otherwise expressly provided in the Plan, the term "*Allowed Claim*" shall not, for the purposes of computation of distributions under the Plan, include (i) any non-compensatory penalties, fines, punitive damages, exemplary damages, multiple damages, treble damages, or any other Claims or obligations that do not compensate for actual losses incurred or (ii) any other amounts not allowable under the Bankruptcy Code or applicable law.

C. Treatment of Claims and Interests Under the Plan

The Plan segregates the various Claims against, and Interests in, the Debtors into the following groups: Administrative Claims, Priority Tax Claims, Professional Fee Claims, U.S. Trustee Fees, Class 1 Secured Claims, Class 2 Other Priority Claims, Class 3 Unsecured Claims, Class 4 Medical Malpractice Claims and Class 5 Interests.

Under the Plan, Claims in Classes 1 and 2 are unimpaired, and Claims in Classes 3, 4 and 5 are impaired. The treatment accorded to the impaired Classes of Claims under the Plan represents the best treatment that can be provided to such Classes pursuant to the priority provisions of the Bankruptcy Code. Set forth below is a summary of the Plan's treatment of the various categories and Classes of Claims and Interests. This summary is qualified in its entirety by the full text of the Plan. In the event of an inconsistency between the Plan and the description contained herein, the terms of the Plan shall govern. The Plan is complicated and substantial. Time should be allowed for its analysis; consultation with a legal and/or financial advisor is recommended and should be considered.

UNCLASSIFIED CATEGORIES OF CLAIMS

a. Administrative Claims

Supplemental Administrative Claims Bar Date. Except as provided below for

(1) Professional Persons requesting compensation or reimbursement for Professional Fee Claims, and (2) U.S. Trustee Fees, requests for payment of Administrative Claims, for which a Bar Date to file such Administrative Claim was not previously established, must be filed no later than thirty (30) days after service of notice of entry of the Confirmation Order, in substantially the same form as included in the Plan Supplement, or such later date as may be established by Order of the Bankruptcy Court. **Holders of Administrative Claims who are required to file a request for payment of such Claims and who do not file such requests by the applicable Bar Date, shall be forever barred from asserting such Claims against the Debtors or their property, and the holder thereof shall be enjoined from commencing or continuing any action, employment of process or act to collect, offset or recover such Administrative Claim.**

Estimation of Administrative Claims. The Debtors and the Plan Administrator reserve the right, for purposes of allowance and distribution, to seek to estimate any unliquidated Administrative Claims, if the fixing or liquidation of such Administrative Claim would unduly delay the administration of and distributions under the Plan (including seeking to estimate Post Petition indemnification, medical malpractice or personal injury Claims in the District Court).

Treatment. Each holder of an Allowed Administrative Claim, in full and complete satisfaction of such Claim, shall receive Cash from the Remaining Cash in an amount equal to such Allowed Administrative Claim on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date on which such Claim becomes Allowed, unless such holder shall agree to a different, less favorable, treatment of such Claim. The Plan Administrator may, in the ordinary course of business, satisfy any liabilities, expenses and other Claims incurred by the Plan Administrator after the Effective Date in the ordinary course of business without further order of the Court..

b. Priority Tax Claims

Treatment. Unless the holder thereof shall agree to a different, less favorable, treatment, each holder of an Allowed Priority Tax Claim, in full and complete satisfaction of such Allowed Claim, shall receive, payment in Cash from the Remaining Cash in an amount equal to such Allowed Priority Tax Claim on or as soon as reasonably practicable after the later of (a) the Effective Date and (b) the date on which such Claim becomes Allowed. Any Claim or demand for penalty relating to any Priority Tax Claim (other than a penalty of the type specified in Section 507(a)(8)(G) of the Bankruptcy Code) shall be Disallowed, and the holder of an Allowed Priority Tax Claim shall not assess or attempt to collect such penalty from the Estates or any of their respective property or Assets.

c. Professional Fee Claims

Professional Fee Claims Bar Date. All final applications for payment of Professional Fee Claims for the period through and including the Effective Date shall be filed with the Court and served on the Plan Administrator and the other

parties entitled to notice pursuant to the Interim Compensation and Reimbursement Procedures Order [Docket No. 143] on or before the Professional Fee Claims Bar Date, or such later date as may be agreed to by the Plan Administrator. Any Professional Fee Claim that is not asserted in accordance with Section 2.4(a) of the Plan shall be deemed Disallowed under the Plan and the holder thereof shall be enjoined from commencing or continuing any Cause of Action, employment of process or act to collect, offset, recoup or recover such Claim against the Estates or any of their respective Assets or property.

Treatment. Each holder of an Allowed Professional Fee Claim shall be paid in Cash from the Remaining Cash in an amount equal to such Allowed Professional Fee Claim on or as soon as reasonably practicable after the first Business Day following the date upon which such Claim becomes Allowed by Final Order, unless such holder shall agree to a different, less favorable, treatment of such Claim.

Post Effective Date Services. The fees and expenses of Professionals retained by the Plan Administrator and the Post Effective Date Committee on and after the Effective Date shall be paid by the Plan Administrator upon receipt of invoice(s) therefor, or on such other terms as the Plan Administrator and the applicable professional may agree to, without the need for further Court authorization or entry of a Final Order, but subject to the approval of the Post Effective Date Committee, which approval shall not unreasonably be withheld. If the Plan Administrator and the Professional cannot agree on the amount of Post Effective Date fees and expenses to be paid to such Professional, such amount shall be determined by the Court.

d. U.S. Trustee Fees

U.S. Trustee Fees incurred by the Estates prior to the Effective Date shall be paid from the Remaining Cash on the Effective Date in accordance with the applicable schedule for payment of such fees. Until the Cases are closed by entry of a final decree of the Court, the Plan Administrator shall pay all additional U.S. Trustee Fees incurred in accordance with the applicable schedule for the payment of such fees.

UNIMPAIRED CLASSES OF CLAIMS

A Chapter 11 plan may specify that the legal, equitable, and contractual rights of the holders of claims or interests in certain classes are to remain unchanged by the plan. Such classes are referred to as "unimpaired" and, because of such favorable treatment, are deemed to vote to accept the plan. Accordingly, it is not necessary to solicit votes from holders of claims or interests in such "unimpaired" classes. Under the Plan, Class 1 Secured Claims and Class 2 Other Priority Claims are unimpaired and, therefore, are deemed to have accepted the Plan.

e. Class 1 – Secured Claims.

Composition. Class 1 consists of Allowed Secured Claims against the Debtors. For convenience of identification, the Plan describes Allowed Secured Claims in Class 1 as a single Class. Class 1 consists of separate subclasses, each based on

the underlying property securing such Allowed Secured Claim, and each subclass is treated under the Plan as a distinct Class for treatment and distribution purposes and for all other purposes under the Bankruptcy Code.

Treatment. Each holder of an Allowed Secured Claim shall receive, in full and complete satisfaction of such Claim, one of the following alternative treatments, at the election of the Plan Administrator: (a) payment in full in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date the Claim becomes due and payable by its terms; (b) the legal, equitable and contractual rights to which such Claim entitles the holder, unaltered by the Plan; (c) the treatment described in Section 1124(2) of the Bankruptcy Code; or (d) all collateral securing such Claim, without representation or warranty by or recourse against the Debtors. To the extent that the value of the Collateral securing each Allowed Secured Claim is less than the amount of such Allowed Secured Claim, the undersecured portion of such Claim shall be treated for all purposes under the Plan as a General Unsecured Claim and shall be classified as such. Class 1 is an Unimpaired Class and is deemed to have accepted the Plan.

f. Class 2 – Other Priority Claims.
Composition. Class 2 consists of Allowed Other Priority Claims against the Debtors.

Treatment. Each holder of an Allowed Other Priority Claim, in full and complete satisfaction of such Claim, shall be paid in full in Cash in an amount equal to its Allowed Other Priority Claim on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date on which such Claim becomes Allowed, unless such holder shall agree to a different, less favorable, treatment of such Claim (including, without limitation, any different treatment that may be provided for in the documentation governing such Claim or in a prior agreement with such holder).

IMPAIRED CLASSES

Pursuant to Section 1124 of the Bankruptcy Code, a class of claims or interests is impaired unless the legal, equitable, and contractual rights of the holders of claims or interests in such class are not modified or altered by a plan. Holders of allowed claims and equity interests in impaired classes that receive or retain property under a plan of reorganization are entitled to vote on such plan. Under the Plan, Classes 3 and 4 are impaired and, therefore, are entitled to vote on the Plan. Holders of Class 5 Interests are not entitled to vote on the Plan because they are not receiving or retaining any property thereunder, and therefore are deemed to reject the Plan.

g. Class 3 – Unsecured Claims.
Composition. Class 3 consists of Allowed Unsecured Claims against the Debtors.

Treatment. After the payment of or reserving in full for all Administrative Claims, Professional Fee Claims, Priority Tax Claims and Other Priority Claims, each in accordance with the provisions of the Plan, the holders of Allowed

Unsecured Claims, in full and complete satisfaction of such Allowed Claims, shall receive Pro Rata distributions of Cash from the Net Proceeds.

h. Class 4 – Medical Malpractice Claims.
Composition. Class 4 consists of Allowed Medical Malpractice Claims against the Debtors.

Treatment. Pursuant to the Mediation Procedures:

Each holder of a timely or deemed timely Medical Malpractice Claim may elect to be granted relief from the automatic stay imposed under Section 362(a) of the Bankruptcy Code to litigate such holder's Medical Malpractice Claim in state court provided that, if such election is made, any recovery on account of such Medical Malpractice Claim shall be limited to available insurance, if any. Each holder of a Medical Malpractice Claim that asserts a claim against any Covered Person for claims that would entitle such Covered Persons to an Indemnification Claim may not make this election unless such holder affirmatively elects to either release such Covered Person from any liability or look only to available insurance with respect to such Covered Person prior to pursuing such election.

Any holder of a Medical Malpractice Claim, for which a proof of claim was timely filed (or deemed timely filed), that does not elect the treatment under Section 4.4(a) of the Plan, shall have such holder's Medical Malpractice Claim Allowed or Disallowed pursuant to Mediation Procedures. If the Mediation Procedures do not result in an Allowed Medical Malpractice Claim, such claim shall be estimated by the District Court pursuant to section 502(c) of the Bankruptcy Code together with any vicarious or other liability the Debtors may have related to such Claim.

The holders of Allowed Medical Malpractice Claims whether estimated by the District Court or liquidated through the Mediation Procedures, in full and complete satisfaction of such Allowed Claims, shall receive a Pro Rata distribution, capped at fifty percent (50%) of the amount of any Allowed Medical Malpractice Claim, of the Medical Malpractice Reserve, which includes the D&O Carrier Settlement Amount that the D&O Carrier shall transfer to the Estates on the Effective Date. No distributions from the Medical Malpractice Reserve shall be made, and the Mediation Order shall remain in full force and effect, until all Medical Malpractice Claims have been Allowed or Disallowed as the case may be pursuant to the Mediation Procedures.

If the holder of a Class 4 Medical Malpractice Claim elects the treatment under Section 4.4(a) of the Plan to have the automatic stay lifted, such election will be binding on such holder regardless of whether Class 4 accepts the Plan, provided that the Plan is confirmed and the Effective Date occurs. In addition, nothing contained in the Plan shall alter, modify, limit or impair the provisions of those "So Ordered" stipulations and orders lifting the automatic stay, resolving litigation claims and limiting recoveries to available insurance; such stipulations

will remain in full force and effect and control the disposition of the Medical Malpractice Claims subject to those stipulations.

i. Class 5 – Interests.
Composition. Class 5 consists of all Interests.

Treatment. On the Effective Date, all Interests shall be cancelled, annulled and extinguished, and holders of Interests and Claims in Class 5 shall not be entitled to receive or retain any property or interest in property under the Plan on account of such Interests or Claims.

D. The Plan Administrator

(1) Implementation of the Plan. The Plan Administrator will be Charles Berk, managing director of CBIZ MHM, LLC, or such other Person designated by the Debtors and the Committee, and approved by the Bankruptcy Court pursuant to the Confirmation Order. The Plan will be implemented by the Plan Administrator in a manner consistent with the terms and conditions set forth in the Plan and the Confirmation Order. On the Effective Date, the monetization of the Debtors' remaining assets and causes of actions and distributions to creditors shall become the general responsibility of the Plan Administrator. The Confirmation Order shall provide for the appointment of the Plan Administrator. The compensation for the Plan Administrator shall be at the Plan Administrator's standard hourly rate (currently $565.00 per hour). The Plan Administrator shall be deemed the Estate's representative in accordance with Section 1123 of the Bankruptcy Code and shall have all powers, authority and responsibilities specified under Sections 704 and 1106 of the Bankruptcy Code.

(2) Duties of the Plan Administrator. The Plan Administrator will act for the Debtors in a fiduciary capacity as applicable to a board of directors, subject to the provisions of the Plan. On the Effective Date, the Plan Administrator shall succeed to all of the rights of the Debtors with respect to the Estate Assets necessary to protect, conserve, and liquidate all Estate Assets as quickly as reasonably practicable, including, without limitation, control over (including the right to waive) all attorney-client privileges, work-product privileges, accountant-client privileges and any other evidentiary privileges relating to the Estate Assets that, prior to the Effective Date, belonged to the Debtors pursuant to applicable law. The powers and duties of the Plan Administrator shall include:

(i) to invest Cash in accordance with section 345 of the Bankruptcy Code, and withdraw and make Distributions of Cash to holders of Allowed Claims and pay taxes and other obligations owed by the debtors or incurred by the Plan Administrator in connection with the wind-down of the Estates in accordance with the Plan;

(ii) to receive, manage, invest, supervise, and protect the Estate Assets, including paying taxes or other obligations incurred in connection with the Estate Assets;

(iii) subject to the approval of the Post Effective Date Committee (which approval shall not be unreasonably withheld), to engage attorneys,

consultants, agents, employees and all professional persons, to assist the Plan Administrator with respect to the Plan Administrator's responsibilities;

(iv) to pay the fees and expenses for the attorneys, consultants, agents, employees and professional persons engaged by the Plan Administrator and the Post Effective Date Committee and to pay all other expenses for winding down the affairs of the Debtors in each case in accordance with a wind-down budget, or as otherwise agreed to by the Plan Administrator or determined by the Bankruptcy Court, and subject to the approval of the Post Effective Date Committee (which approval shall not be unreasonably withheld);

(v) to execute and deliver all documents, and take all actions, necessary to consummate the Plan and wind-down the Debtors' business;

(vi) subject to the approval of the Post Effective Date Committee (which approval shall not be unreasonably withheld), to dispose of, and deliver title to others of, or otherwise realize the value of all the remaining Estate Assets;

(vii) to coordinate the collection of outstanding accounts receivable;

(viii) to coordinate the storage and maintenance of the Debtors' books and records;

(ix) to oversee compliance with the Debtors' accounting, finance and reporting obligations;

(x) to prepare monthly operating reports and financial statements and United States Trustee quarterly reports;

(xi) to oversee the filing of final tax returns, audits and other corporate dissolution documents if required;

(xii) to perform any additional corporate actions as necessary to carry out the wind-down and liquidation of the Debtors;

(xiii) to communicate regularly with and respond to inquiries from the Post Effective Date Committee and its professionals, including providing to the Post Effective Date Committee regular cash budgets, information on all disbursements on a weekly basis, and copies of bank statements on a monthly basis;

(xiv) subject to the approval of the Post Effective Date Committee (which approval shall not be unreasonably withheld), to object to, compromise and settle Claims;

(xv) to act on behalf of the Debtors in all adversary proceedings and contested matters (including, without limitation, any Causes of Action), then pending or that can be commenced in the Bankruptcy Court and in all actions and proceedings pending or commenced elsewhere, and subject to the approval of the Post Effective Date Committee (which approval shall not be unreasonably withheld), to settle, retain, enforce, dispute or adjust any Claim and otherwise pursue actions involving Assets of the Debtors that could arise or be asserted at any time under the Bankruptcy Code, unless otherwise waived or relinquished in the Plan;

(xvi) to implement and/or enforce all provisions of the Plan;

(xvii) to implement and/or enforce all agreements entered into prior to the Effective Date, including, without limitation, by making distributions pursuant to the WARN Settlement Agreement; and

(xviii) such other powers as may be vested in or assumed by the Plan Administrator pursuant to the Plan or Bankruptcy Court Order or as may be necessary and proper to carry out the provisions of the Plan.

E. The Post-Effective Date Committee

(1) Composition. On the Effective Date the Committee shall continue as the Post Effective Date Committee. The Post Effective Date Committee shall be comprised of the members of the Committee, unless any particular member thereof opts not to be a member thereof. If a member of the Post Effective Date Committee resigns or is removed, a replacement may be appointed by the remaining members of the Post Effective Date Committee. The duties and powers of the Post Effective Date Committee shall terminate upon the closing of the Cases. The Post Effective Date Committee's role shall be to consult with the Plan Administrator, and to perform the functions set forth in the Plan.

(2) Counsel. The Post Effective Date Committee shall have the power and authority to utilize the services its of counsel and a financial advisor as necessary to perform the duties of the Post Effective Date Committee and to authorize and direct such Persons to act on behalf of the Post Effective Date Committee in connection with any matter requiring its attention or action. The Debtors and their Estates shall be responsible for the payment of all reasonable and necessary fees and expenses of such counsel and financial advisor. The Plan Administrator shall pay the reasonable and necessary fees and expenses of the Post Effective Date Committee's counsel and financial advisor without the need for Bankruptcy Court approval.

(3) Compensation and Reimbursement. Except for the reimbursement of reasonable, actual costs and expenses incurred in connection with their duties as members of the Post Effective Date Committee, including reasonable attorneys' fees subject to an aggregate cap to be agreed to by the Post Effective Date Committee and the Plan Administrator, the members of the Post Effective Date Committee shall serve without compensation. Reasonable expenses incurred by members of the Post Effective Date Committee may be paid by the Plan Administrator without need for Court approval.

F. Distributions

(1) Plan Distributions. The Plan Administrator shall make distributions to holders of Allowed Claims in accordance with Article 4 of the Plan on or as soon as reasonably practicable after the Effective Date. From time to time, in consultation with the Post Effective Date Committee, the Plan Administrator shall make subsequent Pro Rata distributions to holders of Allowed Claims, other than Allowed Medical Malpractice Claims, including to the holders of Allowed Class 3 Claims in accordance with Article 4 of the Plan; *provided, however*, that the Plan Administrator may retain such amounts (i) as are reasonably necessary to meet contingent liabilities (including Disputed Claims) and to maintain the value of the Estate Assets during liquidation, (ii) to pay reasonable administrative expenses (including the costs and expenses of the Plan Administrator and the Post Effective Date Committee and the fees, costs and expenses of all professionals retained by the Plan Administrator and the Post Effective Date Committee, and any taxes imposed in respect of the Estate Assets), (iii) to satisfy other liabilities to which the Estate Assets are otherwise subject, in accordance with the Plan, and (iv) to establish any necessary reserve. The Plan Administrator shall make distributions to holders of Allowed Medical Malpractice Claims in Class 4 only in accordance with Section 4.4 of the Plan at such time as all Medical Malpractice Claims are Allowed or Disallowed. Any amounts remaining in the Medical Malpractice Claims Reserve after distributions are made to all holders of Allowed Medical Malpractice Claims shall become available for distribution to holders of Allowed Claims in Class 3. All such distributions to the holders of Allowed Claims shall be made in accordance with the Plan. The Plan Administrator may withhold from amounts distributable to any Person any and all amounts determined in the Plan Administrator's reasonable sole discretion to be required by any law, regulation, rule, ruling, directive or other governmental requirement. Holders of allowed Claims shall, as a condition to receiving distributions, provide such information and take such steps as the Plan Administrator may reasonably require to ensure compliance with withholding and reporting requirements and to enable the Plan Administrator to obtain certifications and information as may be necessary or appropriate to satisfy the provisions of any tax law.

(2) Cash Distributions. The Plan Administrator shall not be required to make interim or final Cash distributions in an amount less than $5.00. Any funds so withheld and not distributed on an interim basis shall be held in reserve and distributed in subsequent distributions to the extent the aggregate distribution exceeds $10,000. Should a final distribution to any holder of a Claim not equal or exceed $5.00, that sum shall be distributed to other holders of Allowed Claims.

(3) Distributions to Holders as of the Confirmation Date. As of the close of business on the Confirmation Date, the claims register shall be closed, and there shall be no further changes in the record holders of any Claims. Neither the Debtors nor the Plan Administrator, as applicable, shall have any obligation to recognize any transfer of any Claims or Interests occurring after the close of business on the Confirmation Date, and shall instead be entitled to recognize and deal for all purposes under the Plan (except as to voting to accept or reject the Plan pursuant to Section 6.1 of the Plan) with only those holders of record as of the close of business on the Confirmation Date.

(4) Windup. After (a) the Plan has been fully administered, (b) all Disputed Claims have been resolved, (c) all Causes of Action have been resolved, and (d) all Estate Assets have

been reduced to Cash or abandoned, the Plan Administrator shall effect a final distribution of all Cash remaining (after reserving sufficient Cash to pay all unpaid expenses of administration of the Plan and all expenses reasonably expected to be incurred in connection with the final distribution) to holders of Allowed Claims in accordance with the Plan.

G. Substantive Consolidation of the Debtors

Substantive consolidation is an equitable remedy that a bankruptcy court may be asked to apply in Chapter 11 cases involving affiliated debtors. Substantive consolidation involves the pooling and merging of the assets and liabilities of the affected debtors. All of the debtors in the substantively consolidated group are treated as if they were a single corporate and economic entity. Consequently, a creditor of one of the substantively consolidated debtors is treated as a creditor of the substantively consolidated group of debtors and issues of individual corporate ownership of property and individual corporate liability on obligations are ignored. Substantive consolidation of two or more debtors' estates generally results in the deemed consolidation of the assets and liabilities of the debtors, the deemed elimination of intercompany claims, multiple and duplicative creditor claims, joint and several liability claims and guaranties, and the payment of allowed claims from a common fund.

The Plan provides for substantive consolidation of all of the Debtors. On the Effective Date: (a) all Assets (and all proceeds thereof) and liabilities of each Debtor shall be deemed merged or treated as though they were merged into and with the assets and liabilities of the other Debtor, (b) no distributions shall be made under the Plan on account of intercompany Claims among the Debtors and all such Claims shall be eliminated, (c) all guarantees of the Debtors of the obligations of any other Debtor shall be deemed eliminated and extinguished so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint and several liability of any of the Debtors shall be deemed to be one obligation of the consolidated Debtors, (d) each and every Claim filed or to be filed in any of the Cases shall be deemed filed against the consolidated Debtors, and shall be deemed one Claim against and obligation of the consolidated Debtors, and (e) for purposes of determining the availability of the right of set-off under Section 553 of the Bankruptcy Code, the Debtors shall be treated as one entity so that, subject to the other provisions of Section 553 of the Bankruptcy Code, debts due to any of the Debtors may be set-off against the debts of the other Debtors. Such substantive consolidation shall not (other than for purposes related to the Plan) affect the legal and corporate structures of the Debtors. Notwithstanding anything in Section 7.1 of the Plan to the contrary, all Post Effective Date U.S. Trustee Fees pursuant to 28 U.S.C. § 1930 shall be calculated on a separate legal entity basis for each Debtor.

H. Executory Contracts and Unexpired Leases

(1) Assumption or Rejection of Executory Contracts. Effective on and as of the Confirmation Date, all Executory Contracts are hereby specifically deemed rejected, except for any Executory Contract (a) that has been specifically assumed or assumed and assigned by the Debtors on or before the Confirmation Date with the approval of the Court, (b) in respect of which a motion for assumption or assumption and assignment has been filed with the Court on or before the Confirmation Date, or (c) that is specifically designated as a contract to be assumed on a schedule to the Plan, which schedule shall be contained in the Plan Supplement.

(2) Approval of Assumption or Rejection of Executory Contracts. Entry of the Confirmation Order by the Clerk of the Court, but subject to the condition that the Effective Date occur, shall constitute (a) the approval, pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption or assumption and assignment of the Executory Contracts assumed or assumed and assigned pursuant to Section 8.1 of the Plan, and (b) the approval, pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the rejection of the Executory Contracts rejected pursuant to Section 8.1 of the Plan.

(3) Bar Date for Filing Proofs of Claim Relating to Executory Contracts Rejected Pursuant to the Plan. Claims against the Debtors arising out of the rejection of Executory Contracts pursuant to the Plan must be filed with the Court no later than forty-five (45) days after the later of service of (a) notice of entry of an order approving the rejection of such Executory Contract, and (b) notice of occurrence of the Effective Date. Any such Claims not filed within such time shall be forever barred from assertion against the Debtors and any and all of their respective properties and Assets.

(4) Compensation and Benefit Programs. To the extent not previously terminated, all employment and severance agreements and policies, and all employee compensation and benefit plans, policies and programs of the Debtors applicable generally to their respective current employees or officers as in effect on the Confirmation Date, including, without limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit plans, incentive plans and life, accidental death and dismemberment insurance plans, shall be terminated as of the Confirmation Date.

I. Provisions for Resolving and Treating Claims

(1) Prosecution of Disputed Claims. Except as otherwise provided herein, the Plan Administrator shall have the right to object to all Claims on any basis, including those Claims that are not listed in the Schedules, that are listed therein as disputed, contingent, and/or unliquidated, that are listed therein at a lesser amount than asserted by the respective Creditor, or that are listed therein for a different category of claim than asserted by the respective Creditor. Subject to further extension by the Court for cause with or without notice, the Plan Administrator may object to the allowance of Class 3 and Class 4 Claims up to one hundred eighty (180) days after the Effective Date, the allowance of Administrative/Priority Claims and Secured Claims up to the later of (i) sixty (60) days after the Effective Date or (ii) the deadline for filing an objection established by order of the Court; *provided, however*, that an objection to a Claim based on Section 502(d) of the Bankruptcy Code may be made at any time in any adversary proceeding against the holder of any relevant Claim. The filing of a motion to extend the deadline to object to any Claims shall automatically extend such deadline until a Final Order is entered on such motion. In the event that such motion to extend the deadline to object to Claims is denied by the Bankruptcy Court, such deadline shall be the later of the current deadline (as previously extended, if applicable) or 30 days after the Bankruptcy Court's entry of an order denying the motion to extend such deadline. From and after the Effective Date, the Plan Administrator shall succeed to all of the rights, defenses, offsets, and counterclaims of the Debtors and the Committee in respect of all Claims, and in that capacity shall have the power to prosecute, defend, compromise, settle, and otherwise deal with all such objections, subject to the terms of the Plan. Notwithstanding anything to the contrary in the Plan, objections to final applications for payment of Professional Fee Claims may be made by parties in interest.

(2) Settlement of Disputed Claims. Pursuant to Bankruptcy Rule 9019(b), subject to paragraph 9.2(b) of the Plan and any Final Order approving Mediation Procedures, the Plan Administrator may settle any Disputed Claim (or aggregate of Claims if held by a single Creditor), respectively, without notice, a Court hearing or Court approval. The Plan Administrator shall give notice to the Post Effective Date Committee of (i) a settlement of any Disputed Class 3 Claim (or aggregate of Claims if held by a single Creditor) that results in the disputed portion of such Disputed Class 3 Claim(s) being Allowed in an amount in excess of $100,000, (ii) a settlement of any Disputed Administrative/Priority Claims, or (iii) settlement of any Disputed Secured Claims. The Post Effective Date Committee shall have ten (10) days after service of such notice to object to such settlement. Any such objection shall be in writing and sent to the Plan Administrator and the settling party. If no written objection is received by the Plan Administrator and the settling party prior to the expiration of such ten (10) day period, the Plan Administrator and the settling party shall be authorized to enter into the proposed settlement without a hearing or Court approval. If a written objection is timely received, the Plan Administrator, the settling party and the objecting party shall use good-faith efforts to resolve the objection. If the objection is resolved, the Plan Administrator and the settling party may enter into the proposed settlement (as and to the extent modified by the resolution of the objection) without further notice or Court approval, provided that the Claim of the settling party against the Estates shall not be greater under the proposed settlement than that disclosed in the notice. Alternatively, the Plan Administrator may seek Court approval of the proposed settlement upon expedited notice and a hearing.

(3) No Distributions Pending Allowance. Notwithstanding any provision in the Plan to the contrary, no partial payments and no partial distributions shall be made by the Plan Administrator with respect to any portion of any Claim against the Debtors if such Claim or any portion thereof is a Disputed Claim. In the event and to the extent that a Claim against the Debtors becomes an Allowed Claim after the Effective Date, the holder of such Allowed Claim shall receive all payments and distributions to which such holder is then entitled under the Plan.

J. Conditions to Confirmation and Effectiveness of the Plan

(1) Conditions to Confirmation. The following conditions are conditions precedent to Confirmation of the Plan unless waived by the Plan Proponents pursuant to Section 10.3 of the Plan: (i) the Confirmation Order must be in a form and substance reasonably acceptable to the Plan Proponents and the Committee, and (ii) the Confirmation Order shall:

a. authorize the appointment of all parties appointed under or in accordance with the Plan, including, without limitation, the Plan Administrator, and direct such parties to perform their obligations under such documents;

b. approve in all respects the transactions, agreements, and documents to be effected pursuant to the Plan;

c. authorize the Plan Administrator and the Post-Effective Date Committee to assume the rights and responsibilities fixed in the Plan;

d. approve the releases and injunctions granted and created by the Plan;

e. order, find, and decree that the Plan complies with all applicable provisions of the Bankruptcy Code, including that the Plan was proposed in good faith; and

f. except as specifically provided in the Plan, order that nothing in the Plan operates as a discharge, release, exculpation, or waiver of, or establishes any defense or limitation of damages to, any Claim or Cause of Action belonging to the Estates.

(2) Conditions to Effective Date. The Plan shall not become effective unless and until the following conditions shall have been satisfied or waived pursuant to Section 10.3 of the Plan:

a. the Confirmation Date shall have occurred and the Confirmation Order, in a form consistent with the requirements of Section 10.1 of the Plan, shall have become a Final Order;

b. the Plan Administrator shall have been appointed;

c. all actions, documents and agreements necessary to implement the provisions of the Plan including, without limitation; a release agreement executed by and among the D&O Carrier and the non-debtor insured parties under the policies provided to the Debtors by the D&O Carrier to be effectuated on or prior to the Effective Date shall be reasonably satisfactory to the Plan Proponents, and such actions, documents, and agreements shall have been effected or executed and delivered;

d. all documents to be contained in the Plan Supplement shall be completed and in final form and, as applicable, executed by the parties thereto and all conditions precedent contained in any of the foregoing shall have been satisfied or waived by the Plan Proponents;

e. all other actions required by the Plan to occur on or before the Effective Date shall have occurred.

K. Modification, Revocation or Withdrawal of the Plan

(1) Modification of Plan: Generally. The Plan Proponents may alter, amend or modify the Plan pursuant to Section 1127 of the Bankruptcy Code at any time prior to the Confirmation Date. After such time and prior to substantial consummation of the Plan, the Plan Proponents may, so long as the treatment of holders of Claims against the Debtors or Interests under the Plan is not adversely affected, institute proceedings in Court to remedy any defect or omission or to reconcile any inconsistencies in the Plan, the Disclosure Statement or the Confirmation Order, and any other matters as may be necessary to carry out the purposes and effects of the Plan; *provided, however*, notice of such proceedings shall be served in accordance with Bankruptcy Rule 2002 or as the Court shall otherwise order.

(2) Revocation or Withdrawal of Plan. The Plan Proponents reserve the right to revoke or withdraw the Plan at any time prior to the Effective Date. If the Plan Proponents revoke or withdraw the Plan prior to the Effective Date, then the Plan shall be deemed null and void, and nothing contained in the Plan shall be deemed to constitute a waiver or release of any Claims by or against the Debtors or any other Person or to prejudice in any manner the rights of the Debtors or any Person in any further proceedings involving the Debtors.

L. Injunction, Releases and Exculpation

a. **Injunction. Except as otherwise expressly provided in the Plan including, without limitation, the treatment of Claims against the Debtors and Interests, the entry of the Confirmation Order shall, provided that the Effective Date shall have occurred, operate to enjoin permanently all Persons that have held, currently hold or may hold a Claim against the Debtors, or who have held, currently hold or may hold an Interest that is terminated pursuant to the Plan, from taking any of the following actions against the Debtors, the Plan Administrator, the Committee or members thereof, the Post Effective Date Committee or members thereof, present and former directors, officers, trustees, agents, attorneys, advisors, members or employees of the Debtors, the Committee or members thereof, the Post Effective Date Committee or members thereof, or the Plan Administrator, or any of their respective successors or assigns, or any of their respective assets or properties, on account of any Claim against the Debtors or any Interests: (a) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind with respect to a Claim against the Debtors or any Interests; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order with respect to a Claim against the Debtors or any Interests; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim against the Debtors or any Interests; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any Debt, liability or obligation due to the Debtors or their property or Assets with respect to a Claim against the Debtors or any Interests; and (e) proceeding in any manner in any place whatsoever that does not conform to or comply with or is inconsistent with the provisions of the Plan; provided, however, nothing in this injunction shall preclude the holder of a Claim against the Debtors from pursuing any applicable insurance after the Chapter 11 Cases are closed, other than the D&O Policy as provided for in the Plan, from seeking discovery in actions against third parties or from pursuing third-party insurance that does not cover Claims against the Debtors; provided further, however, nothing in this injunction shall limit the rights of a holder of a Claim against the Debtors to enforce the terms of the Plan. The U.S. Trustee has objected to this provision as currently drafted, however, both the Debtors and the U.S. Trustee intend to continue their dialogue in an effort to revise this provision to satisfy the U.S. Trustee's concerns and resolve the objection prior to Confirmation.**

b. **Covered Persons Injunction. Except as otherwise provided in the Plan or the Confirmation Order, upon the Effective Date, all Persons are permanently enjoined from commencing or continuing any medical malpractice action against any Covered Person and/or enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order with respect to a claim that would entitle a Covered Person to an Indemnification Claim, provided however, that such injunction shall not extend to recoveries against any available insurance, other than the D&O Policy as provided for in the Plan. In exchange for this injunction, each Covered Person shall be deemed to waive any Indemnification**

Claim against the Debtors and their Estates, and any claim for coverage under the D&O Policy, provided that the waiver of the Indemnification Claims and D&O Coverage shall not impair the injunction in Section 13 of the Plan and neither the waiver of the Indemnification Claims, the waiver of D&O coverage, nor this injunction shall release the obligations of any other insurance company to defend a Covered Person under an otherwise applicable insurance policy.

c. **Releases. Upon the Effective Date, (a) (i) Each Person that receives and retains a distribution under the Plan, (ii) each Person who obtains a release under the Plan or obtains the benefit of an injunction provided pursuant to the Plan, and (iii) each Person who received any benefit from any third party insurance providers on account of a claim against the Debtors or a Covered Person, in consideration therefor, conclusively, absolutely, unconditionally, irrevocably and forever releases each of the Debtors and their present and former directors, officers, trustees, agents, attorneys, advisors, or members (all solely in their respective capacities as such), and (b) the Debtors conclusively, absolutely, unconditionally, irrevocably and forever release and discharge each member of the Caritas Board of Trustees and the officers of Caritas (all solely in their respective capacities as such): of and from any and all past, present and future legal actions, causes of action, choses in action, rights, demands, suits, claims, liabilities, encumbrances, lawsuits, adverse consequences, amounts paid in settlement, costs, fees, damages, debts, deficiencies, diminution in value, disbursements, expenses, losses and other obligations of any kind, character or nature whatsoever, whether in law, equity or otherwise (including, without limitation, those arising under Chapter 5 of the Bankruptcy Code and applicable non-bankruptcy law, and any and all alter-ego, lender liability, indemnification or contribution theories of recovery, and interest or other costs, penalties, legal, accounting and other professional fees and expenses, and incidental, consequential and punitive damages payable to third parties), whether known or unknown, fixed or contingent, direct, indirect, or derivative, asserted or unasserted, foreseen or unforeseen, suspected or unsuspected, now existing, heretofore existing or which may heretofore accrue against the Debtors and their present and former directors, officers, trustees, agents, attorneys, advisors, or members (all solely in their respective capacities as such) occurring from the beginning of time to and including the Effective Date related in any way, directly or indirectly, arising out of, and/or connected with any or all of the Debtors and their Estates, the Cases, the Debtors' Pre-Petition financing arrangements, the debtor in possession financing facility and the failure of any person or entity insured under the D&O Policy to maintain malpractice insurance, provide funding for a self-insurance trust for medical malpractice claims, or cause the Debtors to cease operations (including any such claims based on theories of alleged negligence, misrepresentation, nondisclosure or breach of fiducially duty) and any claim for coverage under the D&O Policy on account of any such action or proceeding; *provided, however*, that Section 13.2 of the Plan shall not limit the Debtors' obligations under the Plan. Except as provided in Subsection (b) of Section 13.2 of the Plan, nothing contained in Section 13.2 of the Plan shall be a release by the Debtors of any claim or Cause of Action, including, without limitation, those arising under Chapter 5 of the Bankruptcy Code or applicable non-bankruptcy law or a**

release by any Professional Persons of any Professional Fee Claims; provided further, however, that nothing in this Section 13.2 of the Plan shall be deemed to release or Impair Allowed Claims against the Debtors, which Allowed Claims against the Debtors shall be treated as set forth in Articles II and IV of the Plan, as applicable.

d. **Exculpation. None of (i) Proskauer Rose LLP, in its capacity as counsel to the Debtors, (ii) Montclair Partners, LLC, in its capacity as the Debtors' financial advisor, (iii) Kelley Drye and Warren LLP, in its capacity as special labor counsel to the Debtors, (iv) Littler Mendelson, P.C., in its capacity as successor special labor counsel to the Debtors (v) JL Consulting, in its capacity as the Debtors' chief restructuring officer, (vi) the Debtors' trustees, in-house counsel, officers and directors (in their capacities as such), (vii) the Plan Administrator and the Plan Administrators representatives (in their capacities as such), (viii) the Committee and the Post Effective Date Committee, (ix) the members of the Committee and the members of the Post Effective Date Committee, in their individual capacities as members of the Committee and as members of the Post Effective Date Committee, (x) Alston & Bird LLP, in its capacity as counsel to the Committee and as counsel to the Post Effective Date Committee, and (xi) CBIZ Accounting, Tax & Advisory of New York, LLC, in its capacity as financial advisor for the Committee, shall have or incur any liability for any act or omission in connection with, related to, or arising out of, the Cases, the formulation, preparation, dissemination, implementation, confirmation, or approval of the Plan, the administration of the Plan or the property to be distributed under the Plan, or any contract, instrument, release, or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Plan; *provided, however*, that the foregoing provisions shall not affect the liability of any Person that would result from any such act or omission to the extent that act or omission is determined by a Final Order of the Court to have constituted willful misconduct or gross negligence; and in all respects, such Persons shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan and shall be fully protected from liability in acting or refraining to act in accordance with such advice; *provided further, however*, that Section 13.3 of the Plan shall not limit the Debtors' obligations under the Plan; provided further, however, that nothing in this Section 13.3 of the Plan shall limit liability under Sections 547 and 550 of the Bankruptcy Code.**

e. **D&O Carrier Release. In consideration of payment of the D&O Carrier Settlement Amount, upon the Effective Date, the Debtors, their trustees and any insured person under the director and officers insurance policies provided by the D&O Carrier conclusively, absolutely, unconditionally, irrevocably and forever release and discharge the D&O Carrier from any and all past, present and future legal actions, causes of action, choses in action, rights, demands, suits, claims, liabilities, encumbrances, lawsuits, adverse consequences, amounts paid in settlement, costs, fees, damages, debts, deficiencies, diminution in value, disbursements, expenses, losses and other obligations of any kind, character or nature whatsoever, whether in law, equity or otherwise, on account of claims alleging, arising out of, based upon or attributable to the failure of any person or**

entity insured under the D&O Policy to maintain malpractice insurance, provide funding for a self insurance trust for medical malpractice claims, or cause the Debtors to cease operations, including any such claims based on theories of alleged negligence, misrepresentation, nondisclosure or breach of fiduciary duty.

f. **D&O Carrier Injunction. Upon contributing the D&O Carrier Settlement Amount to the Debtors Estates, all Persons will be permanently enjoined from commencing or continuing in any manner any action or proceeding (whether directly, indirectly, derivatively or otherwise) alleging, arising out of, based upon or attributable to the failure of any person or entity insured under the D&O Policy to maintain malpractice insurance, provide funding for a self insurance trust for medical malpractice claims, or cause the Debtors to cease operations, including any such claims based on theories of alleged negligence, misrepresentation, nondisclosure or breach of fiduciary duty and any claim for coverage under the D&O Policy on account of any such action or proceeding.**

g. **Cause of Action Injunction. On and after the Effective Date, all Persons other than the Plan Administrator will be permanently enjoined from commencing or continuing in any manner any action or proceeding (whether directly, indirectly, derivatively or otherwise) on account of, or respecting any, claim, debt, right or Cause of Action that the Plan Administrator retains authority to pursue in accordance with the Plan.**

h. The Debtors assert that the release, injunction and exculpation provisions contained in the Plan are appropriate because the parties receiving such benefits, among other reasons, either gave consideration for such relief or actively participated in one or more critical steps leading to the formulation of the Debtors' Plan, including, without limitation, negotiating the terms of the asset sales, the Committee's successful avoidance of a substantial secured claim, the D&O Settlement, and the WARN Settlement, absent each of which, the Debtors would not be able to confirm any plan and would have, alternatively, needed to dismiss or convert these cases, which would have led to diminished recoveries for all Holders of Claims.

V. SUMMARY OF DISTRIBUTABLE ASSETS

As of the date of this Disclosure Statement the Debtors are holding cash in the approximate amount of $18,900,000, exclusive of gross recoveries on account of Avoidance Actions discussed in Section III.T. above. Other than as may be supplemented by additional recoveries from Avoidance Actions, the Debtors do not anticipate any material changes in the amount of cash on hand between now and the Effective Date. The Debtors anticipate that these funds will be sufficient to pay in full all Secured Claims (which the Debtors anticipate will be less than $76,980), Administrative Claims (which the Debtors anticipate will be less than $2,999,978, exclusive of the Claims of Professional Persons), Priority Claims (which the Debtors anticipate will be less than $11,370,868), and all Claims of Professional Persons which have been held back from distribution pursuant to prior Orders of the Court (which the Debtors anticipate will be approximately $1,183,000). In addition, on the effective date the Debtors will pay $850,000 pursuant to the WARN Settlement.

The Debtors current cash position will likely be further augmented as a result of the future settlements and/or final adjudications of Avoidance Actions, however, there is no way to predict the amount of proceeds that will be realized from the remaining Avoidance Actions due to the fact-specific nature of the Avoidance Actions and the various defenses that may be asserted by the defendants thereto. The Debtors also note that, the gross recoveries from Avoidance Actions, including all future realized amounts, will be subject to, and therefore reduced by, the contingency fee earned by RMS. Thereafter, pursuant to the WARN Settlement Agreement, the net proceeds of Avoidance Actions will be divided 50% to the WARN Class and 50% for Pro Rata distribution to unsecured creditors, until the WARN Class receives the entire WARN Settlement Amount.

VI. ACCEPTANCE AND CONFIRMATION OF THE PLAN

The following is a brief summary of the provisions of the Bankruptcy Code respecting acceptance and confirmation of a plan of reorganization. Holders of Claims and Interests are encouraged to review the relevant provisions of the Bankruptcy Code and/or to consult their own attorneys.

A. Acceptance of the Plan

This Disclosure Statement is provided in connection with the solicitation of acceptances of the Plan. The Bankruptcy Code defines acceptance of a plan by a class of Claims as acceptance by holders of at least two-thirds in dollar amount, and more than one-half in number, of the allowed Claims of that class that have actually voted or are deemed to have voted to accept or reject a plan. The Bankruptcy Code defines acceptance of a plan by a class of interests as acceptance by at least two-thirds in amount of the allowed interests of that class that have actually voted or are deemed to have voted to accept or reject a plan.

If one or more impaired Classes rejects the Plan, the Debtors may, in their discretion, nevertheless seek confirmation of the Plan if the Debtors believe that they will be able to meet the requirements of Section 1129(b) of the Bankruptcy Code for Confirmation of the Plan (which are set forth below), despite lack of acceptance by all impaired Classes.

B. Confirmation

(1) Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the bankruptcy court, after notice, to hold a hearing on confirmation of a plan. Notice of the Confirmation Hearing respecting the Plan has been provided to all known holders of Claims and Interests or their representatives, along with this Disclosure Statement. The Confirmation Hearing may be adjourned from time to time by the Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any subsequent adjourned Confirmation Hearing.

Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of a plan. Any objection to Confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules and the Local Rules of the Court, must set forth the name of the objectant, the nature and amount of Claims or Interests held or asserted by the objectant against the Debtors' Estates or property, and the basis for the objection and the specific grounds in support thereof. Such objection must be filed with the Court, with a copy forwarded directly

to the Chambers of the Honorable Carla E. Craig, United States Bankruptcy Court, together with proof of service thereof, and served upon (a) counsel to the Debtors, Proskauer Rose LLP, Eleven Times Square, New York, New York 10036, Attn: Jeffrey W. Levitan and Adam T. Berkowitz, Esq.; (b) counsel to the Committee, Alston & Bird LLP, 90 Park Avenue, New York, New York 10016 (Attn: Craig E. Freeman); and (c) the Office of the United States Trustee, 271 Cadman Plaza East, Suite 4529, Brooklyn, New York 11201 (Attn: William E. Curtin), so as to be received no later than the date and time designated in the notice of the Confirmation Hearing.

(2) Statutory Requirements for Confirmation of the Plan

At the Confirmation Hearing, the Debtors will request that the Court determine that the Plan satisfies the requirements of Section 1129 of the Bankruptcy Code. If so, the Court shall enter an order confirming the Plan. The applicable requirements of Section 1129 of the Bankruptcy Code are as follows:

1. The Plan must comply with the applicable provisions of the Bankruptcy Code;

2. The Debtors must have complied with the applicable provisions of the Bankruptcy Code;

3. The Plan has been proposed in good faith and not by any means forbidden by law;

4. Any payment made or promised to be made by the Debtors under the Plan for services or for costs and expenses in, or in connection with, the Cases, or in connection with the Plan and incident to the Cases, has been disclosed to the Court, and any such payment made before Confirmation of the Plan is reasonable, or if such payment is to be fixed after Confirmation of the Plan, such payment is subject to the approval of the Court as reasonable;

5. The Debtors have disclosed the identity and affiliations of any individual proposed to serve, after Confirmation of the Plan, as a director, officer, or voting trustee of each of the Debtors under the Plan. Moreover, the appointment to, or continuance in, such office of such individual, is consistent with the interests of holders of Claims and Interests and with public policy, and the Debtors have disclosed the identity of any insider that the reorganized Debtors will employ or retain, and the nature of any compensation for such insider;

6. Best Interests of Creditors Test. With respect to each Class of impaired Claims or Interests, either each holder of a Claim or Interest of such Class has accepted the Plan, or will receive or retain under the Plan on account of such Claim or Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would receive or retain if the Debtors were liquidated on such date under Chapter 7 of the Bankruptcy Code. In a Chapter 7 liquidation, creditors and interest holders of a debtor are paid from available assets generally in the following order, with no lower class receiving any payments until all amounts due to senior classes have either been paid in full or payment in full is provided for: (i) first to secured creditors (to the extent of the value of their collateral), (ii) next to priority creditors, (iii) next to unsecured creditors, (iv) next to debt expressly subordinated by its terms or by order of the Court and (v) last to holders of Interests. The starting point in determining whether the Plan meets the "best interests" test is a determination of the amount of proceeds that would be generated from the liquidation of the Debtors' remaining assets in the context of a Chapter 7 liquidation. Such value must then be reduced by the costs of such liquidation,

including costs incurred during the Chapter 11 Cases and allowed under Chapter 7 of the Bankruptcy Code (such as fees and expenses of Professional Persons), a Chapter 7 trustee's fees, and the fees and expenses of professionals retained by a Chapter 7 trustee. The potential Chapter 7 liquidation distribution in respect of each class must be further reduced by the costs imposed as a result of the delay that would be caused by conversion of the Chapter 11 Cases to cases under Chapter 7. For the reasons set forth above, the Debtors submit that holders of Class 3 and 4 Claims and Class 5 Interests will receive under the Plan a recovery at least equal in value to the recovery such holders would receive pursuant to a liquidation of the Debtors under Chapter 7 of the Bankruptcy Code.

7. Each class of Claims or Interests has either accepted the Plan or is not impaired under the Plan;

8. At least one impaired class of Claims has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim of such Class;

9. Feasibility. Section 1129(a)(11) of the Bankruptcy Code provides that a Chapter 11 plan may be confirmed only if the Court finds that such plan is feasible. A feasible plan is one which will not lead to a need for further reorganization or liquidation of the debtor. Since the Plan provides for the liquidation of the Debtors, the Court will find that the Plan is feasible if it determines that the Debtors will be able to satisfy the conditions precedent to the Effective Date and otherwise have sufficient funds to meet its post-Confirmation Date obligations to pay for the costs of administering and fully consummating the Plan and closing the Cases. The Debtors believe that the Plan satisfies the financial feasibility requirement imposed by the Bankruptcy Code.

(3) Confirmation Without Acceptance by All Impaired Classes

Section 1129(b) of the Bankruptcy Code allows a bankruptcy court to confirm a plan, even if such plan has not been accepted by all impaired classes entitled to vote on such plan, provided that such plan has been accepted by at least one impaired class. If any impaired classes reject or are deemed to have rejected the Plan, the Debtors reserve their right to seek the application of the statutory requirements set forth in Section 1129(b) of the Bankruptcy Code for Confirmation of the Plan despite the lack of acceptance by all impaired classes.

Section 1129(b) of the Bankruptcy Code provides that notwithstanding the failure of an impaired class to accept a plan of reorganization, the plan shall be confirmed, on request of the proponent of the plan, in a procedure commonly known as "cram-down," so long as the plan does not "discriminate unfairly" and is "fair and equitable" with respect to each class of claims or interests that is impaired under and has not accepted the plan.

The condition that a plan be "fair and equitable" with respect to a non-accepting class of secured claims includes the requirements that (a) the holders of such secured claims retain the liens securing such claims to the extent of the allowed amount of the claims, whether the property subject to the liens is retained by the debtor or transferred to another entity under the plan, and (b) each holder of a secured claim in the class receive deferred cash payments totaling at least the allowed amount of such claim with a present value, as of the effective date of the plan, at least equivalent to the value of the secured claimant's interest in the debtor's property subject to the liens.

The condition that a plan be "fair and equitable" with respect to a non-accepting class of unsecured claims includes the requirement that either (a) such class receive or retain under the plan property of a value as of the effective date of the plan equal to the allowed amount of such claim, or (b) if the class does not receive such amount, no class junior to the non-accepting class will receive a distribution under the plan.

The condition that a plan be "fair and equitable" with respect to a non-accepting class of interests includes the requirements that either (a) the plan provides that each holder of an equity interest in such class receive or retain under the plan, on account of such equity interest, property of a value, as of the effective date of the plan, equal to the greater of (i) the allowed amount of any fixed liquidation preference to which such holder is entitled, (ii) any fixed redemption price to which such holder is entitled, or (iii) the value of such equity interest, or (b) if the class does not receive such amount, no class of interests junior to the non-accepting class will receive a distribution under the plan.

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

The following discussion summarizes certain of the material U.S. federal income tax consequences expected to result from the implementation of the Plan. The following summary does not address the U.S. federal income tax consequences to holders whose claims are entitled to payment in full in Cash under the Plan (*e.g.*, holders of Allowed Administrative Claims, Priority Tax Claims and Professional Fee Claims). This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "IRC"), applicable Treasury Regulations, judicial authority and current administrative rulings and pronouncements of the Internal Revenue Service ("IRS"). There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been or will be sought. Legislative, judicial or administrative changes or interpretations may be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could affect the tax consequences to, among others, the Debtors and the holders of Claims.

The following summary is for general information only. The U.S. federal income tax consequences of the Plan are complex and subject to significant uncertainties. This summary does not address foreign, state or local tax consequences of the Plan, nor does it purport to address all of the U.S. federal income tax consequences of the Plan. This summary also does not purport to address the U.S. federal income tax consequences of the Plan to taxpayers subject to special treatment under the U.S. federal income tax laws, such as broker-dealers, tax exempt entities, financial institutions, insurance companies, S corporations, small business investment companies, mutual funds, regulated investment companies, foreign corporations, and non-resident alien individuals.

EACH HOLDER OF A CLAIM IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE POTENTIAL U.S. FEDERAL, STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF THE PLAN TO SUCH HOLDER BASED ON ITS PARTICULAR CIRCUMSTANCES.

IRS Circular 230 Notice: To ensure compliance with requirements imposed by the IRS in Circular 230, you are hereby informed that (i) any tax advice contained in this Disclosure Statement is not intended or written to be used, and cannot be used, for the

purpose of avoiding penalties under the IRC and (ii) the advice is written to support the promotion or marketing of the transactions or matters addressed in the Disclosure Statement.

A. U.S. Federal Income Tax Consequences to the Debtor.

Caritas is exempt from U.S. federal income tax pursuant to Section 501 of the IRC. The other Debtors, which are domestic corporations subject to U.S. federal income taxation, will be exempt from such taxation on the amount of cancellation of indebtedness income they derive under the Plan under section 108 of the IRC. Accordingly, the Debtors do not believe that the implementation of the Plan, including the extinguishment of the Debtors' outstanding indebtedness pursuant to the Plan, will result in any material tax liability to the Debtors.

B. U.S. Federal Income Tax Consequences to Holders of Class 3 and Class 4 Claims.

(1) Gain or Loss Recognized. Except with respect to a Claim (or portion thereof) for accrued but unpaid interest (discussed below) or certain Class 4 Medical Malpractice Claims (discussed below), for U.S. federal income tax purposes, each holder of an Allowed Claim arising under, related to or in connection with the Class 3 Unsecured Claims or the Class 4 Medical Malpractice Claims generally should recognize gain or loss as a result of receiving a Distribution pursuant to the Plan equal to the difference between (i) the amount of Cash received by such holder and (ii) the adjusted tax basis of such holder's Allowed Claim. The amount and timing of such gain or loss may be affected by the resolution of Disputed Claims. The character of any gain or loss as long-term or short-term capital gain or loss or ordinary income or loss will depend on a number of factors, including: (i) the nature and origin of the Claim (*e.g.*, Claims arising in the ordinary course of a trade or business or made for investment purposes); (ii) the tax status of the holder of the Claim; (iii) whether the Claim is a capital asset in the hands of the holder; (iv) whether the Claim has been held by the holder for more than one year; (v) the extent to which the holder previously claimed a loss or a bad debt deduction with respect to the Claim; and (vi) the extent to which the holder acquired the Claim at a discount. For a discussion of the tax consequences associated with a Claim for accrued but unpaid interest, if any, see Section B.2. --"Receipt of Interest" below.

Distributions, if any, received by a holder of a Class 4 Medical Malpractice Claim that are attributable to, and compensation for, such holder's personal injuries or sickness, within the meaning of section 104 of the IRC, generally should be nontaxable.

(2) Receipt of Interest.

In general, to the extent that any amount of consideration received by a holder is treated as received in satisfaction of unpaid interest that accrued during such holder's holding period, such amount will be taxable to the holder as interest income (if not previously included in the holder's gross income and not otherwise exempt from U.S. federal income tax). The Plan provides that the cash distributed to a holder will, to the extent relevant, first be allocated to the stated principal amount of the Claim and any remaining consideration then will be allocated to accrued but unpaid interest. Case law suggests that such agreed-upon allocation should be respected. However, Treasury Regulations can be read to support a contention that all consideration distributed to a holder should be treated as interest income to the extent of accrued interest, and there can be no assurance that the IRS will respect the allocation of consideration under the Plan.

Conversely, a holder may be allowed a bad debt deduction to the extent any accrued interest was previously included in its gross income but subsequently not paid in full. However, the IRS may take the position that any such loss must be characterized based on the character of the underlying obligation, such that the loss will be a capital loss if the underlying obligation is a capital asset.

C. Withholding and Reporting.

The Debtors and, after the Effective Date, the Plan Administrator will withhold all amounts required by law to be withheld from payments to holders of Allowed Claims. For example, under U.S. federal income tax law, interest, dividends and other reportable payments may, under certain circumstances, be subject to backup withholding at the then applicable rate (currently 28%). Backup withholding generally applies only if the holder (i) fails to furnish its social security number or other taxpayer identification number ("TIN"); (ii) furnishes an incorrect TIN; (iii) fails properly to report interest or dividends; or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in overpayment of tax. Certain persons are exempt from backup withholding, including corporations and financial institutions.

Treasury Regulations generally require disclosure by a taxpayer on its U.S. federal income tax return of certain types of transactions in which the taxpayer participated, including among other types of transactions, certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds. The types of transactions that require disclosure are very broad; however, there are numerous exceptions which may be applicable to a holder.

The foregoing summary has been provided for informational purposes only. All holders of Claims are urged to consult their tax advisors concerning the U.S. federal, state, local and foreign tax consequences applicable under the Plan.

VIII. RISK FACTORS

HOLDERS OF ALL CLASSES OF CLAIMS AND INTERESTS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED BY REFERENCE HEREIN), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN.

(1) Risk of Non-Confirmation of the Plan

Although the Debtors believe that the Plan will satisfy all requirements necessary for Confirmation by the Court, there can be no assurance that the Court will reach the same conclusion. There can also be no assurance that modifications of the Plan will not be required for Confirmation, that any negotiations regarding such modifications would not adversely affect the holders of the Allowed Claims or that any such modifications would not necessitate the re-solicitation of votes.

(2) Nonconsensual Confirmation

In the event any impaired class of claims or interests does not accept a plan of reorganization, a bankruptcy court may nevertheless confirm such plan of reorganization at the proponent's request if at least one impaired class has accepted the plan of reorganization (with such acceptance being determined without including the acceptance of any "insider" in such class) and, as to each impaired class which has not accepted the plan of reorganization, the bankruptcy court determines that the plan of reorganization "does not discriminate unfairly" and is "fair and equitable" with respect to non-accepting impaired classes. In the event that any impaired Class of Claims fails to accept the Plan in accordance with Section 1129(a)(8) of the Bankruptcy Code, the Debtors reserve the right to request nonconsensual Confirmation of the Plan in accordance with Section 1129(b) of the Bankruptcy Code.

(3) Risk that Conditions to Effectiveness Will Not Be Satisfied

Article X of the Plan contains certain conditions precedent to the effectiveness of the Plan. There can be no assurances that the conditions contained in Article X of the Plan will be satisfied.

(4) Risks related to the CMS Claim

As stated more fully in Section III above, although the Debtors do not believe that the CMS claim is valid, the government has not yet concluded its audit of the Debtors' terminating cost report. Accordingly, there can be no assurances that the CMS Claim will be consensually resolved or that the Debtors will be successful if the Government pursues a recovery of all, or any portion, of the amount asserted by such claim. The Debtors will be unable to confirm the Plan in the absence of a resolution of the CMS Claim.

(5) Risks related to Liberty Surplus Insurance Corporation Policies and Coverage

Liberty Surplus Insurance Corporation ("Liberty"), filed a limited objection to the Disclosure Statement asserting, among other things, that the Plan may violate Liberty's contractual rights and may improperly relieve the Debtors and/or the Plan Administrator of their continuing reciprocal contractual obligations and, accordingly, that any insurance coverage under the various Liberty insurance policies (collectively, the "Liberty Policies") may not be available to cover Claims that might otherwise be covered. While the Debtors disagree with this assertion, there can be no guarantee that Liberty would not be successful in challenging confirmation of the Plan, and/or asserting certain coverage defenses on the basis that the effect of confirming the plan relieved it of any further obligations under any of the Liberty Policies, leaving the Debtors and/or the Plan Administrator without applicable coverage. Notwithstanding the Debtors' position, in an effort to resolve this issue the Debtors added certain insurance neutrality language to the Plan and will continue their dialogue with Liberty in an attempt to reach a consensual resolution of any objection of Liberty prior to Confirmation. There can be no assurance that a consensual resolution will be reached. Accordingly, both the Debtors and Liberty have reserved all of their respective rights, claims, defenses, and objections respecting the Liberty Policies.

(6) Claims Objection/Reconciliation Process and Success of Avoidance Actions

The Debtors' estimate of the potential recovery to holders of Class 3 depends on the outcome of the claims reconciliation and objection process, as well as the success in prosecuting Avoidance Actions. Therefore, the Debtors' estimates could change and such change could be

material. Thus, there is no guarantee that the actual recovery to holders of Class 3 and 4 Claims will approximate the Debtors' estimates.

IX. RESERVATION OF CLAIMS

The Debtors reserve their rights to assert any avoidance actions or other claims against third parties, including, without limitation, those actions which will be specifically identified in the Plan Supplement. In addition, the Debtors reserve their rights to pursue any and all actions which may be asserted as defenses, affirmative or otherwise, to any Claim asserted against the Estate. The Debtors also reserve their rights to pursue any and all other Causes of Action identified in the Plan Supplement.

X. ALTERNATIVES TO THE PLAN AND CONSEQUENCES OF REJECTION

Among the possible consequences if the Plan is rejected or if the Court refuses to confirm the Plan are the following: (1) an alternative plan could be proposed or confirmed; or (2) the Chapter 11 Cases could be converted to liquidation cases under Chapter 7 of the Bankruptcy Code.

A. Alternative Plans

As previously mentioned, with respect to an alternative plan, the Debtors and their professional advisors have explored various alternative scenarios and believe that the Plan enables the holders of Claims to realize the maximum recovery under the circumstances. The Debtors believe the Plan is the best plan that can be proposed and serves the best interests of the Debtors and other parties-in-interest.

B. Chapter 7 Liquidation

As discussed above with respect to each Class of impaired Claims, either each holder of a Claim of such Class has accepted the Plan, or will receive or retain under the Plan on account of such Claim, property of a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would receive or retain if the Debtors were liquidated on such date under Chapter 7 of the Bankruptcy Code. The Debtors believe that significant costs would be incurred by the Debtors as a result of the delay that would be caused by conversion of the Chapter 11 Cases to cases under Chapter 7 resulting in a reduced distribution to holders of Class 3 and 4 Claims.

XI. RECOMMENDATION AND CONCLUSION

The Debtors and their professional advisors have analyzed different scenarios and believe that the Plan will provide for a more favorable distribution to holders of Allowed Claims than would otherwise result if the Debtors were liquidated under Chapter 7 of the Bankruptcy Code. In addition, any alternative other than Confirmation of the Plan could result in extensive delays and increased administrative expenses resulting in potentially smaller distributions to the holders of Allowed Claims. Accordingly, the Debtors recommend confirmation of the Plan and urge all holders of impaired Claims to vote to accept the Plan, and to evidence such acceptance by returning their Ballots so that they will be received by no later than the Voting Deadline.

[SIGNATURE PAGE FOLLOWS]

Date: February 22, 2012
New York, New York

CARITAS HEALTH CARE, INC., et al.
Debtors and Debtors-in-Possession

By: /s/ John Lavan
John Lavan
Chief Restructuring Officer

PROSKAUER ROSE LLP
Jeffrey W. Levitan
Adam T. Berkowitz
Eleven Times Square
New York, New York 10036
Tel: (212) 969-3000
Fax: (212) 969-2900
E-mail: jlevitan@proskauer.com
aberkowitz@proskauer.com

Counsel for the Debtors
and Debtors in Possession

EXHIBIT A

Second Amended Plan of Liquidation

EXHIBIT B

Disclosure Statement Approval Order