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Attorneys for North General Hospital, et al., Debtors-in-Possession

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	
NORTH GENERAL HOSPITAL, *et al.*,	:	Chapter 11 Case No. 10-13553 (SCC)
Debtors.	:	(Jointly Administered)

DISCLOSURE STATEMENT PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE FOR CHAPTER 11 PLAN OF REORGANIZATION (LIQUIDATION)

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DISCLOSURE STATEMENT

I. INTRODUCTION

On July 2 2010 (the "Petition Date"), North General Service Corporation ("NGSC"), North General Hospital ("NGH" or the "Hospital") and North General Diagnostic & Treatment Center (the "D&TC")(collectively, each a "Debtor" and, as appropriate, the "Debtor" or "Debtors")[1] filed their respective petitions in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") instituting three (3) cases under chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"), bearing Chapter 11 Case Nos. 10-13558, 10-13553 and 10-13559, respectively (the "Chapter 11 Cases"). The Chapter 11 cases have been assigned to Honorable Shelley C. Chapman, United States Bankruptcy Judge ("Judge Chapman"). By Order, dated July 7, 2010, the Bankruptcy Court directed the joint administration of the Chapter 11 Cases under Chapter 11 Case No. 10-13553 (SCC).

Retention of Professionals

By Order, dated August 3, 2010, the Bankruptcy Court authorized each of the Debtors to retain Windels Marx Lane & Mittendorf, LLP as their Counsel. By Order, dated August 3, 2010, the Bankruptcy Court granted the Debtors' Application to retain Garfunkel Wild, P.C., as special healthcare and regulatory counsel to the Debtors. By Order dated August 3, 2010, the Bankruptcy Court authorized the Debtors to retain Epiq Bankruptcy Solutions LLC as the Debtors' claims and noticing agent. By Order, dated September 22, 2010, the Debtors were authorized to retain BDO USA, LLC as their Bankruptcy Court appointed accountants. On July 16, 2010, the Office of the Unites States Trustee for

[1] Capitalized terms, not defined herein, are defined in Article 1 of the Plan.

the Southern District of New York (the "U.S. Trustee") appointed an Official Committee of Unsecured Creditors (the "Committee") consisting of the following entities:

Health Resources Optimization, Inc.
Sodexho, Inc.
1199 SEIU National Benefit Fund

The Bankruptcy Court approved the Committee's retention of Alston & Bird, LLP as their counsel by Order, dated August 26, 2010 and authorized the Committee's retention of NHB Advisors, Inc. as the Committee's financial advisors by Order, dated September 21, 2010. By Order, dated July 8, 2010, the Bankruptcy Court directed the appointment of a Patient Care Ombudsman pursuant to Section 333 of the Bankruptcy Code and that same date the U.S. Trustee appointed Ms. Suzanne Koenig as the Patient Care Ombudsman and, by Appointment Notice, SAK Management Services, LLC was appointed Medical Operations Advisors. By Order, dated August 11, 2010, the Patient Care Ombudsman was authorized to retain Greenberg, Traurig, LLP as her counsel. By Order, dated July 16, 2010, the Bankruptcy Court approved the appointment of Mr. Luis Salazar as Consumer Privacy Ombudsman.

II. VOTING

On October 29, 2010, the Debtors filed and served their Disclosure Statement (the "Disclosure Statement") and Plan of Reorganization (Liquidation)(hereinafter referred to as the "Plan")in order to provide each creditor with "adequate information" as such term is defined in Section 1125 of the Bankruptcy Code, to enable such creditor to make a reasonably informed judgment in exercising his, her or its right to vote to accept or reject the Debtors' Plan. (A copy of the proposed Plan is annexed to this Disclosure Statement as Exhibit "A".)

A. Voting

This Disclosure Statement is provided to all known holders of Claims against any or all of the Debtors and their assets who have a right to vote on the Plan, as well as any party-in-interest who or which has requested to be provided with a copy of same in accordance with Sections 1125(a), 1126(b)(2) and 1129(a)(2) of the Bankruptcy Code and Rule 3017 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

THIS DISCLOSURE STATEMENT IS THE ONLY DOCUMENT AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES TO ACCEPT THE PLAN. NO STATEMENT OR INFORMATION CONCERNING THE DEBTORS OR ANY OF THEIR ASSETS HAS BEEN AUTHORIZED OTHER THAN THE STATEMENTS AND INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT.

Subsequent to notice and a hearing, the Debtors will request that the Bankruptcy Court enter an Order approving this Disclosure Statement as containing information, of a kind and in sufficient detail, as is reasonably practicable in light of the nature and history of the Debtors' books and records, to enable holders of a Claim(s) against any of the Debtors to make an informed judgment with respect to acceptance or rejection of the Debtors' Plan.

THE APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION DOES NOT CONSTITUTE A RECOMMENDATION BY THE BANKRUPTCY COURT AS TO THE MERITS OF THE PLAN

OR GUARANTY THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.

The Bankruptcy Court established November 18, 2010 at 5:00 p.m. (prevailing Eastern Time) as the general deadline for filing proofs of claim in these Chapter 11 Cases (the "General Bar Date"), and December 29, 2010 at 5:00 p.m. as the deadline for filing a proof of claim by any Governmental Unit (the "Governmental Unit Bar Date") (as defined by section 101(27) of the Bankruptcy Code), with two (2) exceptions: (i) in the event that the Debtors amend their Schedules of Assets and Liabilities, the Debtors must give notice of such amendment to the Claimholder affected thereby, and the affected Claimholder shall have the later of the General Bar Date or thirty (30) days from the date on which notice of such amendment was given to file a proof of claim; and (ii) except as otherwise set forth in any Order authorizing the rejection of an Executory Contract, in the event that a Claim arises with respect to the Debtors' rejection of an Executory Contract, the Claimholder shall have the later of the General Bar Date or thirty (30) days after the date any Order is entered authorizing the rejection of such Executory Contract. These deadlines and related procedures for filing proofs of claim are described in the General Bar Date Order, which was approved by the Bankruptcy Court on October 14, 2010 (the "Bar Date Order"). A copy of the Bar Date Order may be obtained from the Claims Agent's website at http://dm.epiq11.com/NGH or by contacting the Debtors' Notice and Claims Agent:

North General Hospital Claims Processing Center
c/o Epiq Bankruptcy Solutions, LLC
757 Third Avenue, 3rd Floor
New York, NY 10017
(800) 750-3004

Ballots have been delivered to holders of Claims in each Class that is entitled to vote with respect to the Debtors' chapter 11 cases. The Plan **(a) does not provide for payment in full to all creditors and (b) the Debtors' assets on liquidation are not sufficient to pay all creditors in full and, therefore, there are Impaired Claims which holders thereof are entitled to vote on the Plan**. A Claim to which an objection has been filed and remains unresolved is a Disputed Claim. Holders of Disputed Claims are not entitled to vote unless the Bankruptcy Court temporarily allows such Disputed Claim in an amount which it deems proper solely for the purpose of voting on the Plan. To ascertain whether or not your Claim is Impaired you are directed to consult Article III of this Disclosure Statement which defines the term "impaired" in accordance with Section 1124 of the Bankruptcy Code.

The Bankruptcy Court has directed that, in order to be counted for voting purposes, Ballots for the acceptance or rejection of the Plan must be received no later than December [_____], 2010 at 5:00 p.m. prevailing Eastern Time (the "Voting Deadline"), at the following address:

North General Hospital Claims Processing Center
c/o Epiq Bankruptcy Solutions, LLC
757 Third Avenue, 3rd Floor
New York, NY 10017
(800) 750-3004

Except as otherwise set forth below, for the Plan to be confirmed, it must be accepted by each class of Allowed Claims whose rights are impaired by the Plan. Under the Bankruptcy Code, a class of Claims is deemed to have accepted the Plan if the Plan is accepted by creditors of such Class that hold at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims of such class that have voted on the Plan.

The Debtors, in accordance with Section 1129(b) of the Bankruptcy Code, intend to request the Bankruptcy Court to confirm the Plan provided that the Bankruptcy Court finds that the Plan does not discriminate unfairly and accords fair and equitable treatment with respect to each class of Claims or Interests that is impaired under, and has not accepted the Plan.

The Bankruptcy Court has fixed December 1, 2010, at 10:00 a.m. at the Bankruptcy Court for the Southern District of New York, One Bowling Green, New York 10004, as the date, time and place for the hearing on approval of this Disclosure Statement, and shall determine a hearing date for confirmation of the Plan (the "Confirmation Hearing"). Any objection to approval of the Disclosure Statement must be in writing and must be filed and served on Windels Marx Lane & Mittendorf, LLP, attorneys for the Debtors, with a copy to Alston & Bird, LLP, counsel to the Committee, by November 24, 2010, in accordance with the procedure described below.

B. Requirements for Confirmation of the Plan

At the Confirmation Hearing, the Bankruptcy Court shall determine whether the Bankruptcy Code's requirements for confirmation of the Plan has been satisfied, in which event the Bankruptcy Court will enter an order confirming the Plan. As set forth in Section 1129(a) of the Bankruptcy Code, the Bankruptcy Court shall confirm a Plan only if the following requirements are met:

(1) The Plan complies with the applicable provisions of the Bankruptcy Code;

(2) The Debtors 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 by a person issuing securities or acquiring property under the Plan, for services or for costs and expenses in or in connection with the Case, or in connection with the Plan and incident to the Case, has been approved by, or is subject to the approval of the Bankruptcy Court as reasonable;

(5)(a)(i) 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 the Debtors, an affiliate of the Debtors participating in the Plan with the Debtors, or a successor to one of the Debtors under the Plan; and the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy; and,

(A) the Debtors have disclosed the identity of any insider that will be employed or retained by the Debtor, and the nature of any compensation for such insider;

(6) Any governmental regulatory commission with jurisdiction, after confirmation of the Plan, over the rates of the Debtor has approved any rate change provided for in the Plan, or such rate change is expressly conditioned on such approval;

(7) With respect to each Impaired Class of Claims –

(A) each holder of a Claim of such class:

(i) has accepted the Plan; or,

(ii) will receive 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 so receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code on such date; or,

(B) if Section 1111(b)(2) of the Bankruptcy Code applies to the Claims of such class, each holder of a Claim of such class 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 value of such holder's interest in the estate's interest in the property that secures such Claim;

(8) With respect to each class of Claim:

(A) such class has accepted the Plan; or,

(B) such class is not Impaired under the Plan.

(9) Except to the extent that the holder of a Particular Claim has agreed to a different treatment of such Claim, the Plan provides that

(A)with respect to a Claim of a kind specified in Section 507(a) of the Bankruptcy Code - on the effective date of the Plan, the holder of such Claim will receive on account of such Claim, in cash, an amount equal to the allowed amount of such Claim;

(10) If a class of Claims is Impaired under the Plan at least one class of Claims that is impaired has accepted the Plan, determined without including any acceptance of the Plan by an insider;

(11) Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor under the Plan, unless such liquidation or reorganization is proposed in the Plan;

(12) All fees payable to Office of the U.S. Trustee under Section 1930 of Title 28 and to professionals under Section 330 of the Bankruptcy Code, as determined by the Court at the hearing to consider the final allowance of fees, have been paid or the Plan provides for the payment of all such fees on the Effective Date of the Plan or as otherwise agreed to among the parties; and,

(13) The Plan does not provide for the continuation, after the Effective Date, of payment of any retiree benefits, as that term is defined in Section 1114 of the Bankruptcy Code.

Each Debtor believes that the Plan satisfies all of the applicable statutory requirements of Chapter 11 of the Bankruptcy Code, that it has complied, or will have complied, with all of the requirements of Chapter 11 of the Bankruptcy Code, and that the proposal of the Plan is made in good faith.

Each Debtor believes that the holders of all Claims under the Plan will receive payments or distributions under the Plan having a present value as of the Effective Date in amounts not less than the amounts likely to be received by such holders if the Debtors were liquidated in a case under Chapter 7 of the Bankruptcy Code.

At the Confirmation Hearing, the Bankruptcy Court will determine with respect to the Debtors, whether holders of Claims will receive distributions under the Plan of not less than the amount they would receive in a liquidation under Chapter 7 of the Bankruptcy Code.

C. Contents of the Disclosure Statement

NO REPRESENTATIONS CONCERNING THE DEBTORS, THEIR BUSINESS OPERATIONS OR THE VALUE OF THEIR PROPERTY OR ASSETS HAS BEEN AUTHORIZED, OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY INFORMATION, REPRESENTATIONS OR INDUCEMENTS THAT ARE OTHER THAN, OR INCONSISTENT WITH, THE INFORMATION CONTAINED HEREIN AND IN THE PLAN SHOULD NOT BE RELIED UPON BY ANY HOLDER OF A CLAIM. UNAUTHORIZED INFORMATION, REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO THE DEBTORS OR THEIR COUNSEL WHO SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS THE BANKRUPTCY COURT MAY DEEM APPROPRIATE.

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN OTHER DOCUMENTS AND CERTAIN FINANCIAL INFORMATION. WHILE EACH DEBTOR BELIEVES THAT THESE SUMMARIES ARE FAIR AND ACCURATE IN ALL MATERIAL RESPECTS AND PROVIDE ADEQUATE INFORMATION WITH RESPECT TO DOCUMENTS SUMMARIZED, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS. FURTHERMORE, THE FINANCIAL INFORMATION CONTAINED HEREIN OR INCORPORATED HEREIN BY REFERENCE HAS NOT BEEN SUBJECT TO AN AUDIT. EACH DEBTOR HAS MADE EVERY EFFORT TO BE ACCURATE IN ALL MATERIAL RESPECTS AND EACH DEBTOR DOES NOT BELIEVE THAT THE INFORMATION CONTAINED HEREIN CONTAINS ANY MATERIAL INACCURACIES.

III. IMPAIRED CLASSES

Under Section 1124 of the Bankruptcy Code, a class of Claims is Impaired under a Plan unless, with respect to each Claim of such class, the Plan:

(1) Leaves unaltered the legal, equitable and contractual rights to which such Claim entitles the holder of such Claim; or

(2) Notwithstanding any contractual provision or applicable law that entitles the holder of such Claim to demand or receive accelerated payment of such Claim after the occurrence of a default:

(A) Cures any such default that occurred before or after the commencement of the Case;

(B) Reinstates the maturity of such Claim as such maturity existed before such default;

(C) Compensates the holder of such Claim or Interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and,

(D) Does not otherwise alter the legal, equitable, or contractual rights to which such Claim entitles the holder of such Claim.

NOTWITHSTANDING EACH DEBTORS' EFFORTS, THE DEBTORS ARE UNABLE TO WARRANT OR REPRESENT THAT ALL OF SUCH INFORMATION IS ACCURATE OR COMPLETE ALTHOUGH EACH DEBTOR BELIEVES THAT ALL INFORMATION CONTAINED HEREIN IS ACCURATE AND COMPLETE. NEITHER THE BANKRUPTCY COURT NOR ANY PARTY TO THE DEBTORS' CHAPTER 11 CASE HAS PASSED UPON THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT.

Each Debtor has expended considerable time and effort in examining their current and anticipated future financial condition and in developing the Plan, which it believes can provide the best return to Creditors. Therefore, in each Debtor's judgment, the Plan represents the best possibility for all of the Debtors' creditors to obtain the minimum payment of the Allowed amounts of their Claims.

NO PARTY IS AUTHORIZED TO GIVE ANY INFORMATION WITH RESPECT TO ANY MATTER COVERED BY THIS DISCLOSURE STATEMENT. NO REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR PROPERTY HAS BEEN AUTHORIZED BY THE DEBTORS. REPRESENTATIONS OR INDUCEMENTS MADE TO OBTAIN YOUR ACCEPTANCE WHICH ARE OTHER THAN OR INCONSISTENT WITH THE INFORMATION CONTAINED HEREIN SHOULD NOT BE RELIED UPON IN ARRIVING AT YOUR DECISION.

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. WHILE THE DEBTORS BELIEVE THESE SUMMARIES ARE FAIR, ACCURATE AND ADEQUATE STATEMENTS OF SUCH DOCUMENTS, SUCH SUMMARIES DO NOT PURPORT TO BE COMPLETE AND ARE QUALIFIED IN THEIR ENTIRETY BY THE ORIGINAL DOCUMENTS.

IV. GENERAL INFORMATION ABOUT THE DEBTORS

A. Description and History of Debtors' Business

Background

NGH was a voluntary not-for-profit acute care community hospital that, on the Petition Date, operated 190 licensed acute care beds at its hospital facility located at 1879 Madison Avenue, between 121st and 122nd Streets, and the North General Annex (the "Annex"), located at 1824 Madison Avenue in the Village of Harlem in The City of New York (together with the Hospital, the "Facility"). NGH was also a teaching affiliate of the Mount Sinai School of Medicine.[2] In addition to providing acute care services, NGH operated an Alcohol Treatment Center in the Annex, located at 1824 Madison Avenue,

[2] NGH provided two ACGME accredited program, (i) a three-year residency program in internal Medicine with 31 residents and (ii) a four-year residency program in General Psychiatry with 19 residents. Both programs were a part of the Mount Sinai School of Medicine Consortium for Graduate Medical Education. The programs were committed to providing education of the highest quality, which satisfied all requirements defined by the American Board of Internal Medicine and American Board Psychiatry and Neurology. Commencing before and continuing after the Petition Date, NGH's management, working in tandem with Mt. Sinai, was able to plae all but one (1) of the aforesaid residents in comparable residency programs.

between 118th and 119th Streets, which provided alcohol and substance abuse treatment services to approximately 700 patients per month.[3]

NGH was established in response to and as a result of the Orthopedic Institute Hospital for Diseases, formerly the Hospital for Joint Diseases and Medical Center (the "Hospital for Joint Diseases") of which NGH's facilities were once a part, moving to lower Manhattan and the closure of several other Harlem neighborhood hospitals, including Sydenham Hospital. On the Petition Date, NGH was the only remaining minority-run private hospital in the State of New York.

NGH was incorporated in 1977 and, as a result of amendments to its bylaws in 1991, became an operating subsidiary of NGSC, its parent company. As a not-for-profit corporation organized under the laws of the State of New York ("NYS" or the "State"), NGH qualified for and was exempt from federal income taxation in accordance with Section 501(c)(3) of the Internal Revenue Code. NGH's sole member, NGSC, is similarly a New York not-for-profit corporation that is also exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, as is the D&TC, whose sole member is NGH. NGSC is also the parent company or member of the following entities:

- **North General Home Attendant Corporation** - The "Home Attendant Program" was incorporated on March 11, 1980, employs 625 home attendants and provides home care services to approximately 390 individuals in Manhattan. From its inception, the Home Attendant Program retained its own employees and received compensation through a grant issued by the NYC Human Resources Administration.[4]

- **North General Foundation, Inc.** - The Foundation was created to raise funds to support capital and operational needs of NGH. The Foundation is and has been inactive for the past three (3) years.[5]

- **PhyService, Inc.** - While currently inactive, and in the process of being dissolved, "Physervice" was a management service organization (MSO) that was a not-for-profit, taxable corporation organized to provide management services to affiliate and community based physician practices as well as non-physician organizations.

NGSC was also the parent company of the North General Housing Development Corporation, Inc. and NGSC Insurance Ltd. (the "Captive")[6], both of which were dissolved prior to the Petition Date.

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[3] At the direction of the New York State Office of Alcoholism and Substance Abuse("OASAS"), NGH closed the Alcohol Treatment Center as part of the lease of the space formerly occupied by the D&TC to the Institute for Family Health ("IFH").

[4] NGSC is the sponsoring member and provides two (2) directors to the Board of Directors. On September 30, 2010, the Home Attendant Program received notice from The City of New York ("The City" or "New York City") that The City will not renew the Home Attendant Corporation's contracts and the Home Attendant program will cease and the corporation will dissolve on or about December 31, 2010.

[5] The Foundation holds on deposit approximately $281,486.00 in cash and is in the process of being dissolved in accordance with the Not-for-Profit Corporation Law of the State of New York. Upon dissolution the cash on deposit will be distributed in accordance with New York law and the doctrine of *cy pres,* subject to Order of the Bankruptcy Court.

[6] The captive was incorporated under the laws of Bermuda on October 10, 1996. It was wholly-owned and funded by NGH. NGH maintained a self-insurance trust fund for professional malpractice insurance coverage for the periods prior to September 30, 1982 and for the years ended December 31, 1985 through December 31, 1996. For policy years 1983 and 1984, the Hospital was covered for malpractice by a commercial carrier outside of the trust. The trust fund was intended to enable the Hospital to

NGH is the parent company or member of the following entities:

- **North General AIDS Housing Development Fund Corporation** – NGH is the member sponsor of what is primarily a supportive housing development corporation, which sponsored the development, construction and management oversight of a 28-unit AIDS supportive housing development and provides housing and health related services to individuals referred to it by the NYC Housing Authority under an exclusive arrangement. The housing development is subject to two (2) mortgages funded by (i) the U.S. Department of Housing and Urban Development ("HUD") and (ii) the NYC Department of Housing Preservation and Development ("HPD") in the total amount of $2,639,700.00. The terms of the mortgages are forty(40) years, after which the sponsoring entity takes title to the real property. None of the Debtors has any responsibility for payment of principal or interest on the HUD or HPD mortgages.

- **North General Diagnostic & Treatment Center** – The D&TC,one of the Debtors, was licensed in August 2004, and offered primary care services for adults and children, as well as a wide array of medical, surgical and dental subspecialty services through its out-patient clinics.[7]

Through 1986, NGH controlled the Helene Fuld College of Nursing (the "College"), a separate not-for-profit corporation, through majority Board membership. Also, through October 25, 2007, NGH maintained an affiliation agreement with the College.[8]

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self-insure malpractice claims up to $1,000,000 per occurrence and $3,000,000 in the aggregate. Effective January 1, 1997, the Captive accepted the assets and liabilities of the trust agreement via a portfolio transfer. The Captive insured the professional liability exposures of the Hospital on a claims-made basis. Effective January 1, 1997 through March 31, 2000, the Captive retained self insurance of $1,000,000 per claim and $3,000,000 in the aggregate. Effective from April 1, 2000, the per claim limit increased to $2,000,000 with the aggregate remaining at $3,000,000. At January 1, 2002, the aggregate limit increased to $4,000,000 with the per claim limit remaining at $2,000,000. Coverage was also provided for medical expenses, which were limited to $10,000 per any one person, during the policy period. Effective September 15, 2002, this policy was not renewed. There was an employer's liability policy with an aggregate limit of $1,000,000 per accident for the policy period. The Hospital paid premiums to the Captive and was entitled only to insurance coverage equal to its premium payments. (These payments were recorded as assets whose use was limited on the Hospital's financial statements.) Losses in excess of funds held by the Captive for the Hospital were the responsibility of the Hospital to fund. Funds in excess of liabilities that were held by the Captive were refundable to the Hospital in the form of dividends. Upon dissolution of the Captive, any excess funds over liabilities that were incurred were distributed to NGSC. As of December 31, 2009, the Captive did not have funds held on behalf of the Hospital. The Hospital has recorded an estimated undiscounted malpractice liability of approximately $7.12 million for the year ended December 31, 2009 that was based on an independent actuarial calculation. The Captive's ability to continue as a going concern was dependent on the Hospital's ability to pay premiums due. In addition, any claims payable by the Captive could be offset against the amount due from the Hospital. Due to the Hospital's inability to make premium payments, substantial doubt was raised about the Captive's ability to continue as a going concern. As a result, NGH closed and dissolved the Captive under Bermuda law and the Hospital established a Plan of Self Insurance, effective January 1, 2008, for medical malpractice and general liability claims. In May 2008, the Hospital purchased commercial insurance policies for physician coverage.

[7] Pursuant to the terms of a Services Agreement, dated as of May 1, 2004, as amended by Amendment, dated Jun 17, 2008, NGH provided the D&TC with Staff and Administrative, General and Ancillary Services, and also leased equipment from NGH for use in the D&TC's primary, subspecialties and pediatric's practices, for an Annual Service Fee as set forth in the Service Agreement. By Order, dated August 11, 2010, the D&TC's operations were transferred in material part, including the space at NGH from where it operated, to IFH. The D&TC will be dissolved under the Plan and in accordance with the Not-for-Profit Corporation Law of the State of New York.

[8] In 1975, the College was granted a permanent charter by the University of the State of New York and given authority by the Board of Regents to award the Associate in Applied Science degree in nursing. At that time, the members of the Board of Trustees of the College were also members of the Board of Trustees of the Hospital for Joint Diseases and Medical Center ("Joint Diseases"). In 1979, the bylaws of the College were amended to allow for two (2) trustees who were not trustees of Joint Disease's board. After Joint Disease moved out of Harlem the College became associated with the Hospital, and the College's bylaws were amended to provide for more non-Hospital trustees. At that time, the Board of Trustees of the College was

Governance

NGH, NGSC and the D&TC are each governed by a separate Board of Trustees, although with the exception of Samuel Daniel, M.D., John P. Maher, MPH and Anne Goonan, R.N., the members of NGSC and the D&TC are also members of the NGH Board of Trustees.

On the Petition Date the Debtors' Boards of Trustees consisted of the following individuals:

NGH[9]

Rev. Dr. Calvin O. Butts, III, Chairman
Eugene Giscombe, Vice-Chairperson
Mark Jeziorski, Trustee
Eugene Norman, Trustee
Livingston A. Francis, Trustee

NGSC

Livingston A. Francis, Chairman
Eugene Giscombe
Samuel Daniel, M.D.

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expanded to include more Trustees from the Harlem community. In 1981, the College's Board had five (5) voting Trustees who were also Trustees of the Hospital and five (5) who were not Trustees of the Hospital's board. During 1982 and 1983, the College's Board retained legal counsel to restructure the College's organization both to keep an association with the Hospital and to legally have a majority of non-Hospital trustees. At the March 30, 1983 meeting a change in the corporate structure of the school was approved; the Board approved a member structure organization that provides for members electing a majority of non-Hospital Trustees to the College board. The amendment to the College's charter was approved by the New York State Department of Education in May 1985. The revised bylaws were approved by the College's Board in September 1985 and by the Members in March 1986. By Settlement and Separation Agreement, dated October 25, 2007, between NGH and the College, and the July 25, 2005 acceptance by the Board of Regents of the State Education Department/The University of the State of New York (with the consent of NGH) petition to effect a corporate separation, the College was separated from NGH and NGH agreed to repay to the College the amount of $1,288,824.93 at the rate of $30,000.00 per month. As at September 8, 2010, NGH remained indebted to the College in the amount of $233,169.04.

[9] Commencing December 13, 2007 and continuing through April 2010, the following Trustees resigned or otherwise terminated their positions as Trustees of NGH:

Trustee	Resignation Date
Douglas Melancon, M.D.	December 13, 2007
Gordon Bell	December 14, 2007
Steven C. Bussey	December 17, 2007
Natan Wekselbaum	December 18, 2007
Antonio Perez, Ed.D.	January 23, 2008
Robert Mallet	January 29, 2008
James Perkins	February 18, 2008
	Deceased
Arthur Hill	January 23, 2008
Edward Davis	April 10, 2010

D&TC

Livingston A. Francis, Chairman
John P. Maher, MPH
Anne Goodnan, R.N.

Management of the Debtors' operations fell to its officers who, on the Petition Date, were as follows:

Samuel J. Daniel M.D., President and Chief Executive Officer[10]
John P. Maher, MPH, Executive Vice President and Chief Financial Officer
Renecia Lowery-Jeter, Vice President, Human Resources
Lisa M. Hackett, Esq., Senior Counsel[11]
Carl Kirton, Vice President for Patient Care Services and Chief Nursing Officer

Catchment Area

NGH is located in the poor and working class community of Harlem, which is situated in the Northern part of Manhattan, and which covers several zip codes and spans from the East River to the Hudson River south of 155th Street and north of 110th Streèt. Today, approximately 57% of the population in Harlem is Hispanic (Puerto Rican and Dominican descent), with African-Americans making up the next largest segment of the population.

Despite recent efforts to revitalize Harlem, as evidenced by greater investment in the area, the patients served by NGH were largely made up of underserved populations. The population living around NGH consists primarily of groups with lower levels of education and living at higher levels of poverty when compared to the population of New York City as a whole. In fact, the standard of living in Harlem is relatively low, adult and infant mortality rates are relatively high, and the unemployment rate is significantly higher in Harlem than in surrounding areas. According to the New York State Department of Labor, from January 2008 to January 2009, Harlem's unemployment rate, which is typically double New York City's average, reached 18.7% in Community Districts 9 and 10 and was 17.1% in Community District 11.

According to the New York City Department of Health and Mental Hygiene, residents of East and Central Harlem, when compared to other New York City neighborhoods, rank among the bottom ten (10) neighborhoods in New York City. These residents experience below average scores for the general health, maternal and child health, and they have higher instances of infectious disease (including pneumonia, influenza and HIV/AIDS) and chronic disease (including heart disease, diabetes and lung diseases).

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[10] On July 30, 2010, effective August 2, 2010, Dr. Daniel resigned his position with NGH to accept a position with St. Lukes-Roosevelt Hospital and Continuum Health Partners, a hospital system consisting of Beth Israel Medical Center, Roosevelt Hospital, St. Lukes Hospital, Long Island College Hospital and New York Eye and Ear Hospital. On August 5, 2010, John Maher was promoted by unanimous resolution of the Board of Trustees to the position of President and Chief Restructuring Officer with the attendant salary and benefits, and the positions of Executive Vice President and Chief Financial Officer were eliminated.

[11] On September 30, 2010, the positions of Senior Counsel and Vice President, Human Resources were eliminated.

Heart disease is the leading cause of adult hospitalization in East and Central Harlem and East Harlem has one of the highest child asthma hospitalization rates in New York City (16 per 1,000 children, compared to a rate of six (6) per 1,000 children Citywide). Mortality rates are 45% higher for Harlem residents than for residents across the City as a whole, and hospitalization rates were up to 75% higher (35% higher in Central Harlem, 75% higher in East Harlem). In light of these statistics, NGH's existence as a community healthcare service provider was vital to providing the residents of Harlem with the health services they critically require, and would otherwise be without. NGH was a "safety net" hospital!

NGH's Employees

As of May 2010, NGH had a total of 937 full time employees. These full-time employees were for the most part, residents of four (4) of the five (5) boroughs in New York City, Yonkers and other locations that are farther afield. Specifically, NGH employed 177 employees from Manhattan; 104 employees from the Bronx; 15 employees from Yonkers; 23 employees from Queens; 145 employees from Brooklyn and 336 employees from elsewhere in the metropolitan area.

The majority of NGH's employees (approximately 65%) are members of 1199/SEIU United Healthcare Workers East ("1199/SEIU"). NGH is a party to three (3) separate collective bargaining agreements with (i) 1199/SEIU, covering healthcare workers and (ii) Nurses and (iii) the Committee on Interns and Residents/SEIU, covering interns and residents at the Hospital.[12]

Debtors' Assets

As of the Petition Date, the Debtors' assets consisted of real property, personal property and accounts receivable. All of the Debtors' properties are subject to mortgages and/or liens primarily in favor of the Dormitory Authority of the State of New York ("DASNY"), as described below.

The Debtors' real property (the "Real Property") consists of (i) 1879 Madison Avenue, the Main Hospital Building, to which NGH holds fee simple title and which is valued by a Cushman & Wakefield Inc. appraisal at $17,800,000.00; (ii) 1824 Madison Avenue, the Annex, to which NGH holds fee simple title and which is valued by a Cushman & Wakefield, Inc. appraisal at $3,800,000.00; and, (iii) the NGH Parking Lot to which NGH holds fee simple title and which is valued by a Cushman & Wakefield, Inc. appraisal at $9,200,000.00. The total appraised value of the Debtor's Real Property is $30.8 million.

On the Petition Date, the Debtors' personal property consisted of (i) cash on deposit in various accounts at JPMorgan Chase Bank, N.A. and T.D. Bank in the approximate amount of $3.2 million, (ii) security deposits with Con Edison, G&J Wholesale (1725 Park Avenue Security Deposit) and Sodexho, Inc. in the total approximate amount of $347,000.00, (iii) machinery and equipment appraised by American Appraisal to have the following values under the circumstances noted as at June 7, 2010:

Orderly Liquidation - $2,010,000.00
Forced Liquidation - $1,010,000.00

[12] These collective bargaining agreements will be rejected under the Plan if not rejected by Order of the Bankruptcy Court prior to confirmation of the Plan. Counsel for each of the Plans have been in discussions with NGH regarding Claims based upon (i) alleged Federal and New York State WARN Act violations by NGH and NGH's trustees', officers' and management's alleged (ii) breach of their fiduciary obligations regarding medical malpractice coverage, failure to fund a self-insurance plan and failure to timely cease hospital operations. Discussions between counsel continues.

(iv) inventory, consisting of medical supplies on hand, of $491,052.00, and (v) accounts receivable from the NYS Bad Debt Charity Care Pools ($1,985,727.00), Supportive AIDS Housing ($70,689.00) and patient accounts ($12,649,437.00), totaling $14,705,853.00.

In accordance with the Debtors June 30, 2010 consolidated financial statement, the approximate total value of the Debtors' assets on the Petition Date was $65,275,530.00, which includes $11,840,149.00 of NGH non-current assets held by Trustee for the bondholders of the Series 2003 Bonds, whose use is limited.

B. The Debtors' Prepetition Financial Arrangements

As of the Petition Date, the Debtors' aggregate long-term indebtedness from borrowed money was approximately $211,357,054.00. This indebtedness primarily consists of (i)approximately $133,100.000.00 evidenced by a mortgage loan from DASNY;[13] (ii)approximately $56,443,537.00 from the DASNY Restructuring Pool loans;[14] (iii) approximately $19,547,034.07 in accrued interest; and (iv) approximately $1,907,870.00 in net original issue premiums.

DASNY Mortgage

In 1991, NGH completed the major portion of its facility modernization program. To finance this project, NGH entered into the 1989 Loan with the New York State Medical Care Facilities Finance

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[13] As security, DASNY holds mortgage liens on the Debtors' Real Property, personal property, including equipment and machinery, and accounts receivable securing loans and advances made to the Debtors by DASNY, including, but not limited to, (i) that certain mortgage loan between DASNY and the Debtors, dated July 1, 1989 (the "1989 Loan"), (ii) that certain mortgage loan between DASNY and the Debtors, dated January 28, 1998 (the "1998 Loan"), and, (iii)that certain mortgage loan between DASNY and the Debtors, dated January 3, 2003 (the "2003 Loan").

[14] Evidenced by (i) the Reimbursement Agreement dated as of March 25, 1999, (ii) the First Supplemental Reimbursement Agreement dated as of August 6, (cont.)) 2001, (iii) the Second Supplemental Reimbursement Agreement dated as of July 25, 2002, (iv) the Third Supplemental Reimbursement Agreement dated as of July 21, 2003, (v) the Reimbursement Agreement dated as of April 10, 2009, (vi) the Amended and Restated Reimbursement Agreement dated as of July 23, 2004, (vii) the First Amendment of Amended and Restated Reimbursement Agreement dated as of January 18, 2005, (viii) the Second Amendment of (cont.) Amended and Restated Reimbursement Agreement dated as of May 14, 2007, (ix) the Third Amendment of Amended and Restated Reimbursement Agreement dated as of July 31, 2007, (x) the Fourth Amendment of Amended and Restated Reimbursement Agreement dated as of October 29, 2007, (xi) the Fifth Amendment of Amended and Restated Reimbursement Agreement dated as of February 5, 2008, (xii) the Sixth Amendment of Amended and Restated Reimbursement Agreement dated as of April 16, 2008, (xiii) the Seventh Amendment of Amended and Restated Reimbursement Agreement dated as of July 3, 2008, (xiv) the Eighth Amendment of Amended and Restated Reimbursement Agreement dated as of August 21, 2008, (xv) the Ninth Amendment of Amended and Restated Reimbursement Agreement dated as of December 5, 2008, (xvi) the Tenth Amendment of Amended and Restated Reimbursement Agreement dated as of May 11, 2009, (xvii) the Eleventh Amendment of Amended and Restated Reimbursement Agreement dated as of May 21, 2009, (xviii) the Twelfth Amendment of Amended and Restated Reimbursement Agreement dated as of July 25, 2009, (xix) the Thirteenth Amendment of Amended and Restated Reimbursement Agreement dated as of September 15, 2009 (xx) the Fourteenth Amendment of Amended and Restated Reimbursement Agreement dated as of January 8, 2010, (xxi) the Fifteenth Amendment of Amended and Restated Reimbursement Agreement dated as of February 10, 2010, (xxii) the Sixteenth Amendment of Amended and Restated Reimbursement Agreement dated as of March 10, 2010, (xxiii) the Seventeenth Amendment of Amended and Restated Reimbursement Agreement dated as of April 14, 2010, and (xxiv) the Eighteenth Amendment of Amended and Restated Reimbursement Agreement dated as of May 19, 2010.

Agency ("MCFFA"). The mortgage loan agreement provided for proceeds of $150,000,000.00, which was funded by MCFFA from the sale of Secured Hospital Revenue Bonds ("1989 Series A Bonds").[15]

Thereafter, NGH and DASNY , as successor to MCFFA, refinanced the 1989 Loan and entered into the 1998 Loan on January 28, 1998 in connection with the issuance of $144,610,000.00 of Secured Hospital Revenue Refunding Bonds, Series 1998G (the "Series 1998G Bonds") through the New York State Secured Hospital Program. The 1998 Loan proceeds were used to refund the outstanding principal amount of the existing mortgage agreement with DASNY relating to the 1989 Series A Bonds.

Finally, on January 3, 2003, DASNY signed a new loan agreement with NGH in connection with the issuance of $138,135,000.00 in Secured Hospital Revenue Refunding Bonds, Series 2003, also through the Secured Hospital Program. These proceeds were used by NGH to refund the outstanding principal of the Series 1998G Bonds.

The Series 2003 Bonds are special revenue obligations of DASNY that are pledged solely from the revenues pledged by DASNY to the repayment of the Bonds and are collateralized by the first mortgage lien DASNY holds on NGH's Real Property, personal property, including machinery and equipment, and accounts receivable. In addition, pursuant to the Secured Hospital Program, DASNY and the State, acting through the State's Director of the Budget, entered into a service contract to provide additional protection for the Bonds.

Under the 2003 Loan Agreement, NGH is required to maintain certain covenant obligations; however, as of and after December 31, 2008, NGH has not met its debt coverage ratio covenant requirement. As of December 31, 2008, the DASNY Loan Agreement was reclassified as a short-term liability because of NGH's failure to obtain the required waivers for its failure to meet its debt coverage ratio covenant and certain other covenants. The DASNY Loan Agreement also requires NGH to pay health facility assessment fees to DOH and fees to DASNY including interest, annually. Interest on late payments was assessed at approximately 10%. As of June 30, 2010, NGH owed $4,081,058 in outstanding health facility assessment fees, DASNY fees and interest on late payments.

DASNY Restructuring Pool Loans

NGH entered into the loan agreements with DASNY set forth in footnote 13 in varying amounts from 1999 until shortly before the Petition Date. These obligations were approved and funded by the State of New York, which allocates funds to DOH and transfers the funds to be loaned to the requesting entity through the DASNY Restructuring Pool Fund, subject to legislative notice, for the purpose of providing vendor settlements and implementing a turnaround plan. On July 21, 2003, NGH entered into a supplemental reimbursement agreement with DASNY, in which DASNY (i) loaned NGH $4 million in additional funds from the Restructuring Pool to be applied to NGH's debt service obligations under the 2003 loan agreement and to meet working capital needs and (ii) tolled the payment of interest by NGH under the prior reimbursement agreement for four (4) years until June 20, 2007. In 2004 and 2005, NGH received additional loans to assist with certain debt service requirements. During 2008, additional borrowings were made by NGH to aid with the payment of certain employee benefits from 1199 SEIU that were past due as well as certain debt service requirements.

[15] DASNY is liable to the bondholders for payment of principal and interest on the Series 2003 Bonds, which refinanced the Series 1998 G Bonds. None of the Debtors have any obligation with respect to repayment of principal and/or interest on the Bonds.

Additional borrowing as of December 31, 2008 increased the outstanding principal balance on the Restructuring Pool Loans to $29,996,468. NGH received additional loans thereafter and as of May 2009 the amount due had aggregated to nearly $37 million. From May 2009 through the Petition Date, NGH borrowed an additional approximately $19 million. The Restructuring Pool Loans are secured by a lien on substantially all of NGH's patient receivables and mortgages on the Real Property.

NYC Water Board

NGH is indebted to the NYC Water Board (the "Water Board") in the amount of $595,000.00 for water used in the Hospital's operations. The City's position, supported by case law and legislation, is that the Water Board has a statutory lien on the Real Property securing these charges and that its lien primes the DASNY Mortgage and all other liens.

Commitments and Contingencies

Operating Leases:

NGH entered into various operating lease agreements. In 2008 and 2009 rental expenses under the operating leases were $518,041 and $896,011, respectively. Future minimum rental expense commitments under these operating leases were to be as follows: 2010-$471,105; 2011-$378,082; 2012-$385,745; 2013- $324,877 and thereafter: $1,201,403.[16]

Litigation:

Various lawsuits and claims against NGH arising in the normal course of operating are pending. While the outcome of these suits cannot be determined at this time, NGH believes that these suits and claims have been fully disclosed.

Pension/Welfare Plans:

Union employees (mostly 1999/SEIU United Healthcare Workers) were generally included in the pension and welfare plans of their collective bargaining units. Under these plans, NGH was required to make payments based on contractual amounts.[17] In fact, the monthly funding of the 1199/SEIU benefit funds is mandated by the collective bargaining agreement.[18] Expenses incurred under these plans were approximately $10,333,000 at December 31, 2009.[19]

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[16] By Order, dated September 21, 2010, the Bankruptcy Court approved NGH's rejection of these operating lease agreements.

[17] In December 2006, the Hospital executed a confession of judgment ("COJ") with 1199/SEIU. Included in the COJ were approximately $4,937,000 of delinquent monthly payments to various 1199 employee benefit funds, as well as accrued interest and collection fees of approximately $4,938,000. Monthly principal payments related to the COJ were required as follows: commencing December 2006 through May 2007, monthly installments of $200,000; commencing June 2007 through November 2007, monthly installments of $225,000, monthly installments of $318,524. In October 2009, a final installment of $318,524 plus interest that had accrued on the declining balance was due. The balance due to the 1199 at December 31, 2009 was approximately $4,852,000 consisting of amounts due on the COJ as well as current year unpaid interest and other obligations.

[18] The 1199/SEIU entities and benefit funds to whom this amount is due are as follows:
1199 SEIU Health Care Employees Pension Fund;
1199 SEIU National Benefit Fund for Health and Human Services Employees;
The 1199 SEIU Employee Child Care Fund;
The Hospital League/1199 SEIU Training and Upgrading Fund; and

The D&TC has been notified by the New York State Office of the Medicaid Inspector General ("OMIG"), Draft Audit Report No. 07-4298, dated April 27, 2009, of an alleged overpayment of $3,480,859.[20]

Hospital Grants

NGH has also been the recipient of several grants reported on its financial statements as Other Revenue. For the year ending December 31, 2009 this Revenue was in excess of $5.5 million. Grant monies received from Federal, state and other sources were $2,269,872, $117,174 and $222,861, respectively.

C. Events Leading to Commencement of the Chapter 11 Cases

Undercapitalization and the Need for State Intervention

NGH entered 1980, its first full year of operation, with a negative fund balance (i.e., net worth) of $824,987.00 and concluded that year with operational losses of nearly $3 million.

Although NGH had taken over the facilities of the Hospital for Joint Diseases, New York State and the Federal government did not fashion an adequate plan to finance NGH's operations, resulting in an almost immediate shortfall in working capital for NGH's operations. NGH appealed to the State and was approved for participation in the Emergency Hospital Reimbursement Program, effective September 25, 1980. This Program and NGH's participation afforded NGH special State aid.

Change in Medicaid and Medicare Reimbursement Rates and Lack of Revenue-Generating Programs and Services

Between 1979 and 1983, profound changes took place in the Medicare and Medicaid hospital reimbursement rates and policies. The Medicare/Medicaid reimbursement system, once based on "cost-

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The Hospital League/1199 SEIU Healthcare Job Security Fund.

[19] NGH had been notified that there are various liens that were recorded into by the Pension Benefit Guaranty Corporation (the "PBGC") in connection with the Hospital's Defined Benefit Plan (i.e., the North General Hospital Pension Plan) as a result of under-funding of the Plan. The Hospital does not believe that additional liabilities exist as a result of these liens and, therefore, no additional reserves were recorded. It is anticipated that PBGC will issue a plan determination shortly, terminating the Defined Benefit Plans and placing the plans into trusteeship.

[20] In the Draft Audit Report, the OMIG states that it conducted a review of a random sample of services with Medicaid payments. Based on the sample reviewed, the OMIG disallowed a number of services based on its allegations that: (1) certain claims were submitted for payment at least 90 days after the date of service; (2) certain claims submitted were not documented and/or had documentation in the medical record that did not justify the services provided; and/or (3)the incorrect rate code was billed for certain services (the OMIG asserts that a general clinic rate code was billed rather than the chemical dependence rate code for patients treated in the chemical dependence program). The sample overpayment alleged by the OMIG totaled $12,272. The OMIG then extrapolated its sample findings to the universe of services. By so doing, it asserts a mean point estimate of the amount allegedly overpaid of $3,480,859m to a lower confidence limit of the amount overpaid of $2,958,046. In the Draft Audit Report, the OMIG offered to settle the audit for a repayment of the lower confidence limit ($2,958,046). The OMIG's Draft audit Report further advises that if there is an administrative action regarding this matter, it will seek and defend the mean point estimate of $3,480,859. Among other things, the OMIG may also seek to impose interest and/or commence to withhold regarding this matter. The D&TC submitted documentation, responses and objections to the OMIG's Draft Audit Report on or about August 20, 2009, with additional submissions to the OMIG on or about August 20, 2009, August 21, 2009 and November 6, 2009. As of September 30, 2010, the OMIG has not issued a Final Audit Report. At this time, however, neither NGH nor D&TC are able to state with any reasonable degree of certainty whether their responses and objections will be accepted in whole or in part by the OMIG.

based" reimbursement, was terminated and a fixed price or Diagnosis Related Group-based ("DRG") payment system for inpatient hospital services was instituted. Since that legislation was passed in 1982, and the beginning of the DRG era in 1983, some 1,200 American hospitals have closed, leaving about 5,000 acute inpatient general care hospitals. This change in the reimbursement system resulted in a continuing reduction in the Medicare and Medicaid payments NGH received, and contributed dramatically to NGH's financial situation, adversely affecting NGH's financial stability from its inception.

In addition, because NGH is an independent hospital and not a member of a healthcare network system, NGH was unable to benefit from the more favorable managed care rates provided to the larger health care network systems. Further, NGH was forced to pay higher prices for supplies because it was smaller than many of its competitors. Also, patient care volumes in profitable areas continued to decline as the competition from other healthcare network systems increased. NGH lacked the resources to offer amenities necessary to attract new physicians and had insufficient resources to update and upgrade its antiquated computer systems.

To combat certain of the aforementioned negatives, NGH implemented a number of specialty programs in an attempt to bring in more patients and attract new physicians. These programs, however, were on the whole unsuccessful, and despite NGH's operational expense improvements, investment in clinical leadership, programs and equipment and growth of top-line revenue-generating services, NGH still faced severe liquidity issues. NGH was never able to achieve financial stability or increase its market share. Together these factors eliminated any possibility for NGH to thrive or even survive as an independent institution.

NGH also suffered from its debt load, consisting mainly of the DASNY debt and the other abovementioned debt obligations. In 2004, NGH lost nearly $3,000,000. This figure doubled to $6,000.000 in 2005 and more than tripled in 2006 to $21,000,000. Another $21,000,000 loss followed in 2007 with a loss of approximately $17,000,000 in 2008. As of December 31, 2008, NGH had a deficiency in unrestricted net assets of $199,261,108 and a working capital deficiency of $190,585,554. In 2009, there were actual losses on a consolidated basis of approximately $23,752,213.00.

In 2009 net patient-service revenues decreased by $4.4 million or 4.5%, based on a decrease to 7,626 discharges versus 8,478 discharges in 2008 based on a decrease to 105,109 visits and procedures versus 109,477 visits and procedures in 2008. In addition, salaries and wage expenses (including 1199/SEIU wages) were increased by $1.8 million or 3% compared to 2008. NGH's operating cash flow shortage was $10.2 million annually and $830,000 monthly, excluding all capital acquisitions which totaled $5.3 million.

The Berger Commission

In 2005, in recognition of the serious and systemic problems facing all hospitals in the State, then-Governor George Pataki and legislative officials formed the Commission on Health Care Facilities in the 21st Century (the "Berger Commission"), to undertake an extensive review of all hospitals. In December 2006, the Berger Commission issued its Final Report which recommended, among other things, that NGH enter into a "passive parent", corporate relationship with Mount Sinai Medical Center ("Mt. Sinai") to provide "the best possible avenue for the hospital to achieve stability and to advance its mission in Harlem."

The Berger Commission reported that NGH had faced "decades of struggle" and consistently received loans and grants over the years from the State "to ensure its continued existence." The Berger Commission also acknowledged that NGH was the last hospital built immediately prior to the implementation of those seriously disadvantageous changes to the Medicare capital reimbursement methodology. As a result, the Berger Commission reported that NGH has been unable to generate revenues sufficient to cover both its operations and debt load.

The Berger Commission also noted that NGH was a safety net provider, with Medicaid-covered and uninsured patients representing approximately 65% of its inpatient cases, and that 72% of its inpatients were living in federally-designated medically underserved areas. Furthermore, NGH was plagued by inadequate Medicaid reimbursement, problems collecting from third-party payers, and an inability to draw enough insured patients, causing it to slip steadily further into debt. By 2008, NGH had fallen more than $13.4 million behind on payments on the DASNY Loans and $5 million behind in pension fund payments.

The combined impact of the disadvantageous changes in Medicare's capital reimbursement methodology and other regulatory changes added approximately $83 million to the Hospital's negative fund balance over the intervening years. When added to the $52 million of excess borrowing incurred as part of the Hospital's rebuilding project, the resulting $135 million figure approximates the negative equity position ($146 million) that appears on NGH's 2006 financial statements.

Since February 2004, NGH and Mt. Sinai had been aligned under a clinical affiliation agreement with respect to their respective D&TCs. In light of the Berger Commission's recommendation, NGH sought to expand its relationship with Mt. Sinai on a going-forward basis. However, Mt. Sinai and NGH struggled in the intervening years to move the foregoing plans and their relationship forward. In spite of investments in clinical leadership, programs and equipment, NGH achieved neither financial stability nor an increase in its market share and utilization of NGH's inpatient medical and surgical facilities declined. In view of those facts, and in light of misstated surpluses erroneously reported by NGH in 2005 and 2006, DOH recommended that NGH and Mt. Sinai seriously consider a "full asset merger" as a means by which to preserve NGH as a community hospital or healthcare facility as part of Mt. Sinai's campus.

In furtherance of continuing the clinical relationship with Mt. Sinai and implementing the recommendations of the Berger Commission and DOH, NGH prepared over the past several years, numerous proposals for consideration by Mt. Sinai with a view towards restructuring and improving NGH's governance, services, facilities and overall financial condition, among other things, which Mt. Sinai initially supported.

Mt. Sinai's passive oversight capacity with respect to NGH's clinical and management services, was to be achieved through a governance structure which included an expansion of NGH's Board of Trustees to 13 people; 7 of which were to be appointed directly by NGH and 6 of which would have been from recommendations NGH received from Mt. Sinai. This governance structure would have allowed NGH to (i) maintain its separate corporate identity, (ii) grow and support the delivery of healthcare services to the Central and East Harlem community, (iii) retain a Board of Trustees representative of the Central and East Harlem community, (iv) preserve NGH's Article 28 corporate powers and (v) provide top quality healthcare to the Central and East Harlem Community.

Mt. Sinai, however, citing NGH's financial condition (including increasing losses sustained by NGH in each of 2004 through 2009), and Mt. Sinai's own worsening financial condition as the primary reasons for its decision to remain independent. In particular, Mt. Sinai estimated that NGH would require

approximately $40,000,000 in facility upgrades during the years 2010-2014 and another $8,000,000 in IT system upgrades. In addition, Mt. Sinai calculated that NGH had sustained losses of approximately $14,000,000 in 2005 and $20,000,000 in 2006 and 2007, respectively, and, at the time discussions between NGH and Mt. Sinai were taking place, NGH projected losses of approximately $18,000,000 to $25,000,000 in 2008.

Due to certain financial statistics,[21] Mt. Sinai's worsening financial condition and the desire of Mt. Sinai to remain independent from NGH and disconnected from NGH's debt load, those initial proposals and relationships were deemed untenable options for Mt. Sinai.

Mt. Sinai concluded that NGH suffered from low volume patient levels and patient acuity, inpatient deterioration, understaffing (due to fiscal problems), low investment capital in the areas of IT, clinical and facilities, and determined that these were "material weaknesses", including a deficiency in control (e.g., lack of medical doctors, lack of general ledger accounts, lack of dedicated reimbursement personnel and lack of proper regulatory filings). Mt. Sinai also desired that NGH remain independent because Mt. Sinai would not be able to absorb the overflow of emergency room patients that would otherwise result from a combination of the facilities.[22] Mt. Sinai's executives made it abundantly clear that Mt. Sinai was no longer willing to effect a "full asset merger".

Attempts to Remission the Facility

As a result of the failed contractual relationship with Mt. Sinai, NGH undertook an analysis of potential alternatives that could ensure its continued operation, including: (i) pursuing a plan for interim financing outside of DASNY, to support a plan for clinical reorganization, which presumed a "significant" contractual relationship with Mt. Sinai or another partner,[23] (ii) recreating NGH as a niche provider of comprehensive services to the growing geriatric population, building and expanding upon relationships with nursing homes and other programs serving the elderly, (iii) recreating NGH as a full service, standard-setting ambulatory care facility, offering high quality medical care and technology, (iv) remissioning NGH along the lines of the Medical Home Model ("MHM") or (v) closing NGH.

Initially the most viable of the foregoing options was to remission NGH into a comprehensive

[21] NGH Patient Volume & Financial Recap

	2004	2005	2006	2007	2008	2009
Discharges	8,132	8,946	9,219	9,186	8,478	7,555
ED Visits	31,709	34,446	34,904	35,875	36,461	35,517
DTC /Clinic Visits	83,741	95,746	98,227	88,768	60,022	57,060
Financial Results (P&L)	(2,808)	(5,993)	(20,732)	(20,678)	(20,595)	(23,752)

[22] Together, NGH and Mt. Sinai had approximately 36,000 annual visits to their respective emergency rooms. Mt. Sinai estimated that in the event of NGH's closing or combination with Mt. Sinai, Mr. Sinai's emergency room's visits would increase to 60,000 visits per year. Far in excess of what Mt. Sinai could handle.

[23] NGH approached several other academic and/or healthcare institutions, such as Continuum Healthcare Partners, NY Presbyterian, Harlem Hospital, Parkway Hospital and Caritas Hospitals, etc., regarding such an alignment, but in each instance NGH was rejected.

ambulatory health services provider based on the MHM. Inasmuch as New York State was engaged in a program to fundamentally reform its health care system and, in connection therewith, made available unprecedented financial resources assembled by the State to assist the reform effort. The State's Fiscal Year 2009-10 Health Budget provided incentives for the adoption of "medical home" standards and the revision of the Medicaid reimbursement system for hospital inpatient services.

Under the MHM, healthcare provided by NGH would have been managed and coordinated by personal physicians and NGH would have positioned itself as the "Medical Home" for patients in its catchment or service area in the Central and East Harlem Community. NGH would have (a) formulated new practices and policies to rationalize service use, improved health outcomes and reduced Medicaid costs and (b) developed health care models to service its high risk population, which models would have incorporated intensive case management, integrated delivery of services collaboration with community-based social service organizations and enhanced communication and data sharing. These services would have been supported by fully integrated electronic health records and state-of-the-art information technology. NGH also explored leasing certain of its allotment of 190 beds to Mt. Sinai, involving community doctors in the services provided by NGH, adding more programs and services regarding ambulatory and primary care and offering doctors an economic ownership incentive to become engaged with NGH.

NGH, in seeking to remission itself as a MHM approached DOH for its approval. However, DOH indicated that a MHM would only work in conjunction with a full-service, functioning hospital. As such, operating solely as an MHM was not a viable option for NGH.

With expenses rising and revenues falling, NGH was unable to meet its debt obligations. The decreased reimbursement rates received by NGH, coupled with its debt, decreased the likelihood of a sufficient financial capital restructuring for NGH to remain solvent and viable. Overall, NGH had a serious liquidity crisis and found itself in a very tenuous financial position, with limited cash, an inability to service its debt or make necessary capital improvements or otherwise sustain operations.

In light of the foregoing, NGH found itself in desperate and imminent need of restructuring and rehabilitation in order to survive and to continue to provide the essential health and medical services it had been providing to the medically-underserved areas of East and Central Harlem.

D. Prepetition Third Party Proposals

Notwithstanding the foregoing, NGH remained steadfast in its mission to provide the East and Central Harlem community with the much-needed medical services it deserved but would otherwise be without. To that end, NGH consulted with various parties and entertained several proposals from entities interested in partnering with NGH to assist them in their effort to sustain quality community-based healthcare in the NGH catchment area. Following are several of the more viable proposals entertained by NGH.

Terrence Cardinal Cooke

Terrence Cardinal Cooke Health Center ("TCC") operates a 729 bed healthcare facility at 1249 Fifth Avenue, New York, New York, which is comprised of a 679 Article 28 residential health- care facilities ("RHCF") and 50 Article 16 specialty hospital beds (the "Specialty Hospital"). TCC is part of the Catholic Health Care System (also known as "ArchCare"). Archcare was established as the co-

operator of TCC and is the co-operator of six (6) other RHCF's with a total of 2500 beds, four (4) of which RHCF's with 2100 beds are located in New York City.

TCC's mission is to foster and provide faith-based holistic care to those in need. In furtherance of its mission, TCC operates the Specialty Hospital, which serves severely developmentally disabled children, and, in its RHCF, a 48 bed Huntington's Disease unit, 156 AIDS beds, 57 dialysis beds, as well as outpatient dialysis services and outpatient services to severely developmentally disabled children.

NGH and TCC discussed a plan whereby TCC would transfer some of its programs and services to a new RHCF ("NewCo") to be operated under ArchCare's auspices with Community Board participation.

NGH and TCC contemplated that NewCo would acquire certain assets of NGH including, but not limited to, the real property and improvements at the NGH Facility, including furnishings, fixtures, equipment, permits, goodwill, intangibles, and all other assets owned by NGH and exclusively used in the operation of the Hospital (all of the foregoing, to the extent transferable, collectively referred to herein as the "Assets"). The Assets, however, would not have included NGH's Medicare or Medicaid provider numbers and associated participation agreements applicable to the hospital as NGH operated an acute care hospital and NewCo would have operated an RHCF with the following programs and services,

NewCo would have operated 305 RHCF beds at the Facility:

- 80 Pediatric/Adolescent skilled nursing beds (this service line would have been in place of the current 50 Specialty Hospital beds that TCC operates at its Fifth Avenue site);
- 99 AIDS beds (TCC currently operates 155 AIDS beds at its Fifth Avenue site and subsequent to establishment of NewCo would reduce its existing AIDS bed count to 56);
- 40 ventilator beds;
- 30 skilled nursing beds with a focus on treatment of traumatic brain injury; and
- 56 skilled nursing beds with dialysis specialty focus.

TCC proposed to lease space from NewCo for TCC's 22 station outpatient dialysis program (TCC would have expanded the outpatient dialysis unit to between 25-33 stations) and TCC's clinic services. NewCo would have had additional space available to lease to an unaffiliated provider for in-patient psychiatric services and an urgent care center. In addition, there was an opportunity for unaffiliated providers to utilize the Facility's existing surgical suite. Finally, it must also be noted that the Facility was designed for hospital use and required renovation for use as an RHCF. Even with renovation, certain waivers would likely to have been required.

New York City Health and Hospitals Corporation

New York City Health and Hospitals Corporation ("HHC") proposed the construction of an approximately 158,000 square foot skilled nursing facility (the "New Building") at an estimated cost of $183 million on the NGH parking lot. HHC planned to lease the New Building from NGH and operate approximately 410 skilled nursing facility ("SNF") beds.

HHC further proposed that it would lease all but the lower two floors and part of the third floor of the NGH Main Hospital Building, with the balance of the space leased by NGH to a third-party health care provider subject to HHC's approval. HHC proposed to use its portion of the space to operate an approximately 210-bed long term acute care hospital ("LTACH").

The Robin Hood Foundation

The Robin Hood Foundation ("Robin Hood") is an organization which provides funding to poverty-fighting nonprofit organizations, in particular those which build and operate schools. Robin Hood approached NGH and expressed an interest in purchasing the parking lot adjacent to the Facility in order to construct, develop and operate a five (5) story High School which would have housed approximately 800 students. Robin Hood would have formed a venture with an unidentified entity to which NGH would sell the parking lot and that entity and Robin Hood would construct the High School.

North General Primary Care and Wellness Center

Fred Hyde, M.D., J.D. and MBA, a Columbia University professor and a consultant, retained by NGH to assist NGH with its restructuring efforts, proposed the North General Primary Care and Wellness Center (the "Center") as a unique healthcare, health promotion and social service center. The Center would have housed state-of-the-art health and social services, including:

(i) ***Primary Care Center*** - would have provided primary care services, chronic disease education and self-management support, on-site pharmacy services, on-site laboratory and the provision of referrals for inpatient and other specialty services to nearby medical centers;

(iii) ***Community Wellness Center*** - would have provided physical activity and nutrition programs, fitness programs at NGH and Mount Morris Park, the creation of a North General Farmer's Market and a North General Food Court with healthy food provided by local restaurants;

(iv) ***Early Childhood and Readiness Services*** - would have affiliated itself with Early Head Start, Head Start and Baby College, the creation of a walk-in support center for new mothers and infants and an early intervention program that would have provided a screening, evaluation and service center;

(v) ***Senior Services*** - would have been housed in a state-of-the-art facility that would have provided seniors with cross-generational programs; and,

(vi) ***Community Health Resource Center*** - would have provided education and training for community residents, assistance for institutions, organizations and businesses to establish health promoting programs and policies and coalition offices for various organizations serving East and Central Harlem such as the Harlem Food and Fitness Coalition and the Strategic Alliance for Health.

Critical Access Hospital

In June 2009, NGH submitted a proposal to Congressman Charles B. Rangel, then Chairman of the House of Representatives' Committee on Ways and Means, which called for NGH to refocus its

mission to address the incidence and prevalence of disease and the relative scarcity of healthcare services in East and Central Harlem.

NGH's means for undertaking the action delineated in this proposal, included strengthening NGH and all its current services, and development of alternative services, some of which were to be housed within and some of which would be sponsored by NGH.

The most important concept in this proposal was the extension of the "Critical Access Hospital" concept- a great benefit to rural hospitals in America- to the non-profit urban safety net hospital. NGH proposed a pilot program for this undertaking and suggested that the geographic social and economic isolation of smaller, rural hospitals made prospective reimbursement (the diagnosis-related group or DRG reimbursement system begun for Medicare in 1983) untenable for rural locations. Similarly, NGH argued that reimbursement for anything other than cost, including capital cost, was untenable for the urban safety net hospital. NGH further asserted that this Critical Access Hospital pilot project would demonstrate the importance of extending "Critical Access Hospital" benefits to non-profit, urban hospitals, and could become a model for other communities.

In this proposal, NGH outlined what it believed to be reasonable requests for assistance from the State. Additionally, NGH proposed the following actions be taken at the federal level:

(1) ***Critical Access Hospital***: A pilot program for a private non-profit urban safety net hospital, mandating cost-based reimbursement for Medicare and Medicaid in-and outpatient services, with all other "benefits" of the Critical Access Hospital program available;

(2) ***American Recovery and Reinvestment Act (ARRA)***: $10 million for hospital and health services information and technology; and

(3) ***Other CMS programs***; Designation as a "Medical Home" pilot program, expedited review of the FQHC application, etc.

In order to improve its overall efficiency, NGH suggested that the Hospital downsize one-third (1/3) of its 190 medical surgical beds to 120 beds. Also, to assure the availability of effective care for patients in its service area, NGH planned to "host" TCC for the transfer of fifty (50) long term acute care beds, and the Hospice of New York program, for an additional twelve (12) beds.

NGH also anticipated transferring its residency program to Mt. Sinai, and noted that it would work with Mt. Sinai in the development of medical supervision for an independent Federally Qualified Health Center, in recruitment of physicians for the Harlem Medical Corps, and in the development of other outpatient service programs that would, over time, take the place of the D&TC.

FQHC Conversion Transaction

This proposal called for the conversion of the D&TC to a Federally Qualified Health Center Look-Alike ("FQHCLA") model as a vehicle to ensure continued patient access to the vital healthcare services provided by the D&TC.

Two (2) scenarios for the potential FQHCLA were considered. In both scenarios, the D&TC would convert to an FQHCLA providing the same mix of services as it was providing at that time with the following differences:

Scenario 1

- Primary Care-included in FQHCLA scope and thus entitled to FQHCLA benefits such as reimbursement enhancements
- Specialty Care- not included in FQHCLA scope and thus not entitled to FQHCLA benefits. Services would be reimbursed at Diagnostic and Treatment Center lower rates

Scenario 2

- Primary Care-included in FQHCLA scope and thus entitled to FQHCLA benefits such as reimbursement enhancements
- Specialty Care- included in FQHCLA scope and thus entitled to FQHCLA benefits such as reimbursement enhancements

In support of this proposal, NGH indicated that FQHCs are eligible for a variety of reimbursement enhancement vehicles and cost saving programs that are not available to outpatient clinics. Among the several benefits NGH noted were available to FQHCLAs were the following, (i) FQHCLAs can contract with states to be able to provide eligibility worker services; (ii) Medicare reimburses FQHCLAs for Mid-Level provider services at the same rate as physicians; (iii) Medicare preventive services are covered if provided in a FQHCLA; (iv) FQHCs are eligible to purchase prescription drugs at rates typically 25-50% lower than other healthcare providers; and, (v) FQHCLAs can participate in the federal loan repayment program.

E. Plan of Closure [24]

The Plan of Closure, NGH's final option, was negotiated with DOH, OMH and OASAS and, as summarized below, provided for the following: (i) the discontinuation of certain services provided by the Hospital, (ii) the transfer of outpatient services provided by the Hospital and the D&TC to IFH and (iii) arrangements for the disposition of other Hospital activities. All patients of the Hospital were notified of the closures and/or transfer of services.

The Plan of Closure provides that the Hospital (i) would cease accepting new admissions as of midnight on July 6, 2010, (ii) would discharge or transfer inpatients as soon as safely possible and (iii) would terminate operations of its hospital-based clinics and off-site clinics designated for closure. Outpatient services designated for transfer to new sponsors would continue to provide services without interruption.

The following represents the disposition of healthcare services at NGH under the Closure Plan:

[24] On July 2, 2010, the Debtors filed a Motion for Entry of Interim and Final Orders Pursuant to Sections 105(a), 363, and 1108 of the Bankruptcy Code (A) Authorizing the Debtors to Continue the Implementation, in Accordance with New York State Law, of a Plan of Closure for North General Hospital and Certain Affiliated Outpatient Clinics and Practices; and (B) Scheduling a Final Hearing. The Interim Order was entered by the Bankruptcy Court on July 7, 2010, and the Final Order was signed by the Bankruptcy Court on August 26, 2010.

Services Discontinued

1) *Emergency Services*: The Hospital was an operator of two (2) ambulances within the NYC 911 system. The following entities were advised of the Hospital's emergency department closure and diversion of patients elsewhere: (i) FDNY 911 ambulance service and (ii) the Regional Emergency Medical Services Council of New York. The FDNY was responsible for routing all emergencies to area emergency departments. The Hospital provided interim emergency services (such as "treat and release or transfer" services and stationing an ambulance at the Hospital emergency department) until Hospital's actual closure.

2) *Inpatient Services*: The Hospital inpatient services ceased accepting new admissions as specified in the Plan of Closure on July 6, 2010. The Hospital continued to provide care to existing patients, and enlisted the assistance of DOH in finding suitable transfer facilities for patients not readily transferred or discharged in the course of ordinary care.

a) *Surgical Services*: Surgical Services had ceased prior to NGH's adoption of the Closure Plan.

b) *Substance Abuse Services*: The Hospital notified OASAS of the closure;

c) *Mentally Ill Chemical Abuse Inpatient Services*: The Hospital notified the New York Office of Mental Health ("OMH") of the closure; and

d) *Psychiatric Inpatient Services*: The Hospital notified OMH of the closure.

3) *Outpatient Services*: Hospital outpatient services ceased accepting new admissions on July 6, 2010 as specified in the Plan of Closure:

a) *Addiction Treatment Center*: The Hospital notified OASAS of the closure. The Hospital provided transition services and worked with OASAS to arrange referrals to other certified providers.

b) *Community Outreach Education*: All active enrollees in the Hospital's community-based mental health outreach program were notified of closure and referred to local alternative provider sites; and,

c) *Outpatient general surgery and outpatient plastic surgery service*: This service was discontinued.

Services Transferred

The Hospital transferred the below outpatient services to the sponsorship of IFH, which operates a site-extension FQHC at the Facility. Clinical services will continue to be operated as part of the site-extension FQHC without interruption through the transition period associated with the Hospital closure:

1) Primary Care Clinics;
2) Comprehensive School Based Health Center;
3) Special Services;

4) Women's Health Center; and
5) Outpatient Mental Health.

Other Arrangements

The Plan of Closure made arrangements for the following Hospital matters during and after Hospital closure:

- Records management and retention;
- Notifications to patients, applicable regulatory entities, employees, state and municipal public services, the public, and elected officials and civic leaders;
- Disposition of hazardous materials;
- Medical equipment;
- Pharmaceuticals;
- Equipment;
- Supplies and inventory;
- Hospital facilities;
- Human resources;
- Medical staff; and
- Graduate medical education.

V. SIGNIFICANT EVENTS DURING THE DEBTORS' CHAPTER 11 CASES

Based upon their lack of liquidity and their depressed income from operations, the Debtors determined to file the Bankruptcy Cases.

First Day Motions

On or shortly after the Petition Date, the Debtors filed a number of motions to administer these Chapter 11 Cases in a timely and efficient manner. Pursuant to those motions, the Bankruptcy Court entered Orders that, among other things, granted the Debtors the authority to:

• establish joint administration of the Cases;

• establish procedures for payment of professionals;

• pay certain sales and use taxes and direct banks and other financial institutions to honor all checks and electronic payment requests;

• extend the period during which utility companies may not alter, refuse, or discontinue services to the Debtors;

• pay certain prepetition accrued wages, salaries, medical benefits, and reimbursable employee expenses;

• continue use of the cash management system and maintain existing bank accounts;

• authorize the entry into a postpetition financing agreement with DASNY for use of Cash Collateral;

• authorize, but not require, the payment of prepetition wages and obligations related to Medical Providers; and,

• authorize the continuation of the implementation, in accordance with New York State law of a Plan of Closure for the Hospital and affiliated out patient clinics.

Two (2) significant events early in these chapter 11 cases were the entry of:

(A) the Final Order (i) authorizing the Debtors to incur secured post petition indebtedness of approximately $14,000,000.00 from DASNY, (ii) granting DASNY Senior Security Interests and Superpriority Claims, (iii) authorizing the Debtors to use Cash Collateral, (iv) granting DASNY adequate protection and (v) other related relief; and,

(B) the Final Order (i) authorizing the Debtors' assumption of the unexpired lease of space in the Main Hospital Building and Annex, with the option to purchase the Annex, held by IFH and (ii) the sale of certain equipment and assets by the Debtors to IFH as part of the assumption of the aforesaid lease.

The Patient Care Ombudsman

On July 8, 2010, the U.S. Trustee appointed Ms. Suzanne Koenig of SAK Management Services, LLC 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 she evaluated the Debtors' efforts to complete a safe shut-down of all health care operations. The PCO filed a report regarding same on August 5, 2010 in which she generally found the quality of patient care and shut-down efforts to have been effected in a professional manner. By Order, dated August 31, 2010, the PCO was excused from her responsibilities as Patient Care Ombudsman.

The Consumer Privacy Ombudsman

On July 16, 2010 the Bankruptcy Court entered an Order directing the appointment of a Consumer Privacy Ombudsman. That same date the U.S. Trustee appointed Luis Salazar, Esq. the Consumer Privacy Ombudsman (the "CPO"). The Debtors cooperated with the CPO as he evaluated the Debtors' procedures and processes to protect patient medical records and pathology slides. On August 5, 2010, the CPO filed his Ombudsman Report and by Order, dated August 31, 2010, the CPO was discharged from the duties of Consumer Privacy Ombudsman.

Transfers of the Debtors' Healthcare Clinics

Although the Debtors commenced Chapter 11 proceedings to facilitate the shut-down of their healthcare operations, the Debtors desired to maintain ongoing patient care at the D&TC's outpatient facilities. More specifically, early in the Cases, the Debtors leased to IFH the space formerly occupied by the D&TC, with an option to acquire the Annex, and effectuated transfers of their medical clinics to IFH,

who has provided primary care to thousands of patients in the Hudson Valley and New York Metropolitan area.

The Records Retention Agreement

In the course of the Debtors' provision of healthcare services, the Debtors generated a large volume of patient medical records and pathology slides (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 have entered into an agreement with CitiStorage LLC, subject to Bankruptcy Court approval, pursuant to which CitiStorage agreed to retain the Patient Records and fulfill appropriate requests therefore.

VI. THE PLAN FORMULATION PROCESS

The remissioning of the Hospital as a provider of healthcare services through third parties came about in 2009 as it became clearer to the NGH Board of Trustees that NGH would not be permitted to continue to operate an acute care hospital at the Facility. Also, DOH and DASNY made it clear to the Trustees and management that NGH's model no longer worked and that the most appropriate way to ensure ongoing healthcare in the Central and East Harlem community, would be for NGH to partner with a healthcare system that would take over the Hospital's operations or remission the Facility for use by third-party healthcare providers. This conclusion was the culmination of ten (10) years of indepth review and analysis by numerous experts, healthcare professionals and the Trustees themselves, of numerous proposals and possible opportunities for the Debtors to continue to operate an acute care hospital. These proposals and opportunities and the formulation of the Plan is described below.

A. The Debtors' Perspective

From NGH's perspective, the first step in the restructuring process was the review of NGH's operations and potential operations with a view to continuing the provision of healthcare services from the Facility. The NGH Board of Trustees remained steadfast in their commitment and mission to fulfill their obligations to ensure the continued provision at the Facility of much-needed healthcare and medical services to the East and Central Harlem community. To that end, NGH and its Board of Trustee which, over a ten (10) years period had consulted with Countless and various parties and entertained numerous proposals from entities, private and public, interested in partnering or affiliating with NGH to assist the Board of Trustees in their efforts to sustain quality community-based healthcare services in the NGH catchment area, revisited those consultations and proposals along with their consultants, Alvarez & Marsal Healthcare Industry Group, LLC, and counsel to arrive at a structure of a remissioned NGH which, notwithstanding the Hospital's closing and unlike the situations at other closed hospitals (St. Mary's, Victory Memorial, Caritas and Parkway) would leave a fully functioning healthcare facility in place of the Hospital and would satisfy the Board's fiduciary obligation to the Central and East Harlem community. These proposals included the following:

- August 2000, NGH and Memorial Sloan Kettering Hospital ("MSKH") discussed the development of a joint venture that would create and operate a cancer research specialty treatment clinic in the NGH service area. These discussions, with a $3 million contribution from MSKH in accordance with a certain Subvention Agreement, dated January 10, 2003 by and between the Ralph Lauren Center, MSKH and the State and a $1 million contribution from Ralph Lauren,

evolved into what is now the Ralph Lauren Center for Cancer Care and Prevention ("Ralph Lauren Center"), a Harlem community-based center for the prevention, diagnosis and treatment of cancer.[25]

- March 2001, NGH's management commenced discussions with Boriken Health Centers regarding the establishment of a relationship involving clinical consolidation to serve the East and Central Harlem areas.
- March 2001, NGH engaged in active discussions with Continuum Health Partners ("Continuum") with regard to outsourcing administrative and support functions with St. Lukes Roosevelt Hospital ("St. Luke's/Roosevelt"). These discussions resulted in an agreement that realized significant savings on food service. NGH also engaged Continuum and St. Lukes/Roosevelt in discussion on (i) the development of clinical relationships in the areas of cardiology, obstetrics and orthopedics, (ii) the coordination of their respective clinical programs and (iii) a three-phase implementation plan to begin in 2002. The aforesaid discussions resulted in the development of a business plan for a clinical joint venture, beginning with the areas of orthopedics, vascular surgery and cardiology.

- September 2002, NGH and its financial and legal consultants, met with DOH and DASNY to discuss refinancing NGH's outstanding indebtedness to DASNY and NGH entering into a new loan agreement and mortgage, repaying and refinancing NGH's indebtedness to DASNY.

- October 2003, NGH filed a Certificate of Need with DOH to create a free-standing D&TC to minimize financial losses from the operation of its clinics.

- January 31, 2004, NGH's agreement with Continuum was terminated. The clinical and ancillary services affected by the terminated relationship were transitioned to Mt. Sinai. The Mt. Sinai relationship enhanced physician recruitment and oversight over key clinical service lines, including Emergency Services, Surgery, OB-GYN, Radiology, Psychiatry, Ophthalmology and Outpatient Services. In addition, Mt. Sinai entered into a Catheterization Lab joint venture whereby Mt. Sinai built out, equipped and operated a Cath Lab in leased space at North General.

- January 2004, the then Board of Trustee's Parking Lot Development Committee reviewed proposals for the development of the NGH parking lot. The proposals provided for a sale of the parking lot which was expected to generate up to $16 million for NGH, reduce debt and enhance services. NGH worked for 2½ years on this proposed development transaction, which also required DASNY's consent to release its mortgage interest on the parking lot. On April 9, 2007, NGH terminated negotiations with the proposed developer.

- December 2006, The Commission on Health Care for the 21st Century recommended that NGH enter into a passive parent corporate relationship with Mt. Sinai to strengthen the existing clinical service arrangements and gain efficiencies in non-clinical areas. After conducting its due diligence, Mt. Sinai chose not to pursue a corporate relationship with NGH.

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[25] NGH in the process of withdrawing as a member/sponsor of the Ralph Lauren Center. MSKH will either select another member/sponsor or continue as a single member/sponsor.

- October 2007, North General retained Kurron Shares of America, Inc. ("Kurron") as consultants to assess the hospitals financial disposition. On January 24, 2008, the Board voted to terminate the engagement of Kurron and the CFO who had been brought in by Kurron.
- June 2008, a NGH/Mt. Sinai Task Force was created to help spur negotiations on a closer working relationship between the two institutions. In April 2009, after conducting a due diligence review of NGH's physical plant, clinical programs and finances, Mt. Sinai concluded that it would not pursue an asset acquisition or merger with NGH.

- After an agreement with Mt. Sinai could not be reached, NGH's Board of Trustees directed management to pursue a clinical reconfiguration of the Hospital. Management initially called for a scaled down hospital with limited inpatient services. However, in June 2009, after various discussions with community leaders and others, including an investigation of non-government sources of funding from Medical Capital Corporation, a new remissioning plan for NGH was proposed by the Board and management to Congressman Charles Rangel and DOH. The core elements of the Remissioning Plan included (i) downsizing or remissioning NGH's inpatient beds, (ii) conversion of the D&TC to an FQHC, and (iii) development within NGH of a Long Term Acute Care Hospital ("LTACH") in conjunction with the Health and Hospitals Corporation ("HHC") or TCC, with the potential for (iv) other geriatric programs.

- August 2009, NGH entered into a consulting agreement with Alvarez & Marsal Healthcare Industry Group LLC ("Alvarez & Marsal"), who was directed to develop a definitive consensus plan for the restructuring of NGH for presentation to stakeholders. The Board of Trustees demanded that the plan meet the community's needs and be financially viable over the long term. Alvarez & Marsal's focus was on determining the core program elements for a reconfigured NGH. Alvarez & Marsal prepared a Detailed Work Plan and Financial Needs Assessment with respect to the proposed Remissioning Plan. Alvarez & Marsal, in conjunction with NGH's counsel, entertained numerous proposals during their consulting engagement with NGH.

The outcome of the Board of Trustee's review and the years of searching for an answer to NGH's financial dilemma is captured in the MOU between NGH, DASNY, HHC, NYC and DOH which outlines the disposition of the Debtors' assets following closure and adopting aspects of certain of the above-mentioned proposals to remission the Facility as a provider of healthcare services through Third Party providers. The Plan embodies the transition of the Facility from a hospital to (i) an FQHC with an urgicenter in the Annex, (ii) a 281-bed LTACH in an upgraded Main Hospital Building, and (iii) a 266-bed SNF housed in a new 12-story, 198,000 square feet, state-of-the-art skilled nursing facility to be constructed on the NGH Parking Lot.[26]

(ii) **The Premise and Summary of the Plan**

The Debtors have on file with the Bankruptcy Court their proposed Plan, which provides for treatment of the various creditor constituencies as follows:

- Administration and Priority Claims
Class 1 - Secured Claims
Class 2 - Priority Tax Claims
Class 3 - General Unsecured Claims

[26] See Exhibit "B" annexed hereto for the complete text of the MOU.

Class 4 - Membership Interests

The Debtors' Plan provides for payment in full of Administration and Priority Claims. Class 1, Secured Claims, consisting of two (2) subclasses, (i) DASNY, who is undersecured and Impaired and, therefore, entitled to vote on the Plan and (ii) the New York City Water Board. There is one Class 2, Priority Tax Claimant who is not Impaired and is not entitled to vote. The two (2) subclasses of Class 3, General Unsecured Claims, are Impaired and entitled to vote on the Plan. There will be no distribution to Class 4, Membership Interests.

(iii) Substantive Consolidation for Voting and Distribution Purposes

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 Debtors for voting and distribution purposes, (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 for distribution purposes, 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 setoff against the debts of the other Debtors. Such substantive consolidation shall not (other than for voting and distribution purposes related to the Plan) affect the legal and corporate structures of the Debtors. Notwithstanding anything in this section 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, unless and until the Bankruptcy Court shall have entered appropriate relief.

(iv) Effective Date

The Plan provides for the Effective Date to be the first Business Day upon which each of the conditions in Article 14 of the Plan has been satisfied or waived pursuant to section 14.3 of the Plan and the tenth (10th) day after entry of the Order of the Bankruptcy Court confirming the Plan is final and, if an appeal is pending, there shall be no order entered staying the Confirmation Order. The Debtors shall confirm and consummate the Plan with respect to NGH within one hundred eighty (180) days after entry of that Confirmation Order.

VII. SUMMARY OF THE PLAN

THIS IS A SUMMARY OF THE PROVISIONS OF THE PLAN AND, ACCORDINGLY, IT IS NOT AS COMPLETE AS THE FULL TEXT OF THE PLAN, WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT AS EXHIBIT "A" hereto. THE PLAN SHOULD BE READ IN ITS ENTIRETY.

The Plan is based upon the Debtors' analysis and determination that (i) its operations cannot generate sufficient revenues to sustain the Hospital in the absence of substantial financial support from the State of New York and/or the Federal government, (ii) such financial assistance from the State of New York and/or the Federal government is not forthcoming, and (iii) without such financial assistance there

are insufficient assets held or generated by the Debtors to (a) satisfy in full the Claims of Secured, Administration, Priority (including Tax Priority) and General Unsecured Claimants and (b) provide a distribution to the holders of the Membership Interests.

(v) Summary of the Designation and Treatment of Classes

The Plan provides for Administration and Priority Claims, three (3) classes of creditors and one (1) class of Membership Interests.

(a) Administration and Priority Claims

This Class consists of all of the costs and expenses of administration, including managing agent, consultant, attorneys' and accountant's fees, awarded by the Bankruptcy Court and payment of any quarterly fees due to the Office of the U.S. Trustee. These claims shall be paid in full, in cash, on the later of the Effective Date or the date such claims becomes an Allowed Administration or Allowed Priority Claim, unless paid prior thereto, unless some other agreement between the Debtors and the claimant is reached and approved by the Bankruptcy Court.

This Class consists of such compensation and reimbursement of disbursements as is allowed by the Bankruptcy Court for professional services rendered including:

1. Counsel for each Debtor, Windels Marx Lane & Mittendorf, LLP;
2. Special Regulatory counsel for each Debtor, Garfunkel Wild, P.C.;
3. Accountants for each Debtor, BDO USA, LLP;
4. Counsel for the Official Committee of Unsecured Creditors, Alston & Bird, LLP;
5. Financial Advisors to the Official Committee of Unsecured Creditors, NHB Advisors, Inc.;
6. Patient Care Ombudsman, Ms. Suzanne Koenig;
7. Counsel to the Patient Care Ombudsman, Greenberg Traurig, LLP;
8. Medical Operations Advisors to the Patient Care Ombudsman, SAK Management Services, LLC;
9. Consumer Privacy Ombudsman, Luis Salazar, Esq.; and,
10. Claims, noticing and balloting agent, Epiq Bankruptcy Solutions, LLC; and,
11. Any amounts due to the Office of the U.S. Trustee.

(b) Class 1 - Secured Claims

This Class consists of Claims secured by assets of the Debtors. The members of this Class and their claims with respect to each Debtor, consists of the following:

(i) Dormitory of the State of New York (Loan Agreement and Mortgage);
(ii) Dormitory Authority of the State of New York (Restructuring Pool);
(iii) Dormitory Authority of the State of New York (Mortgage interest and unpaid fees);
(iv) Dormitory Authority of the State of New York (premium on mortgage bonds); and
(v) The New York City Water Board (water charges).

A. DASNY's four (4) claims total $211,357,054.00, secured by the Debtors' real property, machinery, equipment, instruments and patients accounts receivable. DASNY also holds Debtor-in-Possession, Super Priority and Administration Priority Claims. In satisfaction of the secured portion of its Claim, which Secured Claim shall be valued at $32,610,000.00, DASNY (or its designee) shall receive subject to approval of the Bankruptcy Court in the Confirmation Order, (i) subject to the IFH Lease and the HHC Lease, fee simple title to the Real Property located at 1879 and 1824 Madison Avenue, New York, New York, (ii) any equipment and other assets that DASNY in its sole discretion believes is necessary for the continuing healthcare mission (as set forth in the MOU) at the Facility, (iii) the assignment of any receivables paid to the Debtors or due to the Debtors from IFH, the IFH Lease and the IFH Note, (iv) the assignment of the HHC Lease, the IFH Lease and the IFH Note, (v) the assignment of any grants or other funding, that the Debtors may receive from the United States and/or New York State, which grants and other funding may be used as a source of payment of the Debtors'Administration, Priority and other Secured claims, and (vi) releases. The ultimate disposition of the NGH Real Property under the Plan and the MOU shall be as follows:

a. The Main Hospital Building - shall be leased to HHC for use as an approximately 281 bed long term acute care hospital pursuant to an agreement further described below subject to HHC's right in the future to make other hospital uses of the Main Hospital in compliance with the Internal Revenue Code's provisions governing the tax-exempt status of the Series 2003 Bonds and to respond to the future healthcare needs of the Harlem community and New York City populations (the "Lease");

The term of the Lease shall coincide with the longer of: (1) the period during which the Series 2003 Bonds are outstanding; or (2) the period during which HHC receives fee-for-service Medicaid capital cost reimbursement from DOH for the non-depreciated value of the Main Hospital Building allocated for HHC use. Upon the expiration of the Lease (assuming no default by HHC), title to the Main Hospital Building will be transferred to HHC for no additional or nominal consideration;

The Lease will be on a "triple net" basis with HHC having the obligation to pay rent in an amount equal to all fee-for-service Medicaid capital cost reimbursement it receives from DOH attributable to the Lease. Fee-for-service Medicaid capital cost reimbursement from DOH based upon any capital improvements to the Main Hospital Building made by HHC or The City shall be retained by HHC and shall not fund additional rent payments;

Initially the Lease will not include the first floor of the Main Hospital, which space shall be used by IFH for a period of two (2) years with a right to renew for an additional one (1) year. During the term of its occupancy of the first floor, IFH shall pay a reasonable portion of the operating costs of the Main Hospital Building corresponding to the portion of the Main Hospital it will occupy as shall be provided in the lease of the first floor to IFH. The operating costs paid by IFH during the period of IFH's occupancy shall be applied to reduce the costs of operating and maintaining the Hospital that would otherwise be the responsibility of HHC under the Lease. Upon the expiration of IFH's lease, such floor shall be included in the Lease on the same terms and conditions of the Lease; and

HHC will be provided with asset depreciation schedules and other documents necessary to receive Medicaid capital cost reimbursement.

So long as HHC complies with the terms of the Lease, HHC's occupancy of the Main Hospital Building shall not be disturbed.

b. The NGH Parking Lot - shall be sold to HHC, free and clear of all liens, claims, encumbrances, including the DASNY mortgage and other DASNY liens, for construction of and use as a skilled nursing facility, subject to HHC's right in the future to make other uses of such facility to respond to the future healthcare needs of the Harlem community and New York City population.

HHC agrees to construct on the Parking Lot a new building for up to 410 skilled nursing facility beds (currently the number is projected at 266 beds) subject to HHC's right in the future to make other uses of such facility to respond to the future healthcare needs of the Harlem community and New York City populations;

The purchase price to be paid by HHC for the Parking Lot shall be the fair market value of the Parking Lot as determined by an appraisal and agreement of the parties and based upon the Parking Lot's use being restricted to a SNF, subject to HHC's right in the future to make other hospital uses of such facility to respond to the future healthcare needs of the community and New York City populations;

The City of New York will have the obligation, subject to inclusion in the capital budget, to finance the cost of constructing the SNF building; and

c. The Annex - shall be leased or sold to IFH d/b/a the Family Health Center at North General, a not-for-profit Federally Qualified Health Center, for use as a FQHC and Urgicenter.

d. NYS Regulators – DOH shall make a determination, pursuant to its regulatory authority, that the continued use of the Real Property by HHC and IFH for healthcare purposes is necessary to the preservation of healthcare services in the community formerly served by the Hospital. And, the Charities Bureau of the New York Attorney General's Office and a Justice of the Supreme Court of the State of New York, County of New York, shall approve the dissolution of the Debtors under the New York Not-for-Profit Law and the disposition of their assets under the Debtors' Plan.

B. The New York City Water Board holds one (1) claim Secured by the Property which, by statute primes DASNY's secured claims. In complete and full satisfaction of its statutory lien claim, the Water Board shall receive payment in full in Cash from NGH and DASNY from the proceeds of sale of the NGH parking lot to HHC.

(c) Class 2 – Priority Tax Claims

This Class consists of Priority Tax Claims entitled to priority in payment under Section 507(a)(8) of the Bankruptcy Code. The sole holder of a Claim in Class 2 is the U.S. Department of The Treasury, Pension Excise Tax, in the amount of $1,562,254.00. Pursuant to the provisions of Section 1129(a) of the Bankruptcy Code, any such taxing authority shall receive in full settlement of its Claim an amount in cash equal to the total amount of its Priority Claim as allowed, payable on the Effective Date.[27]

[27] On August 30, 2010 the Debtors received notices from the Office of the General Counsel of the Pension Benefit Guaranty Corporation (the "PBGC"), that in order to protect the North General Hospital Pension Plan the PBGC had perfected statutory liens in the amount of $8,428,663.00 against all property and rights of NGSC Insurance United and North General AIDs Housing

(d) Class 3 - General Unsecured Claims

This Class consists of the Claims of (i) unsecured non-priority undersecured creditors and (ii) medical malpractice claims. On the Effective Date, all unsecured nonpriority and undersecured creditors in Class 3 will receive, in full and final satisfaction of its Claims, its pro rata share of proceeds from the Liquidation Trust. Medical Malpractice claimants shall receive in full and final satisfaction of their Claims as estimated by the District Court or liquidated through the Mediation Procedures provided for in Article 7 of the Plan, a pro rata share of the Medical Malpractice Reserve provided for in Section 7.2(c) of the Plan.

(e) Class 4 – Membership Interests

This Class consists of the interest in the Membership Interest in NGH held by NGSC and the Membership Interest in the D&TC held by NGH. There shall be no distribution to Class 4 claimants. To the extent necessary, the Membership Interests in the Debtors shall be dissolved, in which case the Membership Interest in such dissolved Debtors shall be cancelled.

B. Additional Provisions of the Plan

The Debtors are obligated to comply with certain covenants contained in the Plan until the payment in full of the amounts due to General Unsecured Creditors. Accordingly, the Plan provides for the procedures to be followed in the event objection or opposition is made to the allowance of the Claims of any creditor. All other miscellaneous provisions of the Plan relate to the retention of jurisdiction by the Bankruptcy Court.

Until the payments provided for in Articles 3 through Article 7 of the Plan shall have been paid in full, the Debtors shall comply with the following covenants:

(a) The Debtors shall not make any loan;

(b) The Debtors will not create or permit to exist any lien or encumbrance upon their assets; and

(c) The Debtors will not guarantee or otherwise in any way become responsible for obligations of any other Person, firm or corporation.

THE FOREGOING IS A BRIEF SUMMARY OF THE PLAN AND IS QUALIFIED IN ITS ENTIRETY BY THE PLAN. CREDITORS ARE URGED TO READ THE PLAN IN FULL IN THAT IT REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT BETWEEN THE DEBTORS AND EACH CREDITOR. THE PLAN SHOULD BE READ TOGETHER WITH THIS DISCLOSURE STATEMENT SO THAT AN INFORMED JUDGMENT CONCERNING THE PLAN MAY BE MADE.

Development Fund Corporation. The former corporation was dissolved under Bermuda law prior the Petition Date and the Debtors have no interest in the assets of the latter corporation. While properly filed PBGC statutory liens enjoy the same priority as taxes due and owing to the United States as determined under Section 6323 of the Internal Revenue Code, the Debtors' search has not revealed any similar or identical filing by the PBGC against any of the Debtors.

VIII. THE FAIR AND EQUITABLE STANDARD

A condition precedent to confirmation of the Plan in the event of cram-down by reason of the failure of any Impaired class to approve a Plan will be the Court's determination that the Plan is fair and equitable and does not discriminate unfairly with respect to the rejected Impaired class or classes. This determination will involve a detailed examination of the terms of the Plan in light of the requirements of Section 1129(a) and (b) of the Bankruptcy Code. Should the Plan fail to meet the requirements of Section 1129(a) and (b) of the Bankruptcy Code, the Bankruptcy Court cannot confirm it. Therefore, confirmation of the Plan is subject to the requirements of the Bankruptcy Code and the Bankruptcy Court's determination as to whether such requirements have been satisfied.

IX. ALTERNATIVES TO THE PLAN

The Debtors believe that the Plan affords the holders of Claims the potential for the greatest realization on the Debtors' assets and, therefore, is in the best interests of such holders. If the Plan is not confirmed, the alternatives include: (a) continuation of the pending Chapter 11 Cases; or (b) the appointment of a trustee and the liquidation of the Debtors under Chapter 7 of the Bankruptcy Code.

A. Continuation of the Case

Continuation of these chapter 11 cases is not in the best interest of the Debtors or Class 3 unsecured creditors as Administration, tax and mortgage interest Claims will only increase in amount without any corresponding benefit to the chapter 11 estate.

B. Alternative Plan of Reorganization

In the event the Plan is not confirmed, the Debtors, or any party-in-interest in the Case, could attempt to formulate and propose a different plan or plans.

C. Liquidation Under Chapter 7

Normally, if a plan cannot be confirmed, the chapter 11 case would be converted to a case under chapter 7 of the Bankruptcy Code. However, as noted above, each of the Debtors is a New York not-for-profit corporation and, therefore, cannot be converted to a Chapter 7 case without that Debtors' consent.

The Debtors will not consent to a conversion of their Chapter 11 Cases to a chapter 7 case as each Debtor believes that (i) the Plan allows for the Facility to be used for healthcare purposes in the underserved community of East and Central Harlem in conformance with the charitable purposes for which NGH was created, whereas (ii) liquidation under chapter 7 will not, (iii) the terms of the Plan provides the best opportunity for Creditors to maximize the value of their Claims, (iv) conversion of these Chapter 11 Cases to cases under chapter 7 would result in a substantial diminution of the value of the Debtors' Estates because of additional administration expenses involved in the appointment of a trustee and attorneys, accountants and other professionals to assist such trustee and other additional expenses and Claims, some of which would be entitled to priority, that will arise by reason of the liquidation, and (v) conversion to chapter 7 is not in the public's interest as the Facility would not preserve healthcare services in the community formerly served by the Hospital..

X. MEANS OF EXECUTION OF THE PLAN

The Debtors shall create a grantor trust to be known as the Liquidation Trust into which the Debtors shall deposit all Estate Assets, other than the Assets to be conveyed to DASNY, free and clear of all Claims, Liens, encumbrances, charges, interests and other rights and interests of Creditors arising on or before the Effective Date. The Estate Assets to be deposited into the Liquidation Trust shall include, but not be limited to, the following assets and their proceeds of sale:

a. Cash;
b. Accounts receivable;
c. Insurance premium refunds;
d. Security deposit refunds;
e. Sale of inventories, medical supplies and the like;
f. Machinery, equipment and instruments other than those to be conveyed to DASNY;
g. Patient accounts receivable and accounts receivable under the Medicaid and Medicare programs;
h. All payments from the Bad Debt Indigent Care Pool; [28]
i. The amounts recovered from any avoidance action commenced by the Debtors;
j. All of the Debtors' causes of action of whatever nature;
k. A cash contribution from DASNY of not less than $500,000.00; and
l. The proceeds of the sale of the Debtors' artwork.[29]

The Liquidation Trust shall be administered by John P. Maher, MPH, as Liquidation Trustee, who shall exercise all of the right, powers and obligations provided for in Articles 8 and 13 of the Plan and in the Liquidation Trust Agreement to be filed in the Plan Supplement.

Notwithstanding the above, all funds received by the Debtors for distribution under the Plan, regardless of the source, shall be deposited in an interest bearing account in the name of North General Hospital, Debtor-in-Possession, at TD Bank, 1504 Third Avenue, New York, New York, 10028, with the Liquidation Trustee, John P. Maher, MPH, as signatory and disbursed only upon presentation to an officer of TD Bank of certified Bankruptcy Court orders and in accordance with the terms of the Plan and Confirmation Order.

XI. MISCELLANEOUS

A. Retention of Jurisdiction

Exclusive Jurisdiction of the Court. Except as provided in Section 12.2 and 12.3 of the Plan, following the Effective Date, the Court will retain exclusive jurisdiction of these Chapter 11 Cases for the following purposes:

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[28] NGH expects to receive approximately $1.6 in New York State Indigent Care Pool payments, which was accounted for in the DIP Budget and any amount available for deposit into the Liquidation Trust is unknown.

[29] NGH owns artwork from a number of Caribbean and African American and Hispanic artists. NGH is in the process of retaining Mr. Michael Chisholm, a noted certified appraiser of Caribbean and African American and Hispanic artwork recommended to the Debtors by both Museo el Barrio and the Studio Museum in Harlem, to catalogue and appraise the value of this artwork and to advise NGH on the manner of sale which would realize the maximum value of this artwork for NGH.

(a) to hear and determine any pending applications for the assumption or rejection of Executory Contracts, and the resulting allowance of Claims against the Debtors;

(b) to determine any adversary proceedings, applications, contested matters and other litigated matters pending on the Effective Date;

(c) to ensure that distributions to holders of Allowed Claims are accomplished as provided in the Plan;

(d) to hear and determine objections to or requests for estimation of Claims against the Debtors, including any objections to the classification of any Claims, and to allow, disallow and/or estimate Claims, in whole or in part;

(e) to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified or vacated;

(f) to issue any appropriate orders in aid of execution of the Plan or to enforce the Confirmation Order and/or the discharge, or the effect of such discharge, provided to the Debtors;

(g) to hear and determine any applications to modify the Plan, to cure any defect or omission or to reconcile any inconsistency in the Plan or in any order of the Court, including, without limitation, the Confirmation Order;

(h) to hear and determine all applications for compensation and reimbursement of expenses of professionals under Sections 327, 328, 330, 331, 363 and 503(b) of the Bankruptcy Code;

(i) to hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan;

(j) to hear and determine other issues presented or arising under the Plan;

(k) to hear and determine other issues related to the Plan to the extent not inconsistent with the Bankruptcy Code; and

(l) to enter a final decree closing the Cases.

Non-Exclusive Jurisdiction of the Court. Following the Effective Date, the Court will retain non-exclusive jurisdiction of the Cases for the following purposes:

(b) to recover all Assets of the Debtors and property of the Estates, wherever located;

(c) to hear and determine any actions commenced on or after the Effective Date by the Liquidation Trustee, including, but not limited to, Avoidance Actions or other Causes of Action;

(d) to hear and determine any motions or contested matters involving taxes, tax refunds, tax attributes and tax benefits and similar or related matters with respect to the Debtors or the Estates arising prior to the Effective Date or relating to the period of administration of these Chapter 11

Cases, including, without limitation, matters concerning state, local and federal taxes in accordance with Sections 346, 505 and 1146 of the Bankruptcy Code; and

(e) to hear and determine any other matters to the extent not inconsistent with the Bankruptcy Code.

Failure of the Court to Exercise Jurisdiction. If the Court abstains from exercising or declines to exercise jurisdiction over any matter arising under, arising in or related to the Cases, including with respect to the matters set forth in Article 12 of the Plan, which Article does not prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such subject matter.

B. Rejection of Executory Contracts

All executory contracts and leases not assumed or rejected prior to the date on which the Plan is confirmed, or set forth on a schedule of contracts to be rejected pursuant to the Order confirming the Plan, shall be deemed rejected on and as of the Effective Date.

C. Payment Defaults

Should a default occur on any payment to be made pursuant to the Plan, including any post-confirmation payment to the Office of the U.S. Trustee, the Court shall retain jurisdiction so that any claimant herein shall have recourse to the Court.

D. Disallowance of Contribution Claims

Except as otherwise provided in the Plan, the Confirmation Order will provide that any Inter-Company Claim, Interest, claim for reimbursement, indemnification, contribution or subrogation of an entity that is liable with Debtors on, or that has secured, the Claim of a Creditor not disallowed by a prior order of the Bankruptcy Court, will be disallowed to the extent (a) such Creditor's Claim against the Debtors is disallowed, (b) such Claim for reimbursement, indemnification, contribution or subrogation is contingent as of the Confirmation Date, or (c) such entity asserts a right of subrogation to the rights of such Creditor under Section 509 of the Bankruptcy Code.

E. Rights of Subordination

To the Debtors' knowledge, there is no claimant with subordination rights.

F. Exclusions of Liability, Injunction and Releases

(i) **Exclusion of Liability**. Except for its own gross negligence or willful misconduct, but subject to the discharge of Claims pursuant to the Confirmation Order, the Debtors will not be responsible for any recitals, representations or warranties contained in, or for the execution, validity, genuineness, effectiveness or enforceability of, the Plan, this Disclosure Statement or any exhibit thereto or hereto, or be liable to any Person or entity for any action taken or omitted by them in the Chapter 11 cases or otherwise in connection with their duties during these Chapter 11 cases.

(ii) **Injunction**. Except as otherwise expressly provided herein, 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 Liquidation Trustee, the Creditors' Committee or members thereof, present and former officers, trustees, agents, attorneys, advisors, members or employees of the Debtors, the Creditors' Committee or members thereof, or the Liquidation Trustee, 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 using any applicable insurance after these Chapter 11 cases are closed, other than the D&O Policy, 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.

(iii) **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 and discharges each of the Debtors and their present and former directors, officers, trustees, agents, attorneys, advisors, or members (solely in their capacity as such), and (b) the Debtors conclusively, absolutely, unconditionally, irrevocably and forever release and discharge each member of North General Hospital, North General Service Corporation and North General Diagnostic & Treatment Center Board of Trustees and the officers of each (solely in their capacity as such): of and from any and all past, present and future legal actions, causes of action, chooses 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 (solely in their capacity 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' Prepetition 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 this shall not limit the Debtors' obligations under the Plan. Except as provided in Subsection (b) of Section 11.2 of the Plan, nothing contained in s Section 11.2 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.

(iv) **Exculpation**. None of (i) Windels Marx Lane & Mittendorf, LLP, in its capacity as counsel to the Debtors, (ii) the Debtors' Trustees, in-house counsel, officers and directors (in their capacities as such); (iii) the Liquidation Trustee and its representatives (in their capacities as such); (iv) the Committee, (v) the members of the Committee, in their individual capacities as members of the Committee, (vi) Alston & Bird LLP, in its capacity as counsel to the Committee, (vii) NHB Advisors, in its capacity as financial advisor for the Committee, (viii) Garfunkel Wild, P.C., in its capacity as Special Healthcare Regulatory counsel to the Debtors, (ix) Epiq Bankruptcy Solutions, LLC, in its capacity as claims, noticing and balloting agent, and (x) DASNY and its attorneys and advisors, 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 action or refraining to act in accordance with such advice; provided further, however, that Section 11.3 of the Plan shall not limit the Debtors' obligations under the Plan.

(v) **Cause of Action Injunction**. On and after the Effective Date, all Persons other than the Liquidation Trustee 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 Liquidation Trustee retains authority to pursue in accordance with the Plan.

G. Transfer Taxes

The transfer of any of the Debtors' assets or interest in assets under the Plan, shall be fully exempt from any stamp tax or similar tax in accordance with Section 1146(c) of the Bankruptcy Code.

H. Amendment, Modification, Revocation or Withdrawal

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 the Bankruptcy 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 Bankruptcy Court shall otherwise order.

Revocation or Withdrawal of Plan. The Plan Proponents have reserved 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.

I. Headings

The headings of the articles, sections and subsections of this Disclosure Statement are inserted for convenience only and shall not affect the interpretation hereof.

J. Construction

The rules of construction used in Section 102 of the Bankruptcy Code shall apply to the construction of this Disclosure Statement and the Plan.

K. Governing Law

Except to the extent that the Bankruptcy Code or other federal law is applicable, the rights, duties and obligations arising under this Disclosure Statement and the Plan shall be governed by, construed and enforced in accordance with the laws applicable to contracts made and performed in the State of New York.

L. Successors and Assigns

The rights, duties and obligations of any Person named or referred to in this Disclosure Statement and Plan shall be binding upon, and shall inure to the benefit of, the successors and assigns of such Person.

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CONCLUSION

The Debtors consider the Plan to be in the best interests of their creditors since the Plan will permit such Persons to receive an amount in excess of what they would receive were each of the Debtors liquidated Chapter 7 of the Bankruptcy Code.

Dated: New York, New York
October 29, 2010

NORTH GENERAL SERVICE CORPORATION,
Debtor-in-Possession

By: /s/ John P. Maher
Name: John P. Maher
Title: CFO and Treasurer

NORTH GENERAL HOSPITAL,
Debtor-in-Possession

By: /s/ John P. Maher
Name: John P. Maher, MPH
Title: President and Chief Restructuring Officer

NORTH GENERAL DIAGNOSITC & TREATMENT CENTER
Debtor-in-Possession

By: /s/ John P. Maher
Name: John P. Maher, MPH
Title: Treasurer

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