UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

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In re:

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC. d/b/a FEGS, [1]

Debtor.

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Chapter 11
Case No. 15-71074 (REG)

DISCLOSURE STATEMENT ON PLAN OF LIQUIDATION
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE OF
FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC. D/B/A/ FEGS

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

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Dated: October 6, 2017
New York, New York

[1] The last four digits of the Debtor's federal tax identification number are 4000.

I. INTRODUCTION AND SUMMARY

A. Overview

Federation Employment and Guidance Service, Inc. d/b/a FEGS, as debtor and debtor-in-possession (the "Debtor" or "FEGS") filed its Chapter 11 Case (the "Case") with the United States Bankruptcy Court for the Eastern District of New York (the "Court" or the "Bankruptcy Court") on March 18, 2015 (the "Petition Date"). The Case was assigned to the Honorable Robert E. Grossman, United States Bankruptcy Judge for the Eastern District of New York. The Debtor continues to manage the orderly liquidation of its assets as debtor-in-possession pursuant to §§ 1107 and 1108 of the Bankruptcy Code. The Debtor submits this Disclosure Statement (the "Disclosure Statement") pursuant to § 1125(b) of Title 11, United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code") and Rule 3017 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), in connection with its Plan of Liquidation Under Chapter 11 of the Bankruptcy Code, dated October 6, 2017 (the "Plan"). This Disclosure Statement is intended to provide the Debtor's creditors with adequate information to enable holders of Claims that are impaired under (and entitled to vote on) the Plan to make an informed judgment in exercising their right to vote for acceptance or rejection of the Plan. A copy of the Plan is annexed hereto as Exhibit A. All capitalized terms used but not defined in this Disclosure Statement shall have the respective meanings ascribed to them in the Plan, unless otherwise noted.

The Plan provides a means by which the remaining portion of the Debtor's real estate portfolio and other remaining assets will be liquidated. The Plan further provides that the proceeds of such liquidation, together with the proceeds of the prior sales of the Debtor's Assets, will be distributed under Chapter 11 of the Bankruptcy Code, and sets forth the treatment of all Claims against the Debtor.

As described in more detail below, the Debtor successfully transitioned its Programs and clients to other not for profit Providers early in the Case and has consummated the sale of a portion of its Assets pursuant to orders of the United States Bankruptcy Court for the Eastern District of New York (the "Court" or the "Bankruptcy Court"). The Plan proposes the private sale of substantially all of the remaining real estate assets – comprised largely of group homes, cooperative apartments and community residence facilities which continue to house many of the clients that received treatment and care from FEGS – to the Providers that took over the FEGS' programs and continue to provide services to FEGS' former residential clients. The private sale, as discussed more fully below, not only will realize substantial value for creditors but will serve to continue the charitable mission of FEGS and ensure the continued residence and care of that fragile client population. The Plan also provides for the private sale of the Debtor's membership and sponsorship interests in four housing corporations whose properties house physically and developmentally disabled clients. That transaction too will not only realize significant value, but leave undisturbed existing residents. Finally, the Plan provides a framework to liquidate any remaining Assets, pursue any causes of action belonging to the Debtor and its Estate and to ultimately distribute Net Proceeds to holders of Allowed Claims.

THE DEBTOR STRONGLY URGES ACCEPTANCE OF THE PLAN, AND URGES ALL CREDITORS ENTITLED TO VOTE THEREON TO VOTE TO ACCEPT THE PLAN.

Each holder of a Claim against the Debtor entitled to vote on the Plan should read this Disclosure Statement, the Plan, the Plan Supplement, if any, and the instructions accompanying the Ballot in their entirety before voting on the Plan. These documents contain, among other things, important information concerning the classification of Claims against the Debtor for voting purposes and the tabulation of, and deadline for, votes. No solicitation of votes to accept the Plan may be made except pursuant to § 1125 of the Bankruptcy Code.

B. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. A debtor can also utilize the provisions of Chapter 11 to orderly market and sell its assets in order to derive maximum value and provide equal treatment of similarly situated creditors with respect to the distribution of a debtor's assets.

The commencement of a Chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the filing date. Confirmation and consummation of a plan of reorganization or liquidation are the principal objectives of a Chapter 11 case. In this Case, the Plan contemplates a liquidation of the Debtor and is therefore referred to as a "plan of liquidation."

In general, confirmation of a plan by the Bankruptcy Court makes the plan binding upon a debtor, any person acquiring property under the plan, and any creditor or equity interest holder of a debtor whether or not they vote to accept the plan. Before soliciting acceptances of a proposed plan, however, § 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a creditor to make an informed judgment in voting to accept or reject the plan. The Debtor, as Plan Proponent, is submitting this Disclosure Statement to holders of Claims against the Debtor to satisfy the requirements of § 1125 of the Bankruptcy Code.

C. Summary of Classification and Treatment Under the Plan

In general, and as more fully described herein, the Plan (i) divides Claims into two (2) unclassified categories and four (4) Classes, (ii) sets forth the treatment afforded to each category and Class, and (iii) provides the means by which the proceeds of the Debtor's assets will be distributed. The following table sets forth a summary of the treatment of each Class of Claims under the Plan. (A more detailed description of the Plan is set forth in Section IV of this Disclosure Statement entitled "*Overview of The Plan*".)[2]

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

UNCLASSIFIED CATEGORIES

Class Number	**Type of Claim Class**	**Treatment of Allowed Claims**	**Projected Recovery**
Unclassified	**Administrative Claims**	Unless the holder of an Allowed Administrative Claims agrees to less favorable treatment, each holder of an Allowed Administrative Claim, in full and final satisfaction release and settlement of such Allowed Claim, shall receive payment in Cash from the Remaining Cash in an amount equal to such Allowed Administrative Claim on or as soon as reasonably practicable after the later of (i) the Effective Date; or (ii) the date on which such Claim becomes Allowed or otherwise payable.	100%
Unclassified	**Priority Tax Claims and DOL Priority Claim**	Unless the holder thereof shall agree to a different and less favorable treatment, each holder of an Allowed Priority Tax Claim and Allowed DOL Priority Claim, in full and final satisfaction, release and settlement of such Allowed Claim, shall receive payment in Cash from the Remaining Cash in an amount equal to such Allowed Priority Tax Claim on or as soon as reasonably practicable after the later of (a) the Effective Date and (b) the date on which such Claim becomes Allowed. Notwithstanding the preceding, to the extent the Settlement Agreement (as hereinafter discussed, *see,* Section IV(R)) is approved by the Bankruptcy Court through entry of the Confirmation Order, the DOL Priority Claim shall be determined and treated in accordance with the terms of the Settlement Agreement.	100%

CLASSES

Class Number	Type of Claim Class	Treatment of Allowed Claims	Projected Recovery
1	**DASNY/Bond Trustee Secured Claims**	Each holder of an Allowed DASNY Secured Claim or an Allowed Bond Trustee Secured Claim, in full and final satisfaction, release and settlement of such Claim, will either be paid the full amount of such Claim or such Claim will be otherwise assumed and paid in accordance with existing terms as provided under the terms of the Purchase Agreement and Settlement Agreement. Class 1 is an Unimpaired Class and is deemed to have accepted the Plan	100%
2	**Other Secured Claims**	Each holder of an Allowed Class 2 Secured Claim, in full and final satisfaction, release and settlement of such Claim, shall receive one of the following alternative treatments, at the election of the Plan Administrator: (a) payment in full in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date the Claim becomes due and payable by its terms; (b) the legal, equitable and contractual rights to which such Claim entitles the holder, unaltered by the Plan; (c) the treatment described in Section 1124(2) of the Bankruptcy Code; or (d) all collateral securing such Claim, without representation or warranty by or recourse against the Debtor. To the extent that the value of the Collateral securing any Allowed Other Secured Claim is less than the amount of such Allowed Other Secured Claim, the undersecured portion of such Claim shall be treated for all purposes under the Plan as an Unsecured Claim in Class 4 and shall be classified as such. Class 2 is an Unimpaired Class and is deemed to have accepted the Plan.	100%
3	**Allowed Other Priority Claims**	Each holder of an Allowed Other Priority Claim, in full and final satisfaction, release and settlement of such Claim, shall be paid in full in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date on which such Claim becomes Allowed, unless such holder shall agree to a	100%

		different and less favorable treatment of such Claim (including, without limitation, any different treatment that may be provided for in the documentation governing such Claim or in a prior agreement with such holder).	
4	**Allowed Unsecured Claims**	Except as otherwise provided in the Plan and/or as may be agreed to between the Debtor and the holder of any Allowed Unsecured Claim, the holders of Allowed Unsecured Claims, in full and final satisfaction, release and settlement of such Allowed Unsecured Claims, shall from time to time receive Pro Rata distributions of Cash from the Net Proceeds. Notwithstanding the preceding, to the extent the Settlement Agreement (as hereinafter discussed, *see,* Section IV(R)) is approved by the Bankruptcy Court through entry of the Confirmation Order, the OMH Claim, the OPWDD Claim and the DOL Unsecured Claim shall be treated in accordance with the terms of the Settlement Agreement; provided, however, such claims shall be entitled to vote in the amounts asserted therein or as otherwise agreed between the holders of such Claim and the Debtor.	15% to 40%

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

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. WHILE THE DEBTOR BELIEVES THAT THESE SUMMARIES ARE FAIR AND ACCURATE AND PROVIDE ADEQUATE INFORMATION WITH RESPECT TO THE PLAN, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF THE PLAN. IN THE EVENT OF ANY CONFLICT, INCONSISTENCY, OR DISCREPANCY BETWEEN THE TERMS AND PROVISIONS IN THIS DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS IN THE PLAN, THE PLAN SHALL GOVERN FOR ALL PURPOSES. ALL HOLDERS OF CLAIMS SHOULD READ THIS DISCLOSURE STATEMENT, THE PLAN, AND THE EXHIBITS TO THIS

DISCLOSURE STATEMENT IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN.

THE STATEMENTS AND FINANCIAL INFORMATION CONTAINED HEREIN HAVE BEEN MADE AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED. WHILE THE DEBTOR HAS MADE EVERY EFFORT TO DISCLOSE WHERE CHANGES IN PRESENT CIRCUMSTANCES REASONABLY CAN BE EXPECTED TO AFFECT MATERIALLY THE VOTE ON THE PLAN, THIS DISCLOSURE STATEMENT IS QUALIFIED TO THE EXTENT THAT CERTAIN EVENTS, INCLUDING, BUT NOT LIMITED TO, THOSE MATTERS DISCUSSED IN SECTION VIII BELOW ENTITLED "RISK FACTORS" DO OCCUR.

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

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

D. Voting and Confirmation Procedures

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

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

(ii) the Disclosure Statement Approval Order, which is annexed hereto as Exhibit B, approving, among other things, (i) this Disclosure Statement as containing adequate information pursuant to § 1125 of the Bankruptcy Code, (ii) scheduling a hearing on confirmation of the Plan; (iii) establishing a deadline and procedures for filing objections to confirmation of the Plan; (iv) establishing a deadline and procedures for temporary allowance of claims for voting purposes; (v) establishing the treatment of certain contingent, unliquidated and disputed claims for notice and voting purposes; (vi) approving form and manner of notice of hearing on confirmation and related issues and approving procedures for distribution of solicitation packages; (vii) approving the form of ballot; and (viii) establishing a voting deadline for receipt of ballots.

(iii) the forms of Ballots, and the related materials delivered together herewith, are being furnished, for purposes of soliciting votes on the Plan, to Class

4, which is the only impaired classes of Claims that is entitled to vote on the Plan. The Disclosure Statement is also being provided to holders of Claims in Classes 1, 2 and 3 (which classes are unimpaired and therefore deemed to accept the Plan), and other entities, solely for informational purposes.

(1) Who May Vote

Pursuant to the provisions of the Bankruptcy Code, holders of Claims in impaired classes are entitled to vote to accept or reject a plan of reorganization or liquidation. The holders of Claims in a class which is not "impaired" are deemed to have accepted a plan and are not entitled to vote. A class is "impaired" under the Bankruptcy Code unless the legal, equitable, and contractual rights of the holders of claims in such class are not modified or altered. As set forth above, Class 1 (Allowed DASNY/Bond Trustee Secured Claims), Class 2 (Allowed Other Secured Claims) and Class 3 (Allowed Other Priority Claims) (collectively, the "Unimpaired Classes" and each an "Unimpaired Class") are unimpaired and holders of Claims in those classes are deemed to accept the Plan. Class 4 (Allowed Unsecured Claims) (the "Impaired Class") is impaired and thus holders of Claims in that class are entitled to vote on the Plan.

(2) Voting of Claims

Each holder of an Allowed Claim in Class 4, the Impaired Class, shall be entitled to vote separately to accept or reject the Plan and indicate such vote on a duly executed and delivered Ballot as provided in the Disclosure Statement Approval Order.

(3) Voting Procedures

All votes to accept or reject the Plan must be cast by using the form of Ballot. No votes other than ones using such Ballots will be counted except to the extent the Court orders otherwise. The Court has fixed ______________, 2017 at 4:00 p.m., Prevailing Eastern Time, (the "Voting Record Date") as the time and date for the determination of holders of record of Claims who are entitled to (a) receive a copy of this Disclosure Statement and all of the related materials and (b) vote to accept or reject the Plan. After carefully reviewing the Plan and this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan on the appropriate Ballot and return such Ballot in the enclosed envelope to the Debtor's balloting agent, Rust Consulting/Omni Bankruptcy (the "Balloting Agent" or "Rust Omni"), as follows:

IF BY FIRST CLASS MAIL, OVERNIGHT MAIL, OR HAND DELIVERY:

Federation Employment and Guidance Service, Inc.
c/o Rust Consulting/Omni Bankruptcy
Attn: Balloting Agent
5955 DeSoto Avenue, Suite 100
Woodland Hills, CA 91367

BALLOTS MUST BE RECEIVED ON OR BEFORE 4:00 P.M. (PREVAILING EASTERN TIME) ON [________, 2017] (THE "VOTING DEADLINE"). THE

FOLLOWING BALLOTS SHALL NOT BE COUNTED OR CONSIDERED FOR ANY PURPOSE IN DETERMINING WHETHER THE PLAN HAS BEEN ACCEPTED OR REJECTED: (A) ANY BALLOT THAT IS PROPERLY COMPLETED, EXECUTED AND TIMELY RETURNED TO THE BALLOTING AGENT, BUT DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN OR THAT INDICATES BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN, (B) ANY BALLOT THAT IS PROPERLY COMPLETED, EXECUTED, AND TIMELY RETURNED TO THE BALLOTING AGENT, BUT INDICATES PARTIAL REJECTION AND/OR PARTIAL ACCEPTANCE OF THE PLAN WITH RESPECT TO MULTIPLE CLAIMS IN THE SAME CLASS, (C) ANY BALLOT ACTUALLY RECEIVED BY THE BALLOTING AGENT AFTER THE VOTING DEADLINE, EVEN IF POSTMARKED BEFORE THE VOTING DEADLINE, UNLESS THE DEBTOR SHALL HAVE GRANTED, IN WRITING, AN EXTENSION OF THE VOTING DEADLINE WITH RESPECT TO SUCH BALLOT, (D) ANY BALLOT THAT IS ILLEGIBLE OR CONTAINS INSUFFICIENT INFORMATION TO PERMIT THE IDENTIFICATION OF THE CLAIMANT, (E) ANY BALLOT CAST BY A PERSON OR ENTITY THAT DOES NOT HOLD A CLAIM IN A CLASS THAT IS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN, (F) ANY BALLOT CAST FOR A CLAIM SCHEDULED AS UNLIQUIDATED, CONTINGENT, OR DISPUTED FOR WHICH NO PROOF OF CLAIM WAS TIMELY FILED, (G) ANY BALLOT CAST ON ACCOUNT OF A PROOF OF CLAIM WHICH IS UNLIQUIDATED OR CONTINGENT (H) ANY UNSIGNED OR NON-ORIGINALLY SIGNED BALLOT, (I) ANY BALLOT SENT DIRECTLY TO THE DEBTOR, ITS AGENTS (OTHER THAN THE DEBTOR'S BALLOTING AGENT) OR THE DEBTOR'S FINANCIAL OR LEGAL ADVISORS, OR TO ANY PARTY OTHER THAN THE BALLOTING AGENT, (J) ANY BALLOT CAST FOR A CLAIM THAT HAS BEEN DISALLOWED (FOR VOTING PURPOSES OR OTHERWISE), (K) ANY BALLOT WHICH IS SUPERSEDED BY A LATER FILED BALLOT, (L) SIMULTANEOUSLY CAST INCONSISTENT BALLOTS, AND (M) ANY BALLOT TRANSMITTED TO THE BALLOTING AGENT BY FACSIMILE OR OTHER IMPERMISSIBLE MEANS.

If you have any questions regarding the procedures for voting on the Plan, please contact the Debtor's Balloting Agent, Rust Omni, at the above address, or the following telephone number: (818) 906-8300.

(4) Nonconsensual Confirmation. If the Impaired Class entitled to vote shall not accept the Plan by the requisite statutory majorities provided in §§ 1126(c) or 1126(d) of the Bankruptcy Code, as applicable, the Debtor reserves the right (a) to undertake to have the Court confirm the Plan under § 1129(b) of the Bankruptcy Code and/or (b) subject to § 1127 of the Bankruptcy Code and Bankruptcy Rule 3019, to modify the Plan to the extent necessary to obtain entry of the Confirmation Order, provided such modifications are consistent with Section 10.1 of the Plan. At the Confirmation Hearing, the Debtor will seek a ruling that if no holder of a Claim eligible to vote in a particular Class timely votes to accept or reject the Plan, the Plan will be deemed accepted by the holders of such Claims in such Class for the purposes of § 1129(b).

II. THE DEBTOR'S BUSINESS AND DEBT STRUCTURE, EVENTS LEADING TO COMMENCEMENT OF CASE, AND SALE OF ASSETS

A. The Debtor's Organizational Structure and History

Established in 1934 amidst the Great Depression, FEGS was a not-for-profit health and human services organization which provided a broad range of health and social services to more than 120,000 individuals annually in the areas of behavioral health, intellectual and developmental disabilities, housing, home care, employment/workforce, education, youth and family services. Since its founding, the Debtor had been strongly committed to providing caring, compassionate, and high quality health and social services in response to the critical needs of individuals facing complex challenges, and in doing so, enabling such individuals to lead more independent and successful lives. FEGS also administered complex residential and support programs for the intellectually and developmentally disabled and a comprehensive portfolio of behavioral treatment and residential programs for the mentally ill in the New York Metropolitan and Long Island regions.

At its peak, the Debtor operated a network of over 350 programs throughout metropolitan New York and Long Island, and employed approximately 2200 highly skilled professionals.

The Debtor's operations were overseen and funded, in part, by New York State through the New York State Office of Mental Health ("OMH") and Office for People With Developmental Disabilities ("OPWDD"), and New York City through the New York City Human Resources Administration ("HRA"), Department of Education ("DOE") and Department of Youth and Community Development ("DYCD").

B. The Debtor's Related Non-Debtor Housing Entities

The Debtor sponsored (and in the case of Tanya Towers was the sole member) of a diverse portfolio of housing and residential environments which support the housing needs of the homeless mentally ill, those with intellectual and developmental disabilities, low income individuals, seniors and others with disabilities. The following entities comprise the Debtor's portfolio of single asset housing entities:

(i) Tanya Towers, Inc.

(ii) NYSD Housing Development Fund Company Inc.

(iii) NYSD Forsyth Inc.

(iv) NYSD Rombouts Housing Development Fund Company Inc.

(v) Waverly Residence, Inc.

C. Capital Structure and Significant Pre-Petition Secured Debt

(1) **Dormitory Authority of the State of New York ("DASNY")**. The Dormitory Authority of the State of New York ("DASNY") (or its predecessors, the New York State

Medical Care Facilities Agency ("MCCFA") and the Facilities Development Corporation ("FDC")) historically issued bonds on behalf of the Department of Mental Hygiene ("DMH") and its umbrella agencies including OMH, OPWDD and the Office of Alcoholism and Substance Abuse Services ("OASAS") to fund loans to not-for-profit corporations including FEGS:

(a) **Medical Care Facilities Financing Agency Bonds.**

(i) On or about February 9, 1990, FDC deeded the property located at 265 East Burnside Ave., Bronx, NY, a community behavioral health residence facility, to the Debtor. In connection with that conveyance, FDC, acting through its agent, OMH, made a non-recourse loan to the Debtor in the principal amount of $1,905,493 to fund construction and improvements to the Burnside Avenue property (the "1989 FDC Loan"). The 1989 FDC Loan is secured by the real property located at 265 East Burnside Ave., all improvements, furniture fixtures and equipment located at the premises and all rents or other income derived therefrom. As of the Petition Date DASNY, the assignee of the loan, contends the aggregate outstanding balance on the 1989 FDC Loan was $215,649.00.[3]

(ii) On or about September 21, 1993 FEGS borrowed $885,500 from FDC, acting through its agent, OPWDD, (the "1993 FDC Loan") to refinance certain obligations in connection with the acquisition and improvement of the real property located at 2286 Bronx Park East, Bronx, NY. The 1993 FDC Loan is secured by the real property located at 2286 Bronx Park East, all improvements and personal property located thereat, and all revenue derived from the premises. As of the Petition Date DASNY, as assignee of the loan, contends the aggregate outstanding balance on the 1993 FDC Loan was $262,915.38

(b) **DASNY Mental Health Services Facility Improvement Revenue Bonds.**

(i) On or about March 3, 1998, DASNY, acting through its agent, OMH, made a $3,800,000 loan to the Debtor (the "1996 Series C Loan"), the proceeds of which were used to satisfy outstanding obligations under a state aid grant which was used in connection with the acquisition and renovation of the property located at 108-112 West 124th Street, New York, NY. The 1996 Series C Loan is secured by a mortgage and security agreement encumbering the property located at 108-112 West 124th Street, New York, NY, and the related personal property and income. As of the Petition Date DASNY contends the aggregate outstanding balance on the 1996 Series C Loan was $1,662,537.00.

(ii) On or about September 24, 1998, DASNY, acting through its agent, OMH, made a $4,800,000 loan to the Debtor (the "1997 Series C Loan"), the proceeds of which were used to satisfy outstanding obligations under a state aid grant which was used in connection with the renovation of the property located at 3735 White Plains Road, Bronx, NY.

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[3] On September 1, 1995, DASNY through State legislation, succeeded to the powers, duties, and functions of the MCFFA and FDC, each of which continued its corporate existence in and through DASNY. DASNY also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of its predecessors.

The 1997 Series C Loan is secured by a mortgage and security agreement encumbering the property located at 3735 White Plains Road, and related personalty and income. As of the Petition Date DASNY contends the aggregate outstanding balance on the 1997 Series C Loan was $2,252,794.00.

(iii) On or about April 24, 2007, DASNY, acting through its agent, OMH, made a $6,095,200 loan to the Debtor (the "2007 Series B Loan"), the proceeds of which were used to satisfy outstanding obligations under a state aid grant which was used in connection with renovation of the property located at 162 Kingsbridge Road, Bronx, NY. The 2007 Series B Loan is secured by a mortgage and security agreement encumbering the property located at 162 Kingsbridge Road, Bronx, NY, and the related personalty and income. As of the Petition Date DASNY contends the aggregate outstanding balance on the 2007 Series B Loan was $4,876,631.00.

(c) **New York State Rehabilitation Association, Inc. Pooled Loan Program No. 2 Insured Revenue Bonds**.

The Debtor entered into a loan agreement dated as of June 25, 2003 with DASNY and NYSRA respecting its allocable share of the 2003 NYSRA Bonds, pursuant to which the Debtor borrowed $2,050,000 (the "2003 NYSRA Loan") to refinance projects at 3636 Greystone Ave., Apts. 3J and 4E, Bronx, New York; 29 Saddle Rock Road, Valley Stream, New York; and 3277 Perry Avenue, Bronx, New York The 2003 NYSRA Loan is secured by pledged revenue derived from the NYSRA Properties, bears interest at the non-default rate of 4.2500% and has a maturity date of June 30, 2015. As of the Petition Date DASNY contends the aggregate outstanding balance on the 2003 NYSRA Loan was $12,089. The 2003 NYRSA Loan was paid in full on or about July 1, 2015.

(d) **InterAgency Council Pooled Loan Program Revenue Bonds**.

Formed in 1977 as a not-for-profit membership organization, InterAgency Council of Mental Retardation and Development Disabilities Agencies, Incorporated ("IAC") is comprised of voluntary service providers supporting individuals with developmental disabilities in the greater metro-New York area.

(i) The Debtor entered into a loan agreement dated as of March 31, 2010 with DASNY and IAC to refinance the acquisition and renovation of 28 Carol Street, West Hempstead, New York. The 2010 IAC Loan is secured a mortgage on the property and security interests in the furniture, fixtures and equipment located at the property. As of the Petition Date DASNY contends the aggregate outstanding balance on the 2010 IAC Loan was $582,500.05.

(ii) On February 29, 2012, the Debtor entered into a loan agreement with DASNY and IAC pursuant to which FEGS borrowed $1,845,000 (the "2012 IAC Loan") to refinance projects at 332 Commack Road, Deer Park, NY; and 130-24 Inwood Street, Jamaica, NY. Of that amount, $570,000 was allocated to the Commack Road property and $1,275,000 was allocated to the Inwood Street property. The 2012 IAC Loan is secured by mortgages on both properties and security interests in the furniture, fixtures and equipment located at each

property. As of the Petition Date DASNY contends the aggregate outstanding balance on the 2012 IAC Loans was $1,459,999.99.

(2) **New York City Industrial Development Agency ("NYCIDA")**. In 2008, the New York City Industrial Development Agency ("NYCIDA") issued $17,795,000 aggregate principal amount of Civic Facility Revenue Bonds Series 2008A-1 and A-2 (collectively the "NYCIDA Bonds"). A $2,925,000 allocable portion of the proceeds derived from the issuance of the NYCIDA Bonds (the "NYCIDA Loan) were utilized to finance certain costs in connection with the acquisition, construction and/or equipping of the Debtor's facilities located at 2782 Johnson Avenue, Bronx, NY, 3827 Steuben Avenue, Bronx, NY, and 424 Swinton Avenue, Bronx, NY (the "NYCIDA Facilities"). Pursuant to the Agency Mortgage and Security Agreement given in favor of the Bank of New York as indenture trustee for the NYCIDA, the Debtor's obligations are secured by mortgages in the NYCIDA Facilities, all furniture, fixtures and equipment located at the premises, all funds held by the indenture trustee. As of November 30, 2014, the outstanding balance on the NYCIDA Loans was approximately $2,925,000, of which approximately $745,000 related to the Johnson Street facility, approximately $1,165,000 related to the Steuben Street facility, and approximately $1,015,000 related to the Swinton Street facility.

(3) **Suffolk County Industrial Development Agency ("SCIDA")**. In 2008, the Suffolk County Industrial Development Agency ("SCIDA") issued $1,670,000 aggregate principal amount of Civic Facility Revenue Bonds Series 2008B-1 and B-2 (the "SCIDA Bonds"). The proceeds derived from the issuance of the SCIDA Bonds were utilized to finance or refinance certain of the cost of acquisition, construction and equipping of the Debtor's facilities located at 24 Harrison Avenue, Coram, NY, and 38 Tupper Avenue, Medford, NY (the "SCIDA Facilities"). Pursuant to the Agency Mortgage and Security Agreement given in favor of the Bank of New York as indenture trustee for the SCIDA Bonds, the Debtor's obligations under the under the SCIDA Bonds are secured by mortgages in the SCIDA Facilities, all furniture, fixtures and equipment located at the premises, all funds held by the indenture trustee, as well as various other interests of the Debtor and SCIDA related to the SCIDA Facilities. As of November 30, 2014, the outstanding balance on the SCIDA Installment Sales Contract was approximately $902,500, of which approximately $315,417 related to the Harrison Avenue facility and approximately $587,083 related to the Tupper Avenue facility.

(4) **JPMorgan Chase Line of Credit**. The Debtor obtained a $5 million line of credit (the "Line of Credit") from JP Morgan Chase, of which $3,000,000 had been drawn for working capital purposes and $1,042,000 in connection with the acquisition, and related renovations of two parcels of real property, one located on Duryea Street in the Bronx and the other located at 1650 Empire St., Elmont, NY. The aggregate principal balance outstanding as of November 30, 2014 was approximately $4,042,000. The credit line expired on March 27, 2015. Pursuant to a Securities Account Control Agreement, dated November 12, 2013, the bank was granted a security interest in all accounts maintained by the Debtor at the bank, including the Debtor's main operating account and certain investment accounts containing securities. As of the Petition Date, the line was fully secured.

(5) **Equipment Financings**.

(i) On March 24, 2012, the Debtor financed the purchase of a voice over internet protocol telephone system and certain other information technology infrastructure investments, with the proceeds of a $3,000,000 loan from JP Morgan Chase. The loan had a five year repayment term bearing a fixed interest rate of 2.89%. The JP Morgan Chase Loan is secured by the acquired equipment and is cross collateralized with the line of credit by a security interest in the Debtor's accounts at the bank.

(ii) On or about April 25, 2013, the Debtor entered into a capital lease arrangement with Bank of America for various information technology equipment and peripherals under which the Debtor borrowed approximately $7,122,943, repayable in 60 monthly installments. The outstanding balance as of November 30, 2014 was $4,697,838. At the end of the lease the Debtor has an option to purchase the equipment for $1.00.

(6) **Other Significant Obligations**.

(i) The Debtor also received various advances from various Federal, State and City agencies for construction at its residential properties and in connection with certain programs it was administering. As of January 31, 2015, the Debtor had approximately $18.7 million in advances on its books. Some of these advances may be subject to offset and recoupment rights but are otherwise unsecured.

III. Events Leading to Chapter 11 Filings

The Debtor, like many not-for-profit service based organizations, operated in an increasingly challenging environment. No single, but rather a confluence of factors and events appear to have led to the Debtor's financial crisis.

State, City and local governments are increasingly reliant on the not-for-profit provider community, FEGS among them, to deliver a vast array of social services. Increasing budgetary constraints on State and City agencies, however, translated into continual pressure on contract rates. While FEGS was reliant on government contracts for more than 90% of its revenues, reimbursements under those contracts covered an increasingly smaller percentage of actual program delivery costs. At the same time, FEGS, like many industry participants, faced increasing pressures on its administrative cost structure. Independent fundraising was insufficient to fill this growing gap.

This led to a historical, but often misplaced, concentration on top line growth to fill the cost /revenue gap, sometimes without a comprehensive appreciation of contract viability within FEGS' program infrastructure. The unfortunate result was that the Debtor, at times, entered into agreements which proved to be both uneconomical and a continued drain on FEGS ever diminishing resources. FEGS also suffered from outdated financial management systems which often led to delays and considerable losses in billing and collections, causing further drains on available cash.

Simply put, much of what plagued FEGS and the strains it put on FEGS' financial performance is affecting the industry more broadly. Indeed, in February, 2016, a blue ribbon

panel sponsored by the Human Service Council, a membership organization of 170 providers and allies in the non-profit human services industry, undertook a large scale analysis of the status of the industry against the backdrop of the FEGS closure. The panel addressed the question whether FEGS and several other agencies which fell to financial hardships were unique or symptomatic of the financial challenges facing the non-profit human services sector. The panel, consisting of 32 seasoned executives, civic and philanthropic leaders, former government officials and individuals with critical experienced and knowledge concerning the sector determined that human services non-profits have a higher rate of insolvency than most other types of not-for-profits and 60% of all metro human service not-for-profits are financially distressed.[4]

The Debtor sought innovative solutions to those issues, but despite its efforts, several simply did not succeed. FEGS made capital investments in for-profit affiliates developed to provide outsourced IT and human resource services to the not-for-profit sector as a whole. The Debtor had expected these ventures would develop a third party client base that would reduce its administrative costs for these functions and produce profits to be reinvested in FEGS. However, the Debtor remained the predominant customer for these affiliates' services, which proved unable to develop the sufficient third party client base necessary to function as stand-alone entities. As a result, instead of its administrative costs subsequently being reduced, FEGS was forced to fund these affiliates' cash requirements and losses.

Adding to FEGS' difficulties was the vast geographic region in which it operated. Its 350 plus programs were spread over multiple locations throughout New York City and Long Island. This large geographic footprint was in some respects a natural outgrowth of its existing clients needs, as well as FEGS' continued willingness to take on the responsibilities of other ailing agencies at the behest of government sponsors. FEGS was not always in the position to coordinate space requirements with program terms, often leaving the Debtor overburdened by excess space obligations and their attendant costs.

In the few years preceding 2014, what might have been higher operating losses were repeatedly masked by one-time gains – an insurance settlement, an asset sale, or investment gains. In 2014, however, owing to unsustainable losses in its WeCare, Back-to-Work and certain developmental and behavioral health residential programs, the Debtor suffered an operating loss of more than $11 million and a write-off of approximately $7.8 million of accrued accounts receivable. It became quickly apparent in November of 2014, as the fiscal 2014 audit was being completed, that the organization's losses were monumental and that cash resources were rapidly depleting.

To counteract some of its losses the Debtor began implementing immediate and critical changes within the organization which included significant cost reductions, sizeable layoffs, salary reductions and the restructuring of its senior management team. Restructuring advisors were also retained to address the Debtor's looming financial crisis.

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[4] Another analysis done in March, 2016, by Seachange Capital Partners, advisors and funders to non-profits, contained similar findings. Seachange concluded that as a general matter, New York City non-profits are fragile – 10% are insolvent, 40% have lost money over the last three years and less than 30% are financially strong (i.e. have at least 6 mos. cash reserves).

The Debtor thereafter conducted a comprehensive analysis of its existing programs and services to determine their profitability and viability going forward. Following an intensive review process, it was determined that the FEGS WeCare, Back to Work, and developmental and behavioral health residential programs simply could not be sustained and had to be transferred to other, more financially viable service providers. To that end, the Debtor actively worked with the relevant governmental and regulatory agencies, including OMH, OPWDD and HRA, in an effort to identify, develop and implement appropriate pathways through which to transition its programs to other providers in a safe and orderly manner, so as to ensure that its existing clients would continue receiving the same high quality and level of services to which they were accustomed.

Given the magnitude of the Debtor's WeCare losses, a transfer of that contract was a priority. HRA immediately contacted Fedcap Rehabilitation Services, Inc. ("Fedcap"), the other WeCare vendor in New York City, and discussions ensued regarding the immediate transfer of the program, the limited program assets (purchased with WeCare funds and thus, claimed to be owned by HRA) and certain leases to Fedcap. On January 26, 2015, an assignment agreement was executed providing for the transfer of the WeCare contract and subcontracts for clinical and psychiatric care to Fedcap and Fedcap's assumption of program and leasehold obligations on and after the contemplated effective date of April 1, 2015[5].

The Debtor's developmentally disabled housing programs posed additional challenges. The population of clients was among the most vulnerable. Ensuring continuity of care was critical as any lapse in program services could prove catastrophic. A seamless transition of these programs was of paramount importance. Recognizing the time sensitive nature of the problem, OPWDD conducted an emergency request for proposals from other agencies providing services to the developmentally disabled population and received expressions of interest from more than 40 agencies to accept various portions of the programs. OPWDD selected certain program transferees and began coordinating the transfers prior to the Petition Date.

A significant portfolio of the Debtor's business resided in its behavioral portfolio largely sponsored by OMH. Prior to the filing of this Case, the Debtor's network of services and programs was one of the largest in the metropolitan region serving over 23,000 individuals throughout New York City and Nassau and Suffolk counties. Services were provided through Article 31 Clinics, psychiatric rehabilitation programs for people with serious mental illness (PROS programs), care coordination services, health homes, case management programs provided in conjunction with local jails, residential and housing services, Assertive Community Treatment (ACT) teams and various other specialty and self-help programs. The Behavioral Health Division employed a highly skilled workforce of approximately 900 individuals.

The Debtor advocated that the behavioral portfolio, given the integrated nature of the services, be kept intact and transferred to one or two providers. OMH identified eight agencies that might have the financial and operational ability to integrate such a large amalgam of business and conducted a scoring of their financial strength, operational performance and similarity of business lines to determine the strongest match. OMH determined that it was in the

[5] The Chapter 11 case was filed before the arrangement was completed, but the transfer was completed postpetition with the approval of the Bankruptcy Court.

clients' best interests to transfer all of the associated licenses and program assets to Jewish Board for Family and Child Services ("JBFCS"). JBFCS and the Debtor were in the process of negotiating an appropriate agreement for the transfer of all real and personal property and the assignment of associated leases on the Petition Date.

The Debtor's remaining programs, largely centered on employment, youth, and education, had been in certain instances transferred to other vendors prior to the filing, or were in the process of being transferred on the Petition Date.

The Case was filed to allow the Debtor to continue its efforts to transfer its programs in an orderly and streamlined fashion, while ensuring that clients continued to receive uninterrupted care, and, at the same, maximize returns to all stakeholders.

IV. SIGNIFICANT EVENTS DURING THE DEBTOR'S CHAPTER 11 CASES

A. First Day Orders

On or shortly after the Petition Date, the Court entered various orders authorizing the Debtor to pay various prepetition claims and granting other relief necessary to help the Debtor stabilize its day-to-day operations and ensure client safety. These orders were designed to minimize the disruption of the Debtor's business affairs, ease the strain on the Debtor's employees, vendors, patients, and other parties, and facilitate the orderly administration of the Debtor's Case. These included orders authorizing:

(i) the Debtor to obtain postpetition secured superpriority financing[6] and utilize cash collateral [Docket Nos. 15, 78, 203, and 243];

(ii) the Debtor's payment of certain pre-petition employee wages, employee benefits, and expense reimbursement [Docket Nos. 6 and 74];

(iii) the Debtor to continue its existing insurance policies and related agreements, and pay certain prepetition insurance premiums, claims and related expenses [Docket Nos. 7, 75, and 176];

(iv) an extension of time for the Debtor to file schedules and statements [Docket Nos. 4 and 72];

(v) the Debtor to maintain its cash management system and existing bank accounts, and to use existing business forms [Docket Nos. 5, 79, and 175];

(vi) the Debtor to prepare a list of creditors in lieu of a formatted mailing matrix and approving the form and manner of notice of commencement of the Debtor's Chapter 11 Case [Docket Nos. 3 and 71];

(vii) case management procedures [Docket Nos. 8, 106, and 160]; and

[6] As discussed in further detail below, the Debtor's cash reserves proved sufficient to fund the wind-down of this case and the Debtor-in Possession Financing Facility was never drawn.

(viii) procedures for interim compensation and reimbursement of expenses of professionals [Docket Nos. 9 and 69].

B. Retention of Debtor's Professionals

In connection with the Cases, the Debtor obtained orders of the Court authorizing it to retain a number of professionals to assist it with conducting the Case and various goals related thereto. These professionals included, among others:

(i) Garfunkel Wild, P.C. ("Garfunkel"), retained as bankruptcy and reorganization counsel [Docket No. 196];

(ii) Togut, Segal & Segal, LLP ("Togut"), retained as co-bankruptcy and reorganization counsel [Docket No. 199]

(iii) Crowe Horwath, LLP ("Crowe"), retained as accountants and financial advisors [Docket No. 195]

(iv) Rust Consulting/Omni Bankruptcy ("Rust Omni"), retained as claims and noticing agent [Docket No. 73];

(v) Cushman & Wakefield Realty of the Bronx, LLC ("Cushman"), retained as real estate broker [Docket Nos. 340 and 729]; and

(vi) Seyfarth Shaw LLP ("Seyfarth"), retained as special labor counsel [Docket No. 614]

The Debtor also employed certain professionals in the ordinary course of their administration of the estate pursuant to the *Order Authorizing Debtor to Employ Professionals Utilized in the Ordinary Course of Business* entered by the Court on May 29, 2015 [Docket No. 260].

C. Appointment of Creditors' Committee and Professionals

The Bankruptcy Code provides for the formation of an official committee of unsecured creditors to represent the interests of the creditors in these cases. On March 31, 2015, the Office of the United States Trustee appointed the Official Committee of Unsecured Creditors (the "Committee"). The persons or entities appointed to the Committee were as follows:

InterAgency Counsel of Developmental Disabilities Agencies, Inc.

Netsmart Technologies, Inc.

Ultimate Psychological Consultation and Evaluation, P.C.

The Committee employed Pachulski Stang Ziehl & Jones LLP as its bankruptcy counsel [Docket No. 332] and Alvarez & Marsal Healthcare Industry Group, LLC as its financial

advisors [Docket No. 337]. The Debtor continues to consult with the Committee on every important aspect of this Case.

D. No Patient Care Ombudsman

On April 8, 2015, the Debtor filed a motion seeking an Order determining that a patient care ombudsman was not necessary in this Case pursuant to § 333(a) of the Bankruptcy Code [Docket No. 127]. At the adjourned hearing held on the motion on June 25, 2015, the motion was deemed moot and marked off the calendar, as the Debtor had already transferred all of its operating programs.

E. Transfer of the Debtor's Programs

As previously discussed, in the months leading up to this Case, the Debtor and its senior leadership team became acutely aware that the immediate transfer of many of its programs and facilities would be necessary and indeed critical to addressing its cash crisis while at the same time preserving continuity of care for its at-risk clients. To that end, the Debtor worked closely with various governmental and regulatory agencies, including, among others, OMH, OPWDD, HRA, DOE, and DYCD, in an effort to identify, develop and implement appropriate pathways through which to transition its programs to other providers in a safe and orderly manner, so as to ensure that its existing clients would continue to receive the same high quality and level of services they needed.

After potential program assignees were identified, the Debtor entered into various assumption and assignment agreements with agencies throughout the metropolitan area and Long Island. As outlined above, certain of the programs were transferred prepetition, but the filing of this Case interrupted completion of the process with the vast majority of the Debtor's programs needing to be transferred post-petition.

(1) Transfer of the City Programs

The Debtor focused first on completing the transfer of those programs in process as of the Petition Date. On the Petition Date, the Debtor filed a motion seeking authorization to assume and assign contracts relating to certain programs to Fedcap, The Door, A Center of Alternatives, Inc., Mosholu Montefiore Community Center, Inc., and other not-for-profit agencies [Docket No. 14]. On March 31, 2015, the Court entered an Order [Docket No. 107] approving the assumption and assignment of contracts in connection with the following programs:

(a) WeCare

(b) NNORC Hands on Huntington

(c) Housing and Supportive Services For People Living with HIV/AIDS

(d) LINK

(e) The Social Innovation Fund Project Rise Program

(f) Adult Literacy Program ABE/HSE

(g) Young Adult Internship Program and Neighborhood Development Area

(h) Renewal Agreement for Out of School Time Programs for High School Youth.

(2) Transfer of Developmental Disabilities Programs and Behavioral Health Programs

As discussed above, as of the Petition Date, the Debtor was working with OPWDD and OMH which governed the Debtor's portfolio of programs for people with intellectual and developmental disabilities (the "DD Programs")[7], and the programs managed by the Debtor's Behavioral Health Division (the "BH Programs")[8], respectively.

The Developmental Disabilities Programs

The Debtor's DD Programs provided services to more than 4,000 individuals with intellectual and developmental disabilities, including more than 300 individuals who lived in the Debtor's residential programs. The DD Programs included residential services, day habilitation and training services, service coordination, pre-vocational and employment services, outpatient clinical care, and family and in-home support services. Each of the DD Programs were designed specifically to ensure the health, safety and well-being of Debtor's clients while attempting to help each individual client achieve their greatest levels of independence and integration in the community.

After the filing the Case, the Debtor faced pressing challenges with respect to the DD Programs. Chief among those was the Debtor's concern that it would be unable to continue to safely staff the DD Programs, many of which were residential assistance programs requiring 24 hour client supervision and assistance. Numerous employees who provided indispensable direct support, clinical, therapeutic and program oversight services to both the Debtor and its clients had already tendered their resignations. Moreover, the Debtor had seen an increased use of sick days, putting a severe strain on its ability to utilize the limited temporary staffing capacity it had to fill the gaps. The Debtor did not have the ability to merely replace these employees as there are strict regulatory and credentialing guidelines which are expensive and time consuming.

The program's 4,000 intellectually and developmentally challenged clients were some of the most vulnerable. The Debtor's DD Program housed more than 300 individuals, ages 18-80, with mild, moderate, severe or profound mental retardation. Some clients were on the autism spectrum and many had complex behavioral and medical issues. Many residents were challenged by significant medical and behavioral issues, including histories of elopement and chronic conditions such as heart disease, diabetes, obesity, seizure disorders and high blood pressure.

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[7] The DD Programs included the Individual Supports and Services Programs, Individualized Residential Alternatives Programs, Day Hab, and Medicaid Service Coordination Prevocational Services.

[8] The BH Programs included outpatient mental health clinics, school based clinics, PROS, Health Homes, Community Residences, SROs (Single Resident Occupancy), young adult residences, and apartment treatment programs.

Functionally, some individuals were not able to dress, feed and go to the bathroom by themselves; others could not speak, walk or lift their head; while others were fed through a feeding tube. Ensuring continuity of care remained critical as any lapse in program services could prove catastrophic to this population. A seamless transition of these programs remained of paramount importance.

As discussed above, recognizing the time sensitive nature of the problem, OPWDD prior to the filing had conducted an emergency request for proposals and received expressions of interest from more than 40 agencies to accept various portions of the programs. From among that pool of applicants, OPWDD selected certain agencies (the "DD Providers")[9] to assume responsibility for the programs and clients. While prior to the Petition Date, all parties were working to transfer associated program assets and real property, the prospect of transferring almost a hundred leases and negotiating fair market value asset sales of the Debtor's real and personal property proved to be a far greater task than was achievable without the protections and processes afforded the Debtor under the Bankruptcy Code.

When it became clear that the transfers would not occur prior to the commencement of this Case, the parties began working with all deliberate speed towards a post-petition transfer/sale process. As originally contemplated, that transaction was to proceed by a private sale process pursuant to § 363 of the Bankruptcy Code with the terms included in a series of fully negotiated asset purchase agreements whereby fair value would be received by the Debtor and its estate for the real and personal property assets transferred to the DD Providers. As part of that process it was contemplated that the Debtor would voluntarily assign its program agreements to the DD Providers or, at the State's election, relinquish its licenses (such agreements or licenses, as the case may be, the "Program Agreements"), which would be re-issued to the DD Providers.

The Debtor's senior management, however, had grave concerns regarding the Debtor's ability to maintain critical staffing levels at the DD Programs long enough to complete even an expedited sale process. Accordingly, in order to expedite the program transfer process and ensure continued client safety and care, the Debtor, in consultation with OPWDD and the DD Providers, determined to bifurcate the issues related to the sale of its real and personal property from the transfer of the programs (the "Bifurcated Process"). On April 3, 2015, the Debtor filed a motion seeking approval of the transfer of the DD Programs pursuant to the Bifurcated Process (the "DD Programs Transfer Motion") [Docket No. 115].

As proposed in the DD Programs Transfer Motion, the first stage of the Bifurcated Process was designed to transfer the DD Programs on an expedited basis while ensuring that upon transfer the DD Providers had the immediate use of all real and personal property necessary to run their respective programs. In order to accomplish that, first the Debtor would enter into omnibus program termination agreements (the "Termination Agreements") with each of the DD Providers pursuant to which the Debtor would either surrender its existing license to OPWDD or transfer its existing program agreements to the respective DD Providers. As part of the Termination Agreements, the Debtor would also license the respective Providers the right to use

[9] The DD Providers include NYSARC, Inc. (a/k/a AHRC NYC), Citizens Options Unlimited, Inc., United Cerebral Palsy of New York City Inc., Job Path, Inc., Human First, Inc., The New York Foundling Hospital, Suffolk AHRC, Inc., Family Residences and Essential Enterprises, Inc. (a/k/a/ Free), HeartShare Human Services of New York, and United Cerebral Palsy Associations of New York State, Inc.

all of the personal property related to each of the DD Programs, whether owned or leased, with a concomitant obligation for the DD Providers to cover, through indemnification or direct payments, all associated costs. The general terms of the Termination Agreements included the following:

(a) The assumption and assignment or, at the State's request, the termination and consent to reissuance, of the Program Agreements.

(b) The Debtor was entitled to all accounts receivables related to services rendered prior to the effective date and remained liable for all pre-effective date liabilities, including any cure amounts related to the assigned Program Agreements. The respective DD Providers were entitled to all accounts receivables related to services rendered after the effective date and were be liable for all liabilities incurred from and after the effective date.

(c) The acknowledgement and understanding that title to all of the Debtor's real and personal property assets remained with the Debtor until such time as it could be subsequently sold and/or transferred.

(d) All personal property of the Debtor utilized in connection with any of the DD Programs was to be licensed for a period of up to one year to the respective DD Providers, with the DD Providers assuming all associated responsibility and liability from and after the effective date.

(e) The Debtor and the DD Providers committed to taking all steps necessary in connection the assumption and assignment of real property leases and entry into appropriate agreements respecting the Debtor's owned real property.

While there were certain DD Programs which did not require space to operate, the remaining programs operated out of real property that was either owned by the Debtor, leased by the Debtor or leased by a client of the Debtor. The Debtor proposed to assume and assign its interests in real property leases. With respect to client leased property or cooperative apartment units, the parties entered into reimbursement agreements pursuant to which the DD Providers would reimburse the Debtor for the client lease payments or the cooperative unit expenses. With respect to Debtor owned real property, the Debtor entered into one year triple net leases (collectively, with the reimbursement agreements, the "Leases") with the following terms:

(a) the Base Rent component of the lease to be sufficient for the Debtor to continue servicing any Debt associated with the respective properties.

(b) the properties were leased on an "as is" basis, without representation or warranty of any kind.

(c) the DD Providers were responsible for all taxes, assessments, and related charges respecting the leased properties, as well as all insurance and utilities

(d) the DD Providers were required to maintain the leased real property at their sole costs and expense, keep all aspects of the premises in good working condition, make all necessary repairs in connection with the premises, and

(e) the DD Providers were prohibited from permitting any lien or charge against the premises, making any alterations to the premises.

Stage 2 of the Bifurcated Process was anticipated to commence as soon as practicable after the initial transfers were completed, and consisted of the Debtor and the DD Providers entering into and, subject to Bankruptcy Court approval, consummating the sale of the Debtor's real and personal property assets that were essential to continued program operations.

On May 29, 2015, the Court entered an Order approving the DD Programs Transfer Motion and the executed agreements [Docket No. 255].

By consummating the contemplated program transfers via the first stage of this bifurcated approach the Debtor accomplished several important short and long term goals. In the first instance the Debtor ensured the health and safety of the more than 4,000 clients it served within the DD Program portfolio by avoiding potentially catastrophic staffing issues and a disruption or, worse, termination of client services. The Debtor also immediately stemmed the cash flow losses associated with the DD Programs. Finally, the Debtor positioned its remaining assets associated with the DD Programs for a sale to the DD Providers, which could best protect the Debtor's clients, and likely realize significant value to the estate for the clients.

The Behavioral Health Programs

In addition to the City and DD Programs, FEGS operated numerous programs and services for individuals with mental illness and behavioral health diagnoses which were certified and/or funded by OMH, the New York City Department of Health and Mental Hygiene and local mental health services agencies in Nassau and Suffolk Counties (collectively, the "BH Regulatory Agencies"). The portfolio of BH Programs provided services to over 30,000 individuals throughout New York City and Nassau and Suffolk Counties and included Article 31 Clinics, psychiatric rehabilitation programs for people with serious mental illness (PROS programs), health homes and care coordination services, long term care services, residential and housing services, recovery based rehabilitation and clinical services and a variety of specialty and self-help programs.

As discussed above, agreeing with the Debtor that the integrated BH Programs be kept intact and transferred to one provider, OMH determined that it was in the clients' best interests to transfer all of the associated licenses and program assets to JBFCS. Prior to the Petition Date, JBFCS and the Debtor began the process of negotiating an appropriate agreement for the transfer of all BH Program related real and personal property and the assignment of associated leases. Due to a number of factors, including the sheer number of leases related to the BH Programs, issues related to the Debtor's owned real property, the logistical issues of such a sizeable portfolio transfer and the Debtor's severe liquidity crisis, a deal could not be reached prior to the filing. With the basic framework of the transfers ironed out pre-petition, the Debtor and JBFCS

committed to undertake the transfers of the BH Programs in an expeditious manner in this Chapter 11 proceeding.

On April 28, 2015 the Debtor filed a motion (the "BH Programs Transfer Motion") [Docket No. 185] seeking authorization to, *inter alia*, transfer the BH Programs to JBFCS through the same bifurcated process used for the DD Programs; transferring the BH Programs on an expedited basis while ensuring that upon transfer JBFCS had the immediate use of all real and personal property necessary to run the BH programs, followed by sale and/or transfer of the Debtor's real and personal property that was essential to the continuing operation of the BH Programs. The Debtor executed the transfer agreements prior to the hearing on the BH Programs Transfer Motion, and on May 29, 2015 the Court entered an Order approving the BH Programs Transfer Motion [Docket No. 254].

F. Use of Cash Collateral and Debtor in Possession Financing
Cash Collateral

On the Petition Date, the Debtor filed a motion seeking authorization to use cash collateral and to obtain post-petition funding to fund the administration of the Debtor's Case (the "DIP Financing and Cash Collateral Motion") [Docket No. 15].

(1) Cash Collateral

On March 24, 2015, the Court entered an interim order [Docket No. 78] which allowed the Debtor to use, on an interim basis, pursuant to a budget approved by the Court, all cash proceeds of prepetition collateral in which any prepetition secured creditors held an interest. The terms of the interim order were extended by a Court Order entered on May 6, 2015 [Docket No. 203. On May 22, 2015, the Court entered a final order with respect to the Cash Collateral Motion, allowing the Debtor to continue using cash collateral under certain terms and conditions [Docket No. 243].

(2) DIP Financing

The DIP Financing and Cash Collateral Motion also sought approval of interim and final orders granting postpetition financing from United Jewish Philanthropies of New York, Inc. ("UJP"). Prior to the Petition Date, the Debtor's management anticipated needing financing to provide critical funding to its programs prior to any ultimate disposition of such programs. Relying upon a prepetition budget developed by the Debtor's management and consultant, the Debtor sought approval to borrow up to $10 million from UJP on an interim and final basis. On March 24, 2105, the Court entered an Order allowing the Debtor to borrow from UJP on an interim basis [Docket No. 78]. However, after entry of the interim Order, the Debtor's revised post-petition budget reflected sufficient savings from the program transfers and available revenue to cover the Debtor's ongoing postpetition expenses, and, accordingly, the Debtor never drew from the DIP facility. A final Order was never entered with respect to the DIP Financing, as there was no further need for financing.

G. Sales of Certain Non-Core Real Estate Assets

Prior to, and through the Case, the Debtor sought to market and sell excess real estate that was not needed after with the program transfers or which the DD Providers determined to use only on a short term basis.

On June 22, 2015, the Debtor filed a motion [Docket No. 290] seeking, among other things, the sale its real property located at 1650 Empire Street, Elmont, New York, a single family home, free and clear of all liens, claims, and encumbrances to a purchaser for $350,000. The Debtor conducted an extensive marketing process prior to filing the sale motion and determined, in its business judgment, and in consultation with the Committee, that a public auction would yield little to no further value. On July 20, 2015 the Court entered an Order approving the Debtor's sale of the real property [Docket No. 339].

On August 3, 2015, the Debtor filed a motion [Docket No. 427] seeking, among other things, the sale of its interest in two cooperate apartments, Units 1F and 4J, located at 125 W. 96th St., New York, New York, free and clear of all liens, claims, and encumbrances to two separate purchasers for $311,000 and $350,000, respectively. On August 28, 2015 the Court entered an Order [Docket No. 493] approving the sale of Unit 1F. However, after receiving a higher competing bid for Unit 4J, the Debtor abandoned the sale to the original purchaser and, on September 22, 2015, filed an amended motion [Docket No. 507] to sell Unit 4J for an increased purchase price of $375,000. On November 6, 2015, the Court entered an Order approving the sale of Unit 4J [Docket No. 553].

On March 4, 2016, the Debtor filed a motion [Docket No. 635] seeking, among other things, the sale of its real property located at 3312-30 Surf Avenue, Brooklyn, New York (the "Surf Avenue Property"), a vacant building, free and clear of all liens, claims, and encumbrances to 3312 Surf Avenue CATS, LLC ("CATS") for $4,700,000 in cash, subject to higher or better bids. On March 31, 2016, the Court entered an Order [Docket No. 648] approving the bidding procedures for the sale of the property. Thereafter, the Debtor received multiple bids and conducted an auction pursuant to the Court's approved procedures. At the conclusion of the auction, the Debtor, in consultation with the Committee determined that CATS's increased bid of $7,700,000 was the highest or best bid and, on May 20, 2016, the Court entered an Order [Docket No. 686] approving the sale to CATS.

The Debtor was the owner of a commercial property at 3600 Jerome Avenue, Bronx, New York (the "Jerome Avenue Property") which housed certain DD and BH Programs. It had been earmarked early in the case as a saleable asset since neither of the Providers who administered the transferred programs housed at the property had any interest in remaining at the Jerome Property long term or in purchasing the building. Thus, an extensive marketing effort was undertaken by Cushman, the Debtor's primary broker, and a contract for the sale of the Jerome Property was ultimately entered into with Altmark Group, LLC ("Altmark") for $7,000,000, subject to higher and better bids. On June 21, 2016, the Debtor filed a motion [Docket No. 699] seeking, among other things, approval of the sale, and July 15, 2016, the Court entered an Order [Docket No. 711] approving the bidding procedures for the sale of the property. Thereafter, the Debtor received bids, conducted an auction pursuant to the Court's approved procedures and at the conclusion of the auction, the Debtor, in consultation with the Committee determined that Altmark's increased bid of $7,375,000 was the highest or best bid. On May 20,

2016, the Court entered an Order [Docket No. 742] approving the sale to Altmark pursuant to the increased bid.

On November 17, 2016, the Debtor filed a motion [Docket No. 764] seeking, among other things, the sale of its real property located at 21 Duryea Place, Brooklyn, New York, a vacant lot, free and clear of all liens, claims, and encumbrances to David Levitan ("Mr. Levitan") for $1,000,000 in cash, subject to higher or better bids. On December 19, 2016, the Court entered an Order [Docket No. 779] approving the bidding procedures for the sale of the property. Thereafter, the Debtor received multiple bids, conducted an auction, and at its conclusion, the Debtor, in consultation with the Committee determined that Mr. Levitan's increased bid of $1,515,000 was the highest or best bid and, on February 8, 2017, the Court entered an Order [Docket No. 805] approving the sale to Mr. Levitan.

Collectively, the sale of the Debtor's non-core real estate assets netted the estate in excess of $17 million.

H. The Weinberg Objections

In connection with the sales of the Surf Avenue Property and the Jerome Avenue Property, the Debtor received limited objections [Docket Nos. 668, 734] from the Harry and Jeanette Weinberg Foundation, Inc. (the "Weinberg Foundation"). The Weinberg Foundation alleged that pursuant to terms associated with certain prepetition charitable donations, the proceeds of which were used to fund in part the purchase and refurbishment of the Surf Avenue Property and the Jerome Avenue Property, the sales proceeds are subject to restrictions which did not allow them to be used to fund the wind-down or pay the claims of creditors. To satisfy the limited objections until the underlying issues could be resolved the Debtor agreed to segregate and hold the sale proceeds in escrow pending agreement of the parties and/or further Order of the Court.

On November 17, 2016, the Debtor filed a motion (the "Weinberg Settlement Motion") seeking an Order by the Court approving a stipulation by and among (i) the Debtor, (ii) the Committee, and (iii) the Weinberg Foundation resolving the Weinberg Foundation's limited objections to the property sales and directing that $1.6 of the proceeds from the sales be paid to the Weinberg Foundation for re-giving to another not-for-profit provider whose charitable mission is similar to FEGS [Docket No. 765]. On December 27, 2016, the Court entered an Order granting the motion [Docket No. 787].

I. Sale of Home Attendant Services Membership Interest

On April 19, 2016, the Debtor filed a motion [Docket No. 657] seeking, among other things, the sale of its 100% membership interest in FEGS Home Attendant Services, Inc. ("FEGS HAS"), a New York not-for profit agency which provides home health and related services, to Home Attendant Services of Hyde Park, Inc. for $1,380,000 in cash plus an additional payment of up to $2,025,000 contingent upon the resolution of certain audits of FEGS HAS being conducted by the Office of the Medicaid Inspector General, subject to higher or better bids. The proposed sale was the result of an extensive prepetition marketing effort undertaken by FEGS and FEGS HAS. On May 17, 2016, the Court entered an Order [Docket No. 681] approving the

bidding procedures for the sale of FEGS HAS. Thereafter, the Debtor failed to receive any competing bids for the membership interest and, on June 20, 2016, the Court entered an Order [Docket No. 698] approving the sale to Home Attendant Services of Hyde Park, Inc. The Debtor anticipates that the sale of FEGS HAS will close after the Effective Date and will yield approximately $1.4 million in proceeds.

J. Sale of Motor Vehicles

In connection with the transfer of the Debtor's BH Programs to JBFCS, JBFCS sought to acquire certain of the Debtor's motor vehicles, and, on June 24, 2015 the Debtor filed a motion [Docket No. 294] seeking approval of such sale. On July 20, 2015, the Court entered an Order approving the sale to JBFCS [Docket No. 338]. The sale of the Debtor's motor vehicles yielded approximately $177,000 in net proceeds.

K. De Minimis Sales

On October 2, 2015 the Debtor filed a motion seeking approval of certain procedures for the sale or abandonment of certain de minimis assets [Docket No. 519]. The motion sought approval of streamlined procedures for the sale or abandonment of assets with a total sale price of $50,000 or less. On October 23, 2015, the Court entered an Order granting the motion and authorizing the proposed procedures [Docket No 539]. Thereafter the Debtor sold or abandoned assets pursuant to the Court approved procedures [Docket Nos. 565, 731, 732, 733].

L. The Records Retention Agreement

In the course of the Debtor's provision of social services, the Debtor generated a large volume of client records, including paper and electronic data records (the "Client Records"). Under various federal and state laws, the Debtor has an obligation with respect to the long-term storage and provision of the Client Records to former clients upon receipt of appropriate requests. In order to provide for the discharge of these obligations in accordance with the requirements of law, the Debtor obtained multiple bids and ultimately entered into an agreement with MetalQuest, Inc. ("MetalQuest"), pursuant to which MetalQuest agreed to retain the Client Records and fulfill appropriate requests therefor. In a motion dated February 1, 2016 [Docket No. 606], the Debtor sought Court approval of this agreement. The Court entered an order approving the agreement on February 29, 2016 [Docket No. 627]. Thereafter, the Debtor completed the transfer of the Client Records to MetalQuest.

M. Claims Process and Bar Dates

On April 27, 2015, the Debtor filed its schedules of assets and liabilities and statements of financial affairs with the Court [Docket Nos. 180, 181] (the "Schedules"), which set forth, among other things, amounts the Debtor believes it owed to various parties. So as to provide certainly as to the potential universe of filed claims, the Debtor filed a motion to establish a deadline for the filing of any pre-petition claims against the Debtor [Docket No. 448]. On August 18, 2015, the Court entered an order (the "General Bar Date Order") setting October 5, 2015 as the general bar date for creditors of the Debtor's estate to file proofs of claim relating to the pre-petition period (the "General Bar Date"), including, without limitation, all governmental units [Docket No. 471]. The General Bar Date Order provides, except as set forth therein, that

any holder of a pre-petition Claim that fails to file a timely proof of claim on or before the General Bar Date shall not be permitted to vote to accept or reject any plan of liquidation or to participate in any distribution in the Cases on account of such Claim.

After transferring its programs, the Debtor requested that the Court establish a deadline for the filing of all administrative claims against the Debtor, incurred from and after the Petition Date of March 18, 2015, through August 31, 2015 [Docket No. 512]. By Order dated October 2, 2015 (the "Administrative Bar Date Order"), the Court established November 6, 2016 (the "Administrative Bar Date") as the deadline for the filing of all Administrative Claims against the Debtor [Docket No.518]. The Administrative Bar Date Order also provides, that except as set forth therein, any holder of an administrative claim against the Debtor who fails to file a timely administrative claim on or before the Administrative Bar Date shall not be permitted to participate in any distribution in the Cases on account of such Claim.

On April 27, 2015 the Debtor filed its schedules which included more than 3,600 scheduled claims with an aggregate asserted liability of $45,572,524.94. The scheduled claims included 25 secured claims with an aggregate purported liability of $27,990,670.34, 1751 unsecured priority claims with an aggregate purported liability of $3,011,882.80, and 1913 general unsecured claims with an aggregate purported liability of $14,569,971.80.

As of the date hereof, more than 3,500 filed claims have been asserted against the Debtor's Estate with an aggregate asserted liability exceeding $245 million. The claims assert varying levels of priority including administrative, secured, unsecured priority and general unsecured. A preliminary review of the claims indicates approximately 413 claims are seeking administrative priority for an aggregate purported liability of $47,540,592.54. A total of 72 claims have been filed as secured claims with an aggregate purported liability of $4,975,361.79. An additional 1,836 claims have been filed as unsecured priority claims with an aggregate purported liability of $38,444,641.79. Approximately 1188 claims have been filed as general unsecured claims asserting an aggregate purported liability of $151,193,216.09.

After a preliminary review of such Claims and a comparison thereto to its books and records, the Debtor believes that the foregoing claims include, among other things, invalid, overstated, duplicative, superseded, misclassified, previously satisfied, and/or otherwise objectionable claims. Thus, the Debtor believes that the foregoing Claim amounts are overstated and the allowed amounts will be sufficiently reduced such that the Plan is confirmable.

N. Employee Related Claims, Litigation, and Adversary Proceeding

During the prepetition period as the Debtor confronted its financial crisis, sought funding to continue operations and ultimately determined, in cooperation with the City and State, to transfer its programs to other not-for-profit providers, the Debtor maintained continuous communications with its employees, including members of the Local 215, District Council 1707, CSAEU, AFSCME, AFL-CIO (the "Union").

In furtherance of the contemplated program transfers, the Debtor began implementing sizeable layoffs (the "Prepetition Layoffs"). On or about January 20, 2015 and February 20, 2015, the Debtor provided WARN notices to the Union, as the representative of more than 1,400

of the Debtor's employees. The Prepetition Layoffs led to numerous proofs of claim being filed in the Case, as well as certain causes of action being commenced against the Debtor by the Union and the National Labor Relations Board (the "NLRB").

The NLRB Action

In late February 2015, the Union filed an unfair labor practice charge against the Debtor, which it later amended, alleging that the Debtor, *inter alia,* had failed and refused to bargain collectively and in good faith with the Union by repudiating sections of the collective bargaining agreement regarding, among other things, severance pay, vacation pay, and advance notice of layoff, had failed to provide the Union with information it had requested, and had engaged in bad faith effects bargaining. The Debtor denied each of these claims and timely submitted a statement of position addressing each allegation.

On September 29, 2015, purportedly acting under the police and regulatory powers exception to the automatic stay under § 362(b)(4) of the Bankruptcy Code, the NLRB commenced an action against the Debtor seeking a remedy of, among other things, two (2) weeks back pay for each Union employee. On October 20, 2015, the Debtor filed and served its answer to the NLRB complaint which denied the allegations and raised certain defenses. The Debtor continued to take the position that it satisfied its statutory obligation by providing the union with adequate notice and an opportunity to bargain and that the Prepetition Layoffs were the result of exigencies caused by external events beyond the Debtor's control which were not reasonably foreseeable.

The Union Adversary Proceeding

On October 1, 2015, the Union commenced an adversary proceeding against the Debtor under Adversary Proceeding No. 15-08268 (REG) (the "Adversary Proceeding") seeking to recover on behalf of the Union employees certain damages arising from the Debtor's alleged violation of the WARN Acts. On November 2, 2015, the Debtor filed an answer to the complaint denying WARN liability based on a number of defenses.

The Labor Related Proofs of Claim

The following labor claims were filed in the Case:

CREDITOR	CLAIM NO.	ASSERTED AMOUNT	BASIS
Union	1906[10]	Total: $6,629,603.79 Priority: $5,717,275.61 Unsecured: $912,328.18	Alleged obligations due to Union employees under the collective bargaining agreement and alleged violations of the WARN Acts
Union	1707	Total: $6,629,603.79 Priority: $5,717,275.61 Unsecured: $912,328.18	Duplicate of Claim 1906
NLRB	1918	Total: $1,847,478.42 Priority: $1,847,478.42	Alleged amount owed by Debtor under the NLRB Action

The Global Union Settlement

After reviewing the labor claims and the claims asserted in the Adversary Proceeding and the NLRB action, the Debtor recognized that many of the claims overlapped and that any resolution would most efficiently be addressed as part of a single settlement.

Accordingly, the Debtor sought to mediate the labor claims, the Adversary Proceeding, and the NLRB action in tandem with the Union and the NLRB. However, the NLRB advocated for its own separate mediation proceeding, which the Debtor initially accommodated. After attending an initial mediation session with the NLRB, the Debtor determined that such efforts were unlikely to be fruitful and therefore shifted its focus to settlement discussions with the Union.

Good faith negotiations were with the Union were protracted; given the attendant costs and risks of litigation, the Debtor and Union ultimately agreed to resolve the Union Claims, Employee Claims, the Adversary Proceeding, and the NLRB action under the following terms:

(i) The Union was granted; (i) an allowed priority claim in this Chapter 11 Case in the gross amount of $2,269,267.60 in respect of the WARN Claims, Severance Claims, and Employee Claims that existed or may have existed against FEGS; (ii) an allowed priority claim in the this Chapter 11 Case in the gross amount of $831,655.68 in settlement of all claims set forth in the NLRB Complaint; and (iii) a general unsecured claim in the gross amount of $387,396.01 on account of any alleged unpaid prepetition vacation pay claims.

(ii) A general release by the Union in favor of the Debtor and its officers, directors, shareholders, members, partners, agents, employees, heirs, representatives, successors, subsidiaries, affiliates and assigns, together with the Committee and its members, agents and representatives.

On November 23, 2016, the Debtor filed a motion seeking approval of the settlement terms [Docket No. 767], which was granted by a Court Order entered on January 5, 2017

[10] In addition to the claims filed by the Union, certain Union employees filed claims which are duplicative of the claims filed by the Union and assert amounts owing for severance pay, WARN damages, prepetition vacation time, and other amounts allegedly due under the Union's collective bargaining agreement.

[Docket No. 790]. Thereafter, the Debtor made payment to its former Union Employees in accordance with the settlement terms.

DOL and Non-Union Settlement

The Prepetition Layoffs led to the filing of numerous proofs of claim by non-union employees and a claim filed by the DOL on the non-union employees behalf for alleged violations of the federal and state WARN Act. The issues raised by such claims, as was the case with the Union and Union employees, related to the entitlement of certain employees for remuneration for accrued vacation, severance, and alleged violations of the WARN Act.

Given the overlap, the DOL and the Debtor believed that any resolution would most efficiently be addressed as part of a single settlement. After considerable discussion, the parties agreed to a settlement on the same terms as the union employees -- a 50% distribution on account of their non-union WARN claims and 80% of the severance claims, as such claims are reflected in the debtor's books and records. Such Claims were afforded priority treatment and paid within 45 days of approval. A general unsecured claim was provided for remaining non-priority vacation pay claims (we paid the priority).

On June 29th, 2017, the Debtor filed a Motion to Approve the Settlement [Docket No. 907]. A schedule detailing the amounts payable under the settlement to each of the non-union employees was appended to the motion. On August 1, 2017, the Debtor filed an amended exhibit updating the former employees entitled to receive distributions under the settlement as well as amounts of these distributions. The total payment on account of WARN and severance claims was $2,366.02. The general unsecured vacation pay claim was $691,770.72. On August 4, 2017, an Order approving the settlement was entered by the Bankruptcy Court [Docket No. 926]. Thereafter, the Debtor made payments to its former union employees in accordance with the terms of the settlement.

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O. Executory Contracts and Unexpired Leases

As of the Petition Date, the Debtor was party to numerous executory contracts (*e.g.* employment contracts, service agreements, and equipment leases) and leases of residential and non-residential real property. During the pendency of the Debtor's case, the Debtor filed a motion for an order approving certain procedures for the rejection of executory contract [Docket No. 449], which the Court subsequently approved [Docket No. 491]. Thereafter, the Debtor rejected certain executory contract and unexpired leases pursuant to the Court approved procedures [Docket Nos. 523, 641, and 696]. Additionally, the Debtor entered into stipulations with counter-parties to reject certain executory contracts and unexpired leases.

P. Stipulation and Order Authorizing the Official Committee of Unsecured Creditors to Prosecute Certain Claims on Behalf of the Estate

On February 14, 2017, the Debtor and the Committee filed the *Joint Emergency Application for an Order to Show Cause and Entry of a Stipulation and Order Authorizing Official Committee of Unsecured Creditors to Prosecute Certain Claims on Behalf of the Estate*

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[Docket No. 807]. The application sought entry of an Order granting the Committee standing and authority to commence, prosecute, and settle certain claims, including preference and other avoidance actions as well as affirmative claims against certain former officers and accountants with the full rights and privileges of the Debtor (the "Committee Prosecution Stipulation"). On February 15, 2017, the Court entered an Order to Show Cause which scheduled a hearing on the February 23, 2017, the Court entered an Order approved the Committee Prosecution Stipulation [Docket No. 813]. In March, 2017, the Committee filed approximately 70 Avoidance Actions against various parties and is in the process of litigating or otherwise attempting to resolve the matters.

Q. Program Properties Sale – Stage II of the Bifurcated Process.

The Debtor is the owner of a portfolio of residential real property, cooperative apartment units and a sponsorship interest in a housing corporation, located within New York City and Long Island, (the "Program Properties" and each a "Program Property")[11], which house the Debtor's former behavioral and developmentally disabled clients (respectively, the "BH Properties" and the "DD Properties"). The BH Properties consist of four (4) community health residences in Manhattan and the Bronx, each housing between 40 and 60 individuals with serious and persistent mental illness receiving treatment in OMH sponsored programs. Two of the BH properties are subject to deed restrictions requiring that they be used as mental health facilities. The DD Properties consist of 51 cooperative apartment units, single family group homes, and multifamily homes located across New York City's boroughs and Long Island, along with one sponsored housing corporation, which together house more than 200 of the Debtor's former clients with intellectual and developmental disabilities, many of which have sensory and physical challenges (visual, hearing, and ambulation), and include 19 former Willowbrook patients.[12]

As outlined above, in connection with the Program transfers as the first stage of the Bifurcated Process, the Debtor arranged for the Providers, as transferees of the Programs, to utilize the Program Properties for the near-term while negotiating for their ultimate disposition. The Providers were given short-term Leases for the Program Properties to ensure continuity of care for the Debtor's former clients while largely relieving the Debtor's estate of continuing property related financial obligations. The Leases required the Providers to cover all occupancy costs including debt service on the Program Properties, utilities, insurance, and maintenance. The Leases were for an initial one year term, with an automatic month-to-month renewal; each is also subject to an additional option, which gives the Providers the right to extend the terms of the Leases for another year if the Program Properties are sold to a third party.

After successfully transferring its Programs, the Debtor began the second stage of the Bifurcated Process, liquidating the Program Properties. Appraisals of the Program Properties

[11] With respect to the Property listed as 238 Waverly Avenue, the Debtor is solely selling its sponsorship interest in the housing corporation that owns such Property.

[12] Some of the clients of the DD Programs are original residents of Willowbrook State Developmental Center in New York which was closed after inhumane conditions were exposed at the facility. The State contends that the Debtor and any successor housing entity is subject to an injunction issued by the United States District Court for the Eastern District of New York resolving multiple claims brought by the parents of Willowbrook residents and prohibits interference with the former Willowbrook residents' living arrangements. Thus, moving any of these former clients, or even the threat of possibly moving them, might well trigger litigation under the injunction.

were obtained and shared by OPWDD and OMH, respectively. The soundness of the appraisals were, in turn, tested by the Committee's financial professionals, and were used as a basis of further discussions among the Debtor, the Committee, the State, and the Providers (sometimes collectively referred to as the "State/Providers").

While negotiations with the State/Providers were ongoing, the Debtor and the Creditors' Committee engaged in discussions regarding the utility of an additional marketing effort and whether it likely would yield significantly more dollars to the estate. The Debtor met with its broker, Cushman, which reviewed the portfolio. In Cushman's view, given the deed restrictions on two of the larger BH Properties, other restrictions contained in the certificates of occupancy, and the existing Leases in favor of the Providers, coupled with the fragile nature of the tenant population, it did not believe a widespread marketing effort was likely to yield any results, and certainly not anything meaningfully higher.

Accordingly, the Debtor continued to negotiate with the State/Providers. In developing an agreement, the parties recognized the soundness of providing for a modest discount off of appraised values to account for the bulk nature of the offer, the avoidance of brokerage fees, simplifying the closing process (as contrasted with selling to one-off buyers), and guaranteeing long term-protection for the clients (in furtherance of the Debtor's mission). Multiple proposals were shared among the Debtor, the Creditors' Committee and the State/Providers over the ensuing months.

A few tenets drove the construct of the agreement ultimately reached. First, the State determined that the Providers would assume or otherwise satisfy all of the existing debt on the Program Properties, whether held by DASNY, NYCIDA or SCIDA, regardless of property values. Thus, even if Program Properties were "under water," all of the existing debt was being assumed or paid. Second, the State argued for a steep discounting of the BH Properties that were subject to deed restrictions on use and which had provisions for reversion to the State if the restrictions were breached. Third, shortly before the Petition Date, an OMH inspection of the four BH Properties found $8 million of required capital repairs; thus, the State argued this further impacted value.

Finally, in order to provide a level of certainty for the Debtor's former clients, as even minor ambiguities could have severe impacts for the client population, the State requested that approval for any transaction be sought in the context of a private sale. As it was widely believed that no competing offer would materialize, this request was under serious consideration.

While working to finalize the State/Providers' offer, the Debtor received an all cash proposal from a joint venture ("Altmark/Liberty" or the "Joint Venture") between Altmark Group, LLC ("Altmark"), a real estate development, investment, and management firm, and Liberty One Group, LLC ("Liberty")[13] to purchase the remaining Program Properties. As originally proposed, the economics fell short of the existing State/Providers' offer; of equal concern was the Joint Venture's plans for the Properties, and whether it would seek to dispossess or re-locate the Debtor's former clients. Thus, Altmark/Liberty was asked not only to improve

[13] Altmark was the purchaser of the Debtor's real property located at 3600 Jerome Avenue, Bronx, New York, and Liberty's principal, David Levitan, was the purchaser of the Debtor's vacant parcel at 21 Duryea Place, Broadway, New York.

the economics of its proposal but to address the "mission" related issue of ensuring continuity of residence and care of the clients.

The Debtor and the Creditors' Committee continued to work with both the State/Providers and Altmark/Liberty to elicit the best offer each group could put forward. The State/Providers ultimately improved their offer by agreeing to increase the cash component, to waive additional claims, and to have a certain state agency recharacterize claims, which otherwise could be entitled to priority. The Altmark/Liberty group improved its offer by increasing the cash component, removing certain "underwater" properties from the proposed deal without a concomitant reduction in purchase price, and agreeing to permit the existing tenants (i.e., the Providers and the Debtor's former clients) to remain in place at the residences, even if they received no rental income, for a period of up to 30 months while Altmark/Liberty negotiated longer term leases with the Providers.

Over the course of continued negotiations among the parties, both offeror groups refined and improved their respective offers on multiple occasions. Ultimately, the Debtor, together with its Board of Trustees (the "**Board**"), was tasked with comparing the improved all cash offer of Altmark/Liberty with the State/Providers' offer, which included a combination of cash, assumption of debt, claims waivers, and the recharacterization of other claims. In evaluating both offers, while remaining mindful that the Board has a dual duty to both creditors and the preservation of the Debtor's not-for-profit mission, the Board conducted extensive due diligence and made information requests of each of the offerors. The Board also invited and heard presentations from both parties regarding their respective offers, which was followed by a second set of due diligence requests. Responses were received from both parties. Of significant importance to the Board was how to ensure the lives of client residents would not be disrupted and their living arrangements would continue to be unaffected by the transfer.

On January 25, 2017, the Board reconvened and had a comprehensive discussion of both offers and the unique issues they respectively raised. As an initial matter the Board was given an overview of its due diligence obligations in light of its dual duty to creditors and mission; that the impact of both offers on each of those elements had to be considered in a balanced and reasonable way. As relates to its duty to creditors, the Board considered the likely recovery to each class of creditors under the offers, the quantifiable difference between them, ability to close, potential litigation to forestall or derail the sale, regulatory approvals, and other potential delays. Relative to its duty to the mission, the Board sought to evaluate each purchaser's commitment to carrying on the mission, its financial ability to perform and its capitalization, how future funding is insured so client residents are best protected, assurance of continued client access to the Properties, and issues relating to possible re-location of residents.

A point of concern for the Board was that Altmark/Liberty had no contractual relationships with OMH or OPWDD and there was no assurance that they could negotiate long-term leases with the Providers whose clients were resident at the Properties. If unsuccessful, the notion of having to relocate residents into multiple other facilities owned by Altmark was neither reasonable nor practicable. The community health facilities require 24 hour/7 day per week staffing by trained case management staff. It is the highest level of OMH care outside of hospitals. Thus, the program treatment afforded at these four facilities cannot be parsed out among multiple facilities. A replacement facility would have to be found – a multi-year process

to locate, gain community approval, finance, build and certify. Relocating the DD Programs' population is equally difficult – group home relationships and community support of many could be jeopardized and the change could be incalculably damaging to the residents.

Further, the prospect of extended litigation over deed restrictions encumbering certain of the community residence properties, an existing injunction preventing interference with the residential rights of former Willowbrook patients now housed in some of the Program Properties, and claims of violation of Fair Housing Act protections if clients are involuntarily moved was also weighed by the Board.

At the conclusion of the January 2017 Meeting, based on all the information available to it at the time, the Board voted to move forward with the State/Providers. After extended discussions, the Debtor entered into the same form of Purchase Agreement with each of the Providers differing only as to the Program Properties it is buying and the purchase price therefor.

As relates to the DD Program Properties, the parties agreed to base the purchase price on appraised values less a discount rate of 13.75% to compensate for the bulk nature of the sale, the savings in avoiding a costly marketing program and brokerage fees, and the increased certainty of closing given the State's financial support. Thus, the aggregate purchase price of DD Program Properties totals $7,933,853 in cash plus the assumption or satisfaction of $5,230,415 of indebtedness under various DASNY Bonds, NYCIDA Bonds and SCIDA Bonds.

Given the potential impact of the deed and use restrictions on the valuation of the BH Program Properties, the significant amount of existing debt, and the need for significant capital improvements, the parties negotiated a purchase price for the BH Program Properties of $1,250,000 cash plus the assumption or satisfaction of up to $9,005,649 of indebtedness under various DASNY Bonds.[14]

As additional consideration, OMH and OPWDD agreed to waive more than $15 million in claims against the estate and DOL has agreed to reclassify $1 million of its asserted priority claim as an unsecured claim[15]. Based on its analysis of the claim elements, potential defenses, litigation savings of a consensual resolution of these claims, and the Debtor's estimate of allowable portions and a projected level of return to unsecured creditors, the Debtor estimates the cash impact of the waivers and re-characterization at approximately $1.9 million. The overall terms of this arrangement are set forth in the Settlement Agreement (discussed more fully below in Section D(3) below).

Separate Purchase Agreements have been executed by each of the Providers relative to the Program Properties it is acquiring. Each Purchase Agreement contains the applicable purchase price for the relevant Program Properties. Each Provider has given a deposit to the Debtor equal to 5% of the Purchase Price. In the aggregate, the total value to the estate is approximately $25.3 million subject to certain adjustments at the closing. In addition, OMH and

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[14] The actual amount of indebtedness to be assumed or paid in respect of the DASNY Bonds, the NYCIDA Bonds and the SCIDA Bonds will be reconciled and adjusted at the Closings.

[15] As described in Section IV(R) below, DOL subsequently agreed to re-characterize another $1 million as additional consideration for the private sale transaction.

OPWDD have agreed to pay the costs and expenses of DASNY and the Bond Trustee and their respective counsel in connection with this case and the negotiation and closing of the transactions contemplated by the Purchase Agreement and Settlement Agreement.[16]

With executed agreements in hand, the Debtor worked with the Creditors Committee to establish tailored bid procedures that would take the Debtor's Board's dual fiduciary duties to both creditors and its charitable mission into account. Thereafter, the Debtor filed a motion to establish bid procedures, approve the State/Providers as the stalking horse, approve the Settlement Agreement (described more fully below) and set a hearing to approve the sale to the highest bidder at the auction. [Docket no. 916] At the hearing to approve the bid and auction procedures, the Court opined on the record that as a practical matter the only parties who could reasonably buy the Program Properties, given the Debtor's continued obligation to its mission, i.e. the continued residence and care of its former clients, are the Providers. The Court went on to discuss issues relating to licensure and protection of the clients recognizing the need to continue the Program Properties' existing and restricted use. The Court expressly stated that it had "…no real philosophical difficulties in saying this is not going to produce the most money these properties are worth, but this is a not-for-profit bankruptcy. The use of these properties for their current use in the public domain should continue this way. And yes, it'll generate less, but that's the game. That's what we are doing." After a short recess, the Debtor, the Committee and the State/Providers reached an accord --- the Committee requested that the State/Providers provide additional consideration through re-characterization of an additional $1 million priority claim, which the State/Providers ultimately agreed to, and the Debtor would seek approval of the Sale of the Program Properties pursuant to a private sale to the providers under a plan of liquidation, with full notice and disclosure to all creditors.

Given the dual duty that FEGS not-for-profit board of trustees has to creditors of the FEGS estate and to preserving the Debtor's charitable mission and ensuring the clients' continued residence, FEGS believes that a sale to the Providers in not only the best but the only practical option. As it is based on appraised value, by definition fair consideration is being paid. With the State providing financial support, closing of the sales is effectively assured. Each Provider is clearly committed to continuing the Debtor's charitable mission, the clients will be protected and their long term residence guaranteed. A sale on the other hand to a for-profit entity with no assurance as to the long term protection of residents runs the risk of significant litigation, delay and expense and a potential inability to comply with applicable non-bankruptcy law.

R. <u>Settlement Agreement</u>

As further consideration for the Program Properties Sale, OMH and OPWDD, the primary government sponsors of the Programs, agreed to waive aggregate claims filed in the amount of approximately $15 million largely attributable to alleged overpayments. In addition, DOL which has asserted a $4.1 million priority claim for unemployment insurance paid to terminated employees prior to and after the Petition Date, agreed to re-characterize $1 million of that claim as an unsecured claim and subsequently agreed to re-characterize another $1 million

[16] The Debtor intends to file a Plan Supplement prior to the hearing on the Disclosure Statement with all of the signed Purchase Agreements.

as additional consideration for the private sale transaction. The balance of DOL's claim shall be allowed as a priority claim. With the additional re-characterization, the Debtor values the savings to the Estate at approximately $2.65 million. The determination is based on the Debtor's analysis of what it believes are the proper allowable amounts of such claims, the estimated return to unsecured creditors and potential litigation savings from a consensual resolution. The terms of the settlement agreed to between the Debtor and OMH, OPWDD, DOL and others are set forth in the Settlement Agreement, filed at Docket No. 923, which will be amended and restated to incorporate, among other things, the additional private sale consideration and filed as part of the Plan Supplement.

The Debtor believes, given the potential risk to the estate if objections to the claims were unsuccessful and the potential costs of litigation, that the compromise reflected in the Settlement Agreement, as same shall be amended and restated, is reasonable and in the best interests of the estates. Accordingly, the Debtor shall seek, as part of the Confirmation Order, approval of the Settlement Agreement pursuant to Bankruptcy Rule 9019.

S. Sale of Housing Corporation Membership and Sponsorship Interests.

The Debtor is either the sole member or the sole sponsor of Tanya Towers, Inc., NYSD Housing Development Fund Company, Inc., NYSD Forsyth Housing Development Fund Company, Inc., and NYSD Rombouts Housing Development Fund Company, Inc. (collectively, the "Housing Agencies"), each a not-for-profit corporation organized under New York State's Not-for-Profit Corporation Law ("NPCL") and Public Housing Finance Law ("PHFL"). The Housing Agencies provide supportive housing and rehabilitative services to behaviorally and intellectually and developmentally impaired residents.

Collectively, the Housing Agencies own real property located at 620 East 13th Street, New York, NY ("Tanya Towers"); 174 Forsyth Street, New York, NY ("Tanya II"); 184-186 Forsyth Street, New York, NY ("Forsyth"); and 3285 Rombouts Avenue, Bronx, New York ("Rombouts"). After the Programs transferred, the Debtor determined that it would be in the estate's best interest to sell the Debtor's sole membership and/or sponsorship interests in the Housing Agencies (collectively, the "Housing Corporation Interests", and each a "Housing Corporation Interest"), as the Housing Corporation Interests served no ongoing purpose in light of the Debtor's ultimate liquidation.

Tanya Towers is a 138-unit apartment complex that serves residents who are deaf, blind, and afflicted with cerebral palsy. The project is operated under the Mitchell-Lama program administered by New York City Housing Preservation and Development ("HPD"), which requires operation in accordance with low income affordability restrictions and provides for supportive housing rent payments from the United States Department of Housing and Urban Development ("HUD"). It is encumbered by first and second mortgages totaling in excess of $10 million issued by the New York City Housing Development Corporation ("HDC") which are not pre-payable prior to 2024. Any transfer of the Debtor's Interest in Tanya Towers is subject to separate approvals from certain of the Regulatory Authorities[17].

[17] The Regulatory Authorities are defined to include HUD, HPD, HDC and the New York State Department of Home and Community Renewal ("DHCR")

Each of Rombouts, Forsyth and Tanya II are smaller supportive housing programs serving the mentally and developmentally disabled under Project Rental Assistance Contracts with HUD under Section 811 of the National Affordable Housing Act (collectively, the "PRACS"). Any transfer of the Debtor's Housing Corporation Interests is subject to the approval of HUD, HPD and, in the case of Tanya II, DHCR.

Given the heavily regulated nature of each of the Housing Agencies, the Debtor retained the services of Smith & Henzy (S&H"), experts in the regulated housing market, to assist in navigating any transfer approval process and in developing a strategy to maximize the value of the Housing Corporation Interests. In March 2016, S&H solicited a "request for proposals ("RFP") targeting entities familiar with the regulated housing market that would be capable of obtaining approval from the Regulatory Authorities to then substitute as member or sponsor.

Altogether, eight offers were received. Two were de minimus based on assumption of the Housing Agencies' debts with little residuary consideration provided for the Debtor's estate. Two additional offers in the $2.5 million range were based on the capitalized value of the existing management contracts of the portfolio. The remaining four bids ranged higher, but the highest was from a joint venture (the "Joint Venture") between L&M Inclusionary Acquisition, LLC ("L&M") and a to-be-formed limited liability company with a not-for-profit member (the "Joint Venture Partner") which has proposed to acquire the Debtor's Interest in Tanya Towers for $5.5 million and the Housing Corporation Interests in the three PRACs for $2.0 million.

The Joint Venture's $5.5 million offer for the Tanya Towers Interest is based on participation in HPD's Inclusionary Housing Program ("IHP"). Under the IHP, HPD awards zoning incentive bonuses for the creation or preservation of affordable housing in certain areas zoned for high density residential development. The proposed sale of the Debtor's Interest in Tanya Towers to the Joint Venture qualifies as a preservation action, as the Joint Venture is proposing to preserve the affordability of the project and fund renovations and reserves to maintain the long-term affordability and viability of the building. The zoning bonuses can be sold to owners of other sites allowing them to construct additional density of up to 25% beyond the compensated site's zoning density requirements.

Participation in the IHP requires a significant up front capital investment and completion of the required renovations and reserves before the incentive bonuses (i.e. inclusionary certificates) issue. While the Debtor cannot fund the project on its own, it will reap some of the benefit, without the attendant risk and expense, through the purchase price for the Tanya Tower Interest. The Joint Venture will bear the risk of completion and issuance of the inclusionary certificates and that demand and pricing for the inclusionary certificates will be maintained once the project is completed.

The Joint Venture's $2.0 million offer for the Housing Corporation Interests in the three PRACS (i.e. Tanya II, Forsyth and Rombouts) is, in turn, conditioned upon HUD's consent to allow the PRACS to incur additional debt and participate in the IHP or removal of the Tanya II, Rombouts and Forsyth properties from the restrictions and limitations of the Project Rental Assistance Contracts and conversion to HUD's Rental Assistance Demonstration Program. The Debtor is advised that legislation is currently pending before Congress to permit such conversions.

Towards these ends, the Debtor is in the process of entering into two separate Substitution of Membership Agreements (the "Substitution Agreements") among FEGS, the Housing Agencies, and the Joint Venture pursuant to which the Joint Venture Partner will be substituted as the sole Member of each Housing Agency and the by-laws of each such Housing Agency shall be amended and modified to reflect the change. As a related matter, the current directors and officers will resign and new ones would be appointed by the Joint Venture. As noted above, the Purchase Price under the Substitution Agreements is $5.5 million for the Tanya Towers Interest and $2.0 million for the PRAC Housing Corporation Interests; a 10% deposit will be provided by the Joint Venture. Consistent with the requirements of applicable non-bankruptcy law, the transactions are subject to the required consents of HUD and HPD as the case may be.

Given the widespread marketing effort that has been undertaken in respect of the Housing Corporation Interests, the good faith nature of the negotiations, the adequacy of the consideration being received and the fact that tenancies will not be disturbed since the regulatory structure will not be upended, the Debtor shall seek, in connection with entry of the Confirmation Order, the approval of a private sale of the Housing Corporation Interests to the Joint Venture or such other party as may be designated by the Debtor in accordance with, or on substantially the same terms and conditions as contained in, the Substitution Agreements pursuant to sections 363, 1123(a)(5), 1123(b)(4), 1129(b)(2)(A), 1141, 1145 and 1146(a) of the Bankruptcy Code and, to the extent required, sections 510 and 511 of the New York Not-For-Profit Corporation Law, free and clear of all Liens and Claims, interests or encumbrances except as otherwise set forth in the Substitution Agreements. The Confirmation Order shall provide that the Debtor and/or the Plan Administrator, as applicable, shall be authorized to take any and all actions necessary to consummate the Sale of the Housing Corporation Interests.

V. OVERVIEW OF THE PLAN

A. General

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

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

B. Classification of Claims

Section 1122 of the Bankruptcy Code provides that a plan of reorganization or liquidation shall classify the claims of a debtor's creditors into classes containing claims that are substantially similar to other claims in such class. Thus, the Plan divides the holders of Claims into 2 unclassified categories and 3 Classes, and sets forth the treatment offered to each Class.[18]

For the holder of a Claim to participate in a plan of reorganization or liquidation and receive the treatment offered to the class in which it is classified, its Claim must be "Allowed." Under the Plan, "Allowed," with reference to any Claim, means: (a) such Claim is scheduled by the Debtor pursuant to the Bankruptcy Code and Bankruptcy Rules in a liquidated amount and not listed as contingent, unliquidated, zero, undetermined or disputed, or (b) a proof of such Claim was timely filed, or deemed timely filed; and, in either case, has not been previously satisfied and (x) is not objected to within the period fixed by the Bankruptcy Code, the Bankruptcy Rules, the Plan, and/or applicable Final Orders of the Court, (y) has been settled pursuant to Section 4.5 of the Plan, or (z) has otherwise been allowed or estimated by a Final Order. An "Allowed Claim" shall be net of any amounts previously paid, as well as any valid setoff or recoupment amount.

C. Treatment of Claims Under the Plan

The Plan segregates the various Claims against the Debtor into the following categories: Administrative Claims, Priority Tax Claims, DOL Priority Claim, Professional Fee Claims and U.S. Trustee Fees; and the following Classes:

Class	Claim
1	Allowed DASNY/Bond Trustee Secured Claims
2	Allowed Other Secured Claims
3	Allowed Other Priority Claims
4	Allowed Unsecured Claims

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[18] While the Debtor believe that their classification of all Claims is in compliance with the provisions of § 1122 of the Bankruptcy Code, it is possible that a holder of a Claim may challenge the Debtor' classification scheme and the Court may find that a different classification is required for the Plan to be confirmed. In such event, it is the present intent of the Debtor, to the extent permitted by the Court, to modify the Plan to provide for whatever reasonable classification might be required by the Court for Confirmation, and to use the acceptances received by the Debtor from any holder of a Claim pursuant to this solicitation for the purpose of obtaining the approval of the Class or Classes of which such holder of a Claim is ultimately deemed to be a member.

Under the Plan, Claims in Classes 1, 2 and 3 are Unimpaired, and Claims in Class 4 are Impaired. The treatment accorded to the Impaired Class of Claims under the Plan represents the best treatment that can be provided to such Classes pursuant to the priority provisions of the Bankruptcy Code. Set forth below is a summary of the Plan's treatment of the various categories and Classes of Claims. This summary is qualified in its entirety by the full text of the Plan. In the event of an inconsistency between the Plan and the description contained herein, the terms of the Plan shall govern.

UNCLASSIFIED CATEGORIES OF CLAIMS

Under the provisions of the Bankruptcy Code, Administrative Claims, Priority Tax Claims, Professional Fee Claims and U.S. Trustee Fees are not properly classified. They must be paid in full as a condition of confirmation.

(i) Administrative Claims

Supplemental Administrative Claims Bar Date. Except as provided below for (1) Professional Persons requesting compensation or reimbursement for Professional Fee Claims, and (2) U.S. Trustee Fees, requests for payment of Administrative Claims, for which a Bar Date to file such Administrative Claim was not previously established, must be filed no later than forty-five (45) days after the occurrence of the Effective Date, or such later date as may be established by Order of the Court. **Holders of Administrative Claims who are required to file a request for payment of such Claims and who do not file such requests by the applicable Bar Date shall be forever barred from asserting such Claims against the Debtor or their property, and the holder thereof shall be enjoined from commencing or continuing any action, employment of process or act to collect, offset or recover such Administrative Claim**.

Estimation of Administrative Claims. The Debtor and the Plan Administrator reserve the right, for purposes of allowance and distribution, to seek to estimate any unliquidated Administrative Claims if the fixing or liquidation of such Administrative Claim would unduly delay the administration of and distributions under the Plan.

Treatment. Unless the holder of an Allowed Administrative Claims agrees to less favorable treatment, each holder of an Allowed Administrative Claim, in full and final satisfaction, release and settlement of such Allowed Claim, shall receive payment in Cash from the Remaining Cash in an amount equal to such Allowed Administrative Claim on or as soon as reasonably practicable after the later of (i) the Effective Date; or (ii) the date on which such Claim becomes Allowed or otherwise payable.

(ii) Priority Tax Claims and DOL Priority Claim

Treatment. Unless the holder thereof shall agree to a different and less favorable treatment, each holder of an Allowed Priority Tax Claim and Allowed DOL Priority Claim, in full and final satisfaction, release and settlement of such

Allowed Claim, shall receive payment in Cash from the Remaining Cash in an amount equal to such Allowed Priority Tax Claim or DOL Priority Claim on or as soon as reasonably practicable after the later of (a) the Effective Date and (b) the date on which such Claim becomes Allowed. Notwithstanding the preceding, to the extent the Settlement Agreement (as hereinafter discussed, *see,* Section IV(R)) is approved by the Bankruptcy Court through entry of the Confirmation Order,, the DOL Priority Claim shall be determined and treated in accordance with the terms of the Settlement Agreement.

(iii) Professional Fee Claims

Professional Fee Claims Bar Date. All final applications for payment of Professional Fee Claims for the period through and including the Effective Date shall be filed with the Court and served on the Plan Administrator and the other parties entitled to notice pursuant to the Interim Compensation and Reimbursement Procedures Order [Docket No. 69] on or before the Professional Fee Claims Bar Date, or such later date as may be agreed to by the Plan Administrator. Any Professional Fee Claim that is not asserted in accordance with this Section 2.4(a) shall be deemed Disallowed under the Plan and the holder thereof shall be enjoined from commencing or continuing any claim to collect, offset, recoup or recover such Claim against the Estate or any of its Assets or property.

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

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

(iv) U.S. Trustee Fees

The Debtor shall pay all United States Trustee quarterly fees under 28 U.S.C. §1930(a)(6), plus interest due and payable under 31 U.S.C. §3717, if any, on all disbursements, including Plan payments and disbursements in and outside the

ordinary course of the Debtor's business, until the entry of a final decree, dismissal of the case or conversion of the case to Chapter 7.

UNIMPAIRED CLASSES OF CLAIMS

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

(i) Class 1 - Allowed DASNY/Bond Trustee Secured Claims.

Composition. Class 1 consists of Allowed DASNY Secured Claims and Allowed Bond Trustee Secured Claims. For convenience of identification, the Plan describes Allowed Secured Claims in Class 1 as a single Class. Class 1 consists of separate subclasses, each based on the underlying property securing such Allowed Secured Claim, and each subclass is treated hereunder as a distinct Class for treatment and distribution purposes and for all other purposes under the Bankruptcy Code. For purposes of the Plan Class 1(a) shall include the Allowed DASNY Secured Claims and Class 1(b) shall include the Allowed Bond Trustee Secured Claims.

Treatment. Each holder of an Allowed DASNY Secured Claim or an Allowed Bond Trustee Secured Claim, in full and final satisfaction, release and settlement of such Claim, will either be paid the full amount of such Claim or such Claim will be otherwise assumed and paid in accordance with existing terms as provided under the terms of the Purchase Agreement and Settlement Agreement. Class 1 is an Unimpaired Class and is deemed to have accepted the Plan.

(ii) Class 2 – Allowed Other Secured Claims

Composition. Class 2 consists of Allowed Secured Claims other than Class 1 Claims. For convenience of identification, the Plan describes Allowed Secured Claims in Class 2 as a single Class. Class 2 consists of separate subclasses, each based on the underlying property securing such Allowed Secured Claim, and each subclass is treated hereunder as a distinct Class for treatment and distribution purposes and for all other purposes under the Bankruptcy Code. Class 2 is Unimpaired by the Plan and, therefore, each holder of an Allowed Class 2 Claim is deemed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Treatment. Each holder of an Allowed Secured Claim, in full and final satisfaction, release and settlement of such Claim, shall receive one of the following alternative treatments, at the election of the Plan Administrator: (a) payment in full in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date the Claim becomes due and payable by its

terms; (b) the legal, equitable and contractual rights to which such Claim entitles the holder, unaltered by the Plan; (c) the treatment described in Section 1124(2) of the Bankruptcy Code; or (d) all collateral securing such Claim, without representation or warranty by or recourse against the Debtor. To the extent that the value of the Collateral securing any Allowed Other Secured Claim is less than the amount of such Allowed Other Secured Claim, the undersecured portion of such Claim shall be treated for all purposes under the Plan as an Unsecured Claim in Class 3 and shall be classified as such. Class 2 is an Unimpaired Class and is deemed to have accepted the Plan.

(iii) Class 3 – Allowed Other Priority Claims.

Composition. Class 3 consists of Allowed Other Priority Claims.

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

IMPAIRED CLASSES

Pursuant to § 1124 of the Bankruptcy Code, a class of claims is impaired unless the legal, equitable, and contractual rights of the holders of claims in such class are not modified or altered by a plan. Holders of allowed claims in impaired classes that receive or retain property under a plan of reorganization or liquidation are entitled to vote on such plan. Under the Plan only Class 4 is impaired and entitled to vote on the Plan.

(i) Class 4 –Allowed Unsecured Claims.

Composition. Class 4 consists of Allowed Unsecured Claims which arose prior to the Petition Date, including, without limitation, the OMH Claims, the OPWDD Claims and the DOL Unsecured Claims.

Treatment. Except as hereafter provided and/or as may be agreed to between the Debtor and the holder of any Allowed Unsecured Claim, the holders of Allowed Unsecured Claims, in full and final satisfaction, release and settlement of such Allowed Unsecured Claims, shall from time to time receive Pro Rata distributions of Cash from the Net Proceeds. Notwithstanding the preceding, to the extent the Settlement Agreement (as hereinafter discussed, *see,* Section IV(R)) is approved by the Bankruptcy Court through entry of the Confirmation Order, the OMH Claim, the OPWDD Claim and the DOL Unsecured Claim shall be treated in accordance with the terms of the Settlement Agreement; provided, however, such claims shall be entitled to vote in the amounts asserted therein or as otherwise agreed between the holders of such Claim and the Debtor.

D. Implementation of the Plan and Plan Administrator

(1) Implementation of the Plan. The Plan will be implemented by the Plan Administrator in a manner consistent with the terms and conditions set forth in the Plan and the Confirmation Order.

(2) The Sales of the Program Properties.

The Debtor shall seek, in connection with the entry of the Confirmation Order, authorization of a private sale of the Program Properties to the Providers in accordance with the terms of the Purchase Agreement pursuant to sections 363, 1123(a)(5), 1123(b)(4), 1129(b)(2)(A), 1141, 1145 and 1146(a) of the Bankruptcy Code and sections 510 and 511 of the New York Not-For-Profit Corporation Law, free and clear of all Liens, Claims, interests or encumbrances except as otherwise set forth in the Purchase Agreement. Upon Confirmation, the Debtor and/or the Plan Administrator, as applicable, shall be authorized to take any and all actions necessary to consummate the Program Properties Sale.

(3) The Settlement Agreement.

As further consideration for the Program Properties Sale, the Confirmation Order will approve the Settlement Agreement which, among other things, provides for (a) waiver by OMH and OPWDD of aggregate claims filed in the amount of approximately $15 million, (b) the recharacterization by DOL of $2 million, out of an aggregate $4.1 million Claim, as an unsecured claim and the fixing of the remainder of the DOL claim as a priority claim. The complete terms of the settlement agreed to between the Debtor and OMH, OPWDD, DOL and others are set forth in the Settlement Agreement, filed at Docket No. 923, which will be amended and restated to incorporate, among other things, the additional private sale consideration and filed as part of the Plan Supplement.

(4) Sale of Housing Corporation Issues.

The Debtor shall seek, in connection with the Confirmation Order, authorization of a private sale of the Housing Corporation Interests, in one or more transactions, to the Joint Venture in accordance with the terms of the Substitution Agreements pursuant to sections 363, 1123(a)(5), 1123(b)(2)(A), 1141, 1145 and 1146(a) of the Bankruptcy Code and sections 510 and 511 of the New York Not-For-Profit Corporation Law, free and clear of all Liens, Claims, interests or encumbrances except as otherwise set forth in the Substitution Agreements. Upon Confirmation, the Debtor and/or the Plan Administrator, as applicable, shall be authorized to take any and all actions necessary the sale of the Housing Corporation Interests.

(5) The Other Sales.

The Confirmation Order shall authorize one or more sales of the Other Properties under sections 365, 1123(a)(5), 1123(b)(4), 1129(b)(2)(A), 1141 1145 and 1146(a) of the Bankruptcy Code under the terms and conditions of one or more purchase and sale agreements. Such sales shall be on such terms and conditions as determined by the Debtor and the Committee or the Plan administrator and Post Effective Date Committee as the case may be. Upon Confirmation,

the Debtors shall be authorized and directed to take any and all actions necessary to consummate such sales.

(6) Appointment of the Plan Administrator. On the Effective Date, the monetization of the Debtor' remaining assets and causes of actions and distributions to creditors shall become the general responsibility of the Plan Administrator. The Confirmation Order shall provide for the appointment of the Plan Administrator. The identity of the Plan Administrator, as well as the Plan Administrator's proposed compensation, shall be set forth in the Plan Supplement. The Plan Administrator shall be deemed the Estates' representative in accordance with § 1123 of the Bankruptcy Code and shall have all powers, authority and responsibilities specified under §§ 704 and 1106 of the Bankruptcy Code. The Plan Administrator shall obtain and maintain a bond in an amount equal to one hundred and ten percent (110%) of Remaining Cash. As Net Proceeds are increased or reduced through the liquidation of Assets and is reduced through distributions and payments by the Plan Administrator, the Plan Administrator shall, at the appropriate time, adjust the amount of the bond to an amount equal to at least 110% of the amount of Net Proceeds in the Estate.

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

(a) to take such steps as may be necessary or otherwise desirable to administer and close any and all of the transactions as may be contemplated by the terms of the Purchase Agreement and Settlement Agreement

(b) to invest Cash and withdraw and make distributions of Cash to Holders of Allowed Claims and pay taxes and other obligations owed by the Debtor or incurred by the Plan Administrator in connection with the wind-down of the Estates in accordance with the Plan;

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

(d) to engage attorneys, consultants, agents, employees and all professional persons, to assist the Plan Administrator with respect to the Plan Administrator's responsibilities;

(e) to pay the fees and expenses for the attorneys, consultants, agents, employees and professional persons engaged by the Plan Administrator

and the Post Effective Date Committee and to pay all other expenses in connection with administering the Plan and for winding down the affairs of the Debtor in each case in accordance with the Plan;

(f) after the Effective Date, satisfy any liabilities, expenses and other Claims incurred by the Plan Administrator in the ordinary course of business and without further order of the Court

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

(h) to dispose of, and deliver title to others of, or otherwise realize the value of, all the remaining Assets;

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

(j) to coordinate the storage and maintenance of the Debtor' books and records;

(k) to oversee compliance with the Debtor' accounting, finance and reporting obligations;

(l) to prepare United States Trustee quarterly reports;

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

(n) to perform any additional corporate actions as necessary to carry out the wind-down, liquidation and ultimate dissolution of the Debtor;

(o) to communicate regularly with and respond to inquiries from the Post Effective Date Committee and its professionals, including providing to the Post Effective Date Committee regular cash budgets, information on all disbursements, and copies of bank statements as reasonably requested by the Post Effective Date Committee;

(p) subject to Section 9.1 of the Plan, to object to Claims against the Debtor;

(q) subject to Section 9.2(b) of the Plan, to compromise and settle Claims against the Debtor;

(r) except to the extent standing has previously been granted the Committee to pursue Causes of Action on behalf of the Debtor, to act on behalf of the Debtor in all adversary proceedings and contested matters (including, without limitation, any Causes of Action), then pending or that can be commenced in the Court and in all actions and proceedings pending or commenced elsewhere, and to settle, retain, enforce, or dispute any adversary proceedings or contested matters (including, without limitation,

any Causes of Action) and otherwise pursue actions involving Assets of the Debtor that could arise or be asserted at any time under the Bankruptcy Code or otherwise, unless otherwise specifically waived or relinquished in the Plan, *provided, however,* that settlement by the Plan Administrator of any Cause of Action involving an original demand in excess of $250,000 shall: (i) require that written notice of such proposed settlement be given by the Plan Administrator to the Post Effective Date Committee and that the Post Effective Date Committee either shall affirmatively consent to such settlement or shall fail to object to such settlement within ten (10) business days after receipt of such notice, or (ii) be subject to entry of an Order of the Court approving such settlement;

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

(t) to implement and/or enforce all agreements entered into prior to the Effective Date;

(u) perform the duties, exercise the powers, and assert the rights of a trustee under sections 704 and 1106 of the Bankruptcy Code, including, without limitation, investigating, commencing, prosecuting or settling Causes of Action (including, without limitation, Avoidance Actions), enforcing contracts, and asserting claims, defenses, offsets and privileges, subject to the notice and approval requirements set forth in subsection (xviii) above; and

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

(8) Post Effective Date Committee.

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

(b) The Post Effective Date Committee shall have the power and authority to utilize the services of its counsel and financial advisor as necessary to perform the duties of the Post Effective Date Committee and to authorize and direct such Persons to act on behalf of the Post Effective Date

Committee in connection with any matter requiring its attention or action. The Plan Administrator shall pay the reasonable and necessary fees and expenses of the Post Effective Date Committee's counsel and financial advisor without the need for Court approval.

(c) Except for the reimbursement of reasonable, actual costs and expenses incurred in connection with their duties as members of the Post Effective Date Committee, the members of the Post Effective Date Committee shall serve without compensation. Reasonable expenses incurred by members of the Post Effective Date Committee may be paid by the Plan Administrator without need for Court approval.

(d) The Plan Administrator shall report all material matters to the Post Effective Date Committee.

E. <u>Distributions</u>

(1) <u>Plan Distributions</u>. The Plan Administrator shall make distributions to holders of Allowed Claims in accordance with Article IV of the Plan on or as soon as reasonably practicable after the Effective Date. From time to time, in consultation with the Post Effective Date Committee, the Plan Administrator shall make Pro Rata distributions to holders of Allowed Class 4 Claims in accordance with Article IV of the Plan. Notwithstanding the foregoing, the Plan Administrator may retain such amounts (i) as are reasonably necessary to meet contingent liabilities and to maintain the value of the assets of the Estate during liquidation, (ii) to pay reasonable administrative expenses (including the costs and expenses of the Plan Administrator and the Post Effective Date Committee and the fees, costs and expenses of all professionals retained by the Plan Administrator and the Post Effective Date Committee, and any taxes imposed in respect of the Assets), (iii) to satisfy other liabilities to which the Assets are otherwise subject, in accordance with the Plan, and (iv) to establish any necessary reserve. All distributions to the holders of Allowed Claims shall be made in accordance with the Plan.

The Plan Administrator may withhold from amounts distributable to any Person any and all amounts determined in the Plan Administrator's reasonable sole discretion to be required by any law, regulation, rule, ruling, directive or other governmental requirement. Holders of Allowed Claims shall, as a condition to receiving distributions, provide such information and take such steps as the Plan Administrator may reasonably require to ensure compliance with withholding and reporting requirements and to enable the Plan Administrator to obtain certifications and information as may be necessary or appropriate to satisfy the provisions of any tax law. In the event that a holder of an Allowed Claim does not comply with the Plan Administrators requests in the preceding sentence within ninety (90) days, no distribution shall be made on account of such Allowed Claim and the Plan Administrator shall reallocate such distribution for the benefit of all other holders of Allowed Claims in accordance with the Plan.

(2) <u>Cash Distributions</u>. The Plan Administrator shall not be required to make interim or final Cash distributions in an amount less than $50.00. Any funds so withheld and not distributed on an interim basis shall be held in reserve and distributed in subsequent distributions to the extent the aggregate distribution exceeds $10,000. Should a final distribution to any

holder of an Allowed Claim not equal or exceed $50.00, that sum shall be distributed to other holders of Allowed Claims in accordance with the Plan.

(3) No Payments of Fractional Dollars. Notwithstanding any other provision of the Plan to the contrary, no payment of fractional dollars shall be made pursuant to the Plan. Whenever any payment of a fraction of a dollar under the Plan would otherwise be required, the actual Distribution made shall reflect a rounding down of such fraction to the nearest whole dollar.

(4) Delivery of Plan Distributions. All distributions under the Plan on account of any Allowed Claims shall be made at the address of the holder of such Allowed Claim as set forth in a filed Proof of Claim or as otherwise provided by such holder on the electronic records of the debtor, or on the register on which the Plan Administrator records the name and address of such holders or at such other address as such holder shall have specified for payment purposes in a written notice to the Plan Administrator at least fifteen (15) days prior to such distribution date. In the event that any distribution to any holder is returned as undeliverable, the Plan Administrator shall use reasonable efforts to determine the current address of such holder, but no distribution to such holder shall be made unless and until the Plan Administrator has determined the then-current address of such holder, at which time such distribution shall be made to such holder without interest; provided, however, that such undeliverable or unclaimed distributions shall become Unclaimed Property at the expiration of ninety (90) days from the date such distribution was originally made. The Plan Administrator shall reallocate the Unclaimed Property for the benefit of all other holders of Allowed Claims in accordance with the Plan, provided, however, if the Plan Administrator determines, with the approval of the Post Effective Date Committee, that the administrative costs of distribution effectively interfere with distribution or that all creditors, including administrative claimants, have been paid in full and there is no one that has a right to the funds, such remaining Unclaimed Property shall be donated to a not-for-profit corporation providing services and assistance consistent with the Debtor's charitable mission as agreed to by the Debtor and the Committee.

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

(6) Windup. With respect to each Estate, after (a) the Plan has been fully administered, (b) all Disputed Claims have been resolved, (c) all Causes of Action have been resolved, and (d) all Assets have been reduced to Cash or abandoned, the Plan Administrator shall effect a final distribution of all Cash remaining (after reserving sufficient Cash to pay all unpaid expenses of administration of the Plan and all expenses reasonably expected to be incurred in connection with the final distribution) to Holders of Allowed Claims in accordance with the Plan.

F. Executory Contracts and Unexpired Leases

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

(2) Approval of Assumption or Rejection of Executory Contracts. Entry of the Confirmation Order by the Clerk of the Court, but subject to the condition that the Effective Date occur, shall constitute (a) the approval, pursuant to §§ 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption or assumption and assignment of the Executory Contracts assumed or assumed and assigned pursuant to Section 7.1 of the Plan, and (b) the approval, pursuant to §§ 365(a) and 1123(b)(2) of the Bankruptcy Code, of the rejection of the Executory Contracts rejected pursuant to Section 7.1 of the Plan.

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

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

G. Provisions for Resolving and Treating Claims

(1) Disputed Claims. Except as otherwise provided herein, the Plan Administrator shall have the right to object to all Claims on any basis, including those Claims that are not listed in the Schedules, that are listed therein as disputed, contingent, and/or unliquidated, that are listed therein at a lesser amount than asserted by the respective Creditor, or that are listed therein at for a different category of claim than asserted by the respective Creditor. Subject to further extension by the Court for cause with or without notice, the Plan Administrator may object to the allowance of Class 4 Claims up to one hundred eighty (180) days after the Effective Date, the allowance of Administrative/Priority Claims and Secured Claims up to the later of (i) ninety (90) days after the Effective Date or (ii) the deadline for filing an objection established by order of the Court; provided, however, that an objection to a Claim based on Section 502(d) of the Bankruptcy Code may be made at any time in any adversary proceeding against the holder of any

relevant Claim. The filing of a motion to extend the deadline to object to any Claims shall automatically extend such deadline until a Final Order is entered on such motion. In the event that such motion to extend the deadline to object to Claims is denied by the Court, such deadline shall be the later of the current deadline (as previously extended, if applicable) or 30 days after the Court's entry of an order denying the motion to extend such deadline. From and after the Effective Date, the Plan Administrator shall succeed to all of the rights, defenses, offsets, and counterclaims of the Debtor and the Committee in respect of all Claims, and in that capacity shall have the power to prosecute, defend, compromise, settle, and otherwise deal with all such objections, subject to the terms of the Plan. The Debtor and the Plan Administrator reserve the right, for purposes of allowance and distribution, to estimate claims pursuant to Section 502(c) of the Bankruptcy Code in the District Court if necessary.

(2) Settlement of Disputed Claims. Pursuant to Bankruptcy Rule 9019(b), the Plan Administrator may settle any Disputed Claim (or aggregate of Claims if held by a single Creditor), respectively, without notice, a Court hearing, or Court approval.

The Plan Administrator shall give notice to the Post Effective Date Committee of (i) a settlement of any Disputed Class 4 Claim (or aggregate of Claims if held by a single Creditor) that results in the disputed portion of such Disputed Class 4 Claim(s) being Allowed in an amount in excess of $250,000, (ii) a settlement of any Disputed Administrative/Priority Claims, or (iii) settlement of any Disputed Secured Claims. The Post Effective Date Committee shall have ten (10) days after service of such notice to object to such settlement. Any such objection shall be in writing and sent to the Plan Administrator and the settling party. If no written objection is received by the Plan Administrator and the settling party prior to the expiration of such ten (10) day period, the Plan Administrator and the settling party shall be authorized to enter into the proposed settlement without a hearing or Court approval. If a written objection is timely received, the Plan Administrator, the settling party and the objecting party shall use good-faith efforts to resolve the objection. If the objection is resolved, the Plan Administrator and the settling party may enter into the proposed settlement (as and to the extent modified by the resolution of the objection) without further notice of hearing or Court approval, provided that the Claim of the settling party against the Estate shall not be greater under the proposed settlement than that disclosed in the notice. Alternatively, the Plan Administrator may seek Court approval of the proposed settlement upon expedited notice and a hearing.

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

H. Conditions to Confirmation and Effectiveness of the Plan

(1) Conditions to Confirmation. The following conditions are conditions precedent to Confirmation of the Plan unless waived by the Plan Proponents pursuant to Section 9.3 of the Plan: (i) the Confirmation Order must be in a form and substance reasonably acceptable to the Debtor and the Committee; and (ii) the Confirmation Order shall:

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

(b) approve in all respects the transactions, agreements, and documents to be effected pursuant to the Plan, including, without limitation, the Purchase Agreement, the Settlement Agreement, the Substitution Agreements and the sale of any Other Properties;

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

(d) approve the releases and injunctions granted and created by the Plan;

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

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

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

(a) the Confirmation Date shall have occurred and the Confirmation Order, in a form consistent with the requirements of Section 9.1 of the Plan, shall have become a Final Order;

(b) the Plan Administrator shall have been appointed;

(c) all actions, documents and agreements necessary to implement the provisions of the Plan, and such actions, documents, and agreements shall have been effected or executed and delivered;

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

I. Modification, Revocation or Withdrawal of the Plan

(1) Modification of Plan. The Plan Proponent 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 Proponent may, so long as the treatment of holders of Claims against the Debtor under the Plan is not adversely affected, institute proceedings in Court to remedy any defect or omission or to reconcile any inconsistencies in the Plan, the Disclosure Statement or the Confirmation Order, and any other

matters as may be necessary to carry out the purposes and effects of the Plan; provided, however, notice of such proceedings shall be served in accordance with Bankruptcy Rule 2002 or as the Court shall otherwise order.

(2) Revocation or Withdrawal of Plan. The Plan Proponent reserves the right to revoke or withdraw the Plan at any time prior to the Effective Date. If the Plan Proponent revokes or withdraws 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 Debtor or any other Person or to prejudice in any manner the rights of the Debtor or any Person in any further proceedings involving the Debtor.

J. Injunction, Releases and Exculpation

(1) **Injunction. Except as otherwise expressly provided in the Plan including, without limitation, the treatment of Claims against in the Debtor, 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 or Interest in the Debtor, from taking any of the following actions against the Debtor, the Plan Administrator, the Committee or members thereof, the Post Effective Date Committee or members thereof, present and former directors, officers, trustees, agents, attorneys, accountants, advisors, members or employees of the Debtor, the Committee or members thereof, the Post Effective Date Committee or members thereof, or the Plan Administrator, or any of their respective successors or assigns, or any of their respective assets or properties, on account of any Claim against or Interest in the Debtor: (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 or Interest in the Debtor; (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 or Interest in the Debtor; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim against or Interest in the Debtor; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any Debt, liability or obligation due to the Debtor or their property or Assets with respect to a Claim against or Interest in the Debtor; 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 Debtor from pursuing any applicable insurance after the Effective Date, from seeking discovery in actions against third parties or from pursuing third-party insurance that does not cover Claims against the Debtor; provided further, however, nothing in this injunction shall limit the rights of a holder of an Allowed Claim against the Debtor to enforce the terms of the Plan. Notwithstanding anything to the contrary hereinabove set forth, nothing contained herein shall enjoin any such Person from taking any Excluded Former Officer[19] or Loeb and Troper, the former accountants to the Debtor.**

[19] "Excluded Former Officer" is defined as any former officer of the Debtor who was not employed by the Debtor as of the Petition Date, including, without limitation, Gail Magaliff and Ira Machowsky.

(2) Releases by Debtor. **Upon (x) the Effective Date, the Debtor conclusively, absolutely, unconditionally, irrevocably and forever releases and discharges each of the Debtor Release Parties of and from any and all past, present and future legal actions, causes of action, choses in action, rights, demands, suits, claims, liabilities, encumbrances, lawsuits, adverse consequences, amounts paid in settlement, costs, fees, damages, debts, deficiencies, diminution in value, disbursements, expenses, losses and other obligations of any kind, character or nature whatsoever, whether in law, equity or otherwise (including, without limitation, those arising under 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 have heretofore accrued, occurring from the beginning of time to and including the Effective Date related in any way to, directly or indirectly, and/or arising out of and/or connected with, any or all of the Debtor and their Estate, the Case, the Debtor's pre-petition financing arrangements, the Debtor's financial statements, the Debtor's proposed debtor in possession financing facility or cause the Debtor to cease operations (including any such claims based on theories of alleged negligence, misrepresentation, nondisclosure or breach of fiduciary duty);** ***provided, however*****, that (i) nothing contained in this Section 12.2 or otherwise in the Plan shall release any of the Debtor Release Parties from any D&O Claim which has been asserted (including, but not limited to, by providing notice to the insurance carrier) by either the Debtor, the Plan Administrator, the Committee or the Post Effective Date Committee; (ii) this Section 12.2(a) of the Plan shall not affect the liability of any Person due to fraud, willful misconduct, gross negligence or failure to fully comply with Rule 1.8(h)(1) of the New York Rules of Professional Conduct, as determined by a Final Order; (iii) nothing in this Section 12.2(a) of the Plan shall operate or be a release by any Professional Persons of any Professional Fee Claims; and (iv) nothing in this Section 12.2(a) of the Plan shall release, limit or affect the Debtor's and/or the Plan Administrators' obligations under the Plan. For the avoidance of doubt, the releases provided by this Section 12.2(a) shall not release, limit or affect in any manner any claims or Causes of Action against any Excluded Former Officer or Loeb & Troper.**

(3) Releases by Holders of Claims. **To the greatest extent permissible by law and except as otherwise provided in the Plan, as of the Effective Date, each holder of a Claim against or Interest in the Debtor shall be deemed to have conclusively, absolutely, unconditionally, irrevocably and forever released and discharged each of the Debtor and the Debtor Release Parties from any and all past, present and future legal actions, causes of action, choses in action, rights, demands, suits, claims, liabilities, encumbrances, lawsuits, adverse consequences, amounts paid in settlement, costs, fees, damages, debts, deficiencies, diminution in value, disbursements, expenses, losses and other obligations of any kind, character or nature whatsoever, whether in law, equity or otherwise (including, without limitation, those arising under 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 have heretofore accrued against the Debtor, the Committee, or their respective present directors, officers, trustees, agents, attorneys, accountants, advisors, members or employees (solely in their capacity as such) occurring from the beginning of time to and including the Effective Date, related in any way to, directly or indirectly, and/or arising out of and/or connected with, any or all of the Debtor and their Estate, or the Case; provided, however, that this Section 12.2(b) of the Plan shall not affect the liability of any Person due to fraud, willful misconduct or gross negligence as determined by a Final Order. Nothing in this Section 12.2(b) of the Plan shall be deemed to release or impair Allowed Claims against the Debtor, which Allowed Claims against the Debtor shall be treated as set forth in the Plan. For the avoidance of doubt, nothing in this Section 12.2(b) of the Plan shall release, limit or affect Causes of Action of the Debtor.

(4) **Releases Pursuant to Settlement Agreement. Upon the Effective Date, and subject to the approval of the Settlement Agreement, FEGS, on behalf of itself and the Debtor's estate, and on behalf of the Debtor's administrators, successors, assigns, insurers, parents, subsidiaries, affiliates, partners, officers, directors, employees, agents, attorneys and representatives, each in their capacities as such, including, without limitation, any liquidating trust, liquidating trustee, reorganized Debtor, receiver, chapter 7 trustee, chapter 11 trustee or plan administrator, and the Committee, on behalf of itself, its agents, attorneys and representatives, each in their capacities as such (collectively the "Debtor/Committee Parties"), shall be deemed to fully and forever release, discharge and acquit OPWDD, OMH, DASNY, NYCIDA, SCIDA, the Bond Trustee, and DOL(collectively, the "Non-Debtor Parties") , and each of their administrators, successors, assigns, insurers, parents, subsidiaries, affiliates, partners, officers, directors, employees, agents, attorneys, and representatives, each in their capacities as such from any and all manners of action, causes of action, judgments, executions, debts, demands, rights, damages, costs, expenses, claims, defenses and counterclaims of every kind, nature, and character whatsoever, whether at law or in equity, whether based on contract (including, without limitation, quasi-contract or estoppel), statute, regulation, tort or otherwise, accrued or unaccrued, known or unknown, matured or unmatured, liquidated or unliquidated, certain or contingent, that each of the Debtor/Committee Parties ever had or claimed to have or now have or claims to have against the Non-Debtor Parties in connection with, related to or otherwise concerning the Matters (as defined in the Settlement Agreement), provided however, nothing in this Section V(J)(6) shall be deemed to release the claims, rights, and causes of action of the Debtor/Committee Parties to enforce the terms of the Settlement Agreement.**

(5) **Exculpation. None of (i) Garfunkel Wild, P.C., in its capacities as counsel to the Debtor or counsel to the Plan Administrator; (ii) Crowe Horwath, LLP, in its capacities as accountants and financial advisor to the Debtor; (iii) Togut, Segal & Segal, LLP, in its capacity as co-bankruptcy and reorganization counsel to the Debtor; (iv) Seyfarth Shaw, LLP, in its capacity as special labor counsel to the Debtor; (v) the Debtor's trustees, in-house counsel, officers and directors (in their capacities as such); (vi) the Plan Administrator and its representatives (in their capacities as such); (vii) the Committee and the Post Effective Date Committee; (viii) the members of the Committee and the members of the Post Effective Date Committee, in their capacities as members of the Committee and**

as members of the Post Effective Date Committee; (ix) Pachulski , Stang, Ziehl, & Jones LLP, in its capacities as counsel to the Committee and as counsel to the Post Effective Date Committee; and (x) Alvarez and Marsal Healthcare Industry Group, LLC (including its and its affiliates' and wholly owned subsidiaries' respective agents, independent contractors and employees), in its capacity as financial advisor to the Committee and as financial advisor to the Post Effective Date Committee, shall have or incur any liability for any act or omission in connection with, related to, or arising out of, the Case, 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 (i) nothing contained in this Section 12.3 of the Plan shall 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 fraud, willful misconduct, gross negligence or failure to fully comply with Rule 1.8(h)(1) of the New York Rules of Professional Conduct; and in all respects, such Persons shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan and shall be fully protected from liability in acting or refraining to act in accordance with such advice; (ii) nothing in this Section 12.3 of the Plan shall release, limit or affect Avoidance Actions of the Debtor; and (iv) nothing in this Section 12.3 of the Plan shall release, limit or affect the Debtor's and/or the Plan Administrator's obligations under the Plan.

(6) **Cause of Action Injunction. On and after the Effective Date, all Persons other than the Plan Administrator and, to the extent applicable pursuant to Section 5.11 of the Plan, the Post Effective Date Committee, will be permanently enjoined from commencing or continuing in any manner any action or proceeding (whether directly, indirectly, derivatively or otherwise) on account of, or respecting any, Claim, debt, right or Cause of Action that the Plan Administrator retains authority to pursue in accordance with the Plan.**

K. Indemnification; Preservation of Insurance and Cause of Action Injunction.

(1) Indemnification: The Plan Administrator and the members of the Post Effective Date Committee shall be indemnified and receive reimbursement against and from all loss, liability, expense (including counsel fees) or damage which the Plan Administrator or the members of the Post Effective Date Committee may incur or sustain in the exercise and performance of any of their respective powers and duties under the Plan, to the full extent permitted by law, except if such loss, liability, expense or damage is finally determined by a court of competent jurisdiction to result solely from the Plan Administrator's or the Post Effective Date Committee member's fraud, willful misconduct, or gross negligence. The amounts necessary for such indemnification and reimbursement shall be paid by the Plan Administrator out of Cash held by the Plan Administrator under the Plan. The Plan Administrator shall not be personally liable for this indemnification obligation or the payment of any expense of administering the Plan or any other liability incurred in connection with the Plan, and no person shall look to the Plan Administrator personally for the payment of any such expense or liability. This indemnification shall survive the death, resignation or removal, as may

be applicable, of the Plan Administrator and/or the members of the Post Effective Date Committee, and shall inure to the benefit of the Plan Administrator's and the Post Effective Date Committee members' and their respective successors, heirs and assigns, as applicable.

(2) Preservation and Application of Insurance. The provisions of the Plan, including without limitation the release and injunction provisions contained in the Plan, shall not diminish or impair in any manner the enforceability and/or coverage of any insurance policies (and any agreements, documents, or instruments relating thereto) that may cover Claims against the Debtor, any directors, trustees or officers of the Debtor, or any other Person, other than as expressly as set forth herein.

VI. ACCEPTANCE AND CONFIRMATION OF THE PLAN

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

A. Acceptance of the Plan

The Bankruptcy Code defines acceptance of a plan by a class of Claims as acceptance by holders of at least two-thirds in dollar amount, and more than one-half in number, of the allowed Claims of that Class that have actually voted or are deemed to have voted to accept or reject a plan.

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

B. Confirmation

(1) Confirmation Hearing

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

Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of a plan. Any objection to Confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules and the Local Rules of the Court, must set forth the name of the objectant, the nature and amount of Claims held or asserted by the objectant against the Debtor' Estates or property, and the basis for the objection and the specific grounds in support thereof. Such objection must be filed with the Court, with a copy forwarded directly to the Chambers of the Honorable Robert E. Grossman, United States Bankruptcy Court, together with proof of service thereof, and served upon (a) counsel to the Debtor, Garfunkel Wild, P.C., 111

Great Neck Road, Great Neck, New York 11021 (Attn: Burton S. Weston and Adam T. Berkowitz); (b) counsel to the Committee, Pachulski Stang Ziehl & Jones, 780 Third Avenue, 34th Floor, New York, New York 10017-2024 (Attn: Robert J. Feinstein and Ilan D. Scharf); and (c) the Office of the United States Trustee, Alfonse D'Amato Federal Courthouse, 560 Federal Plaza, Central Islip, NY 11722 (Attn: Stanley Yang), so as to be received no later than the date and time designated in the notice of the Confirmation Hearing.

(2) Statutory Requirements for Confirmation of the Plan

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

(a) The Plan must comply with the applicable provisions of the Bankruptcy Code;

(b) The Debtor must have complied with the applicable provisions of the Bankruptcy Code;

(c) The Plan has been proposed in good faith and not by any means forbidden by law;

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

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

(f) Best Interests of Creditors Test. With respect to each Class of Impaired Claims, either each holder of a Claim of such Class has accepted the Plan, or will receive or retain under the Plan on account of such Claim, property of a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would receive or retain if the Debtor were liquidated on such date under Chapter 7 of the Bankruptcy Code. In a Chapter 7 liquidation, creditors and interest holders of a debtor are paid from available assets generally in the following order, with no lower class

receiving any payments until all amounts due to senior classes have either been paid in full or payment in full is provided for: (i) first to secured creditors (to the extent of the value of their collateral), (ii) next to administrative and priority creditors, (iii) next to unsecured creditors, (iv) next to debt expressly subordinated by its terms or by order of the Court and (v) last to holders of Interests. The starting point in determining whether the Plan meets the "best interests" test is a determination of the amount of proceeds that would be generated from the liquidation of the Debtor' remaining assets in the context of a Chapter 7 liquidation. Such value must then be reduced by the costs of such liquidation, including a Chapter 7 trustee's fees, and the fees and expenses of professionals retained by a Chapter 7 trustee. The potential Chapter 7 liquidation distribution in respect of each class must be further reduced by the costs imposed as a result of the delay that would be caused by conversion of the Case to a case under Chapter 7. For the reasons set forth above, the Debtor submit that under the Plan, all holders of Claims will receive the same or greater value to the recovery such holders would receive pursuant to a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

(g) Each class of Claims has either accepted the Plan or is not impaired under the Plan;

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

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

(3) Confirmation Without Acceptance by All Impaired Classes

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

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

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

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

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

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

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

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

IRS Circular 230 Notice: To ensure compliance with requirements imposed by the IRS in Circular 230, you are hereby informed that (i) any tax advice contained in this Disclosure Statement is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the IRC and (ii) the advice is written to support the promotion or marketing of the transactions or matters addressed in the Disclosure Statement.

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

The Debtor is exempt from U.S. federal income tax pursuant to § 501 of the IRC. Accordingly, the Debtor does not believe that the implementation of the Plan, including the extinguishment of the Debtor's outstanding indebtedness pursuant to the Plan, will result in any material tax liability to the Debtor.

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

(1) Gain or Loss Recognized. Except with respect to a Claim (or portion thereof) for accrued but unpaid interest (discussed below), for U.S. federal income tax purposes, each holder of an Allowed Class 3 Unsecured generally should recognize gain or loss as a result of receiving a Distribution pursuant to the Plan equal to the difference between (i) the amount of Cash received by such holder and (ii) the adjusted tax basis of such holder's Allowed Claim. The amount and timing of such gain or loss, as well as the character of any gain or loss as long-term or short-term capital gain or loss or ordinary income or loss will depend on a number of factors that should be addressed with your own tax advisor.

(2) Receipt of Interest. The Plan does not address the allocation of the aggregate consideration to be distributed to holders between principal and interest and the Debtors cannot make any representations as to how the IRS will address the allocation of consideration under the Plan. In general, to the extent that any amount of consideration received by a holder is treated as received in satisfaction of unpaid interest that accrued during such holder's holding period, such amount will be taxable to the holder as interest income (if not previously included in the holder's gross income and not otherwise exempt from U.S. federal income tax). Conversely, a holder may be allowed a bad debt deduction to the extent any accrued interest was previously included in its gross income but subsequently not paid in full. However, the IRS may take the position that any such loss must be characterized based on the character of the underlying obligation, such that the loss will be a capital loss if the underlying obligation is a capital asset. Again, you should address all potential tax implications with your own tax advisor.

C. Withholding and Reporting.

The Debtor and, after the Effective Date, the Plan Administrator will withhold all amounts required by law to be withheld from payments to holders of Allowed Claims. For example, under U.S. federal income tax law, interest, dividends and other reportable payments

may, under certain circumstances, be subject to backup withholding at the then applicable rate (currently 28%). Backup withholding generally applies only if the holder (i) fails to furnish its social security number or other taxpayer identification number ("TIN"); (ii) furnishes an incorrect TIN; (iii) fails properly to report interest or dividends; or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in overpayment of tax. Certain persons are exempt from backup withholding, including corporations and financial institutions.

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

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

VIII. RISK FACTORS

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

A. Certain Bankruptcy Related Considerations

(1) Risk of Non-Confirmation of the Plan

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

(2) Nonconsensual Confirmation

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

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

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

(4) Risk that One or More Sale Transactions Will Not Close

Article V of the Plan provides as part of the means of implementation that the Program Properties and the Housing Corporation Interests be sold in a series of private transactions to be approved by the Confirmation Order. While the Debtor anticipates closing on these transactions, there can be no assurances that all of the conditions precedent to each transaction will be satisfied. Moreover, there can be no assurances that one or more of the purchasers will not default on their obligations in connection with the proposed transactions.

(5) Claims Objection/Reconciliation Process Committee Prosecution and Success of Avoidance Actions

The Debtor' estimate of the potential recovery to holders of Class 4 Claims depends on, among other things, the outcome of the claims reconciliation and objection process as well as the results in prosecuting claims against certain former officers and the Debtor's former auditors and the Avoidance Actions. Therefore, the Debtor' estimates could change and such change could be material. Thus, there is no guarantee that the actual recovery to holders of Class 4 Claims will approximate the Debtor' estimates.

(6) Risk of Additional Information in Discovery

While every effort has been made to ensure that the disclosures contained herein are true and accurate, the Debtor cannot guarantee that additional information will not be obtained during the discovery in connection with the prosecution of Claims against certain Excluded Former Directors and Loeb and Troper. The impact of any newly discovered information on the disclosures contained herein cannot be determined at this time, which impact may or may not be material.

IX. RESERVATION OF CAUSES OF ACTION OF THE DEBTORS

(1) Except to the extent standing has previously been granted the Committee to pursue Causes of Action on behalf of the Debtor, in accordance with Section 1123(b)(3)(B) of the Bankruptcy Code, the Plan Administrator may pursue all reserved rights of action, including, without limitation, Causes of Action of the Debtor. Except as otherwise set forth in the Plan, all Causes of Action of the Debtor shall survive confirmation of the Plan. If the Plan Administrator does not prosecute a Cause of Action of the Debtor, the Post Effective Date Committee shall, upon the consent of the Plan Administrator, be authorized and have standing to prosecute such Cause of Action on behalf of the Debtor. If the Plan Administrator does not consent to the Post Effective Date Committee's prosecution of a Cause of Action of the Debtor, the Post Effective Date Committee may seek authority and standing from the Court to prosecute such Cause of Action, and all rights of the Plan Administrator to object or otherwise oppose such relief are reserved.

For the avoidance of doubt, the Plan Administrator may authorize the Post Effective Date Committee to commence and prosecute any Causes of Action of the Debtor and, if so authorized by the Plan Administrator, the Post Effective Date Committee shall have standing to commence and prosecute such Causes of Action.

X. ALTERNATIVES TO THE PLAN AND CONSEQUENCES OF REJECTION

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

A. Alternative Plans

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

B. Chapter 7 Liquidation

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

XI. RECOMMENDATION AND CONCLUSION

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

[SIGNATURE PAGE FOLLOWS]

Date: October 6, 2017
New York, New York

FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC. D/B/A/ FEGS

Debtor and Debtor-In-Possession

By: _/s/ Judith Pincus______________
Judith Pincus
Wind Down Officer

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