

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

In re:) Chapter 11
)
) Case No. 16-18931-MDC
NORTH PHILADELPHIA HEALTH SYSTEM,)
)
Debtor.)

DISCLOSURE STATEMENT RELATING TO DEBTOR'S CHAPTER 11 PLAN

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Dated: September 27, 2017

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

I. INTRODUCTION

North Philadelphia Health System (the “Debtor”), submits this Disclosure Statement (the “Disclosure Statement”) pursuant to Section 1125 of the Bankruptcy Code to the holders of Claims and Equity Interests in connection with (i) the solicitation of acceptances of the Debtor’s Chapter 11 Plan dated September 27, 2017 (as the same may be modified and/or amended, the “Plan”), and (ii) the hearing to consider confirmation of the Plan to be held on _____, 2017 at ____:____ .m., prevailing Eastern Time.

On December 30, 2016 (the “Petition Date”), the Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Debtor continues to operate its business and manage its property as a Debtor-in-Possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. The Debtor’s bankruptcy case is currently assigned to the Honorable Magdeline D. Coleman.

On September 27, 2017, the Debtor filed the Plan, which will be the vehicle for the resolution of this Chapter 11 Case. The Debtor is in the process of winding down its business following the Court approval of the sale of substantially all of its assets. Thus, the Plan will govern the distribution of sale proceeds and available funds to creditors and interestholders.

As required by Section 1125 of the Bankruptcy Code, the Debtor prepared and filed this Disclosure Statement for Bankruptcy Court approval before circulating the Plan to holders of Claims and Interests for solicitation of acceptances of the Plan.

Capitalized terms used and not defined in this Disclosure Statement shall have the meanings ascribed to such terms in the Plan. Most of the capitalized terms will appear alphabetically in Article I of the Plan entitled “Definitions.”

A. What is Chapter 11?

Chapter 11 of the Bankruptcy Code is the principal vehicle for reorganizing business entities under federal bankruptcy laws, or, in some cases, liquidating the assets of business entities in an orderly fashion, for the benefit of a debtor and its creditors and equity interest holders. The filing of a petition for reorganization under Chapter 11 generally provides, under Section 362 of the Bankruptcy Code, for an automatic stay of attempts to collect Claims or enforce Liens that arose before the commencement of a debtor’s Chapter 11 case and certain actions that otherwise would interfere with the debtor’s property or business. 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 date the bankruptcy petition was filed. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a Debtor-in-Possession or, in certain instances, the Bankruptcy Court may appoint a Debtor to oversee the debtor’s operations and eventually the liquidation of the debtor’s property.

B. What is a Plan?

The principal purpose of a Chapter 11 case is to facilitate the formulation of a plan of reorganization or liquidation, which provides for the restructuring of a debtor's liabilities and the treatment of claims. In this case, the Plan provides for the winding up of the Debtor's business once the sale of the business is achieved.

C. What is a Disclosure Statement?

After a plan has been proposed, the holders of claims against and equity interests in a debtor whose claims and/or equity interests are impaired by the terms of the plan are entitled to vote on whether to accept or reject the plan. The Bankruptcy Code requires disclosure of "adequate information" to all such voting creditors and equity interest holders by way of a disclosure statement before the plan proponent may solicit votes on the plan. The Bankruptcy Code provides in Section 1125(a)(1) that a disclosure statement containing adequate information must contain "information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the debtor and the condition of the debtor's books and records, that would enable a hypothetical reasonable investor typical of holders of claims or interests of the relevant class to make an informed judgment about the plan."

D. The Purpose of this Disclosure Statement

The purpose of this Disclosure Statement is to provide the voting holders of Claims with important, necessary and material information regarding the Debtor and the Plan to enable them to make an informed judgment on the merits of accepting or rejecting the Plan. The Debtor will also make this Disclosure Statement available to, among others, known holders of Administrative Expense Claims and Priority Claims to provide them with additional information to evaluate the Plan. The information in this Disclosure Statement includes, among other matters, general background information, an overview of the Debtor's bankruptcy case and an explanation of how the Plan will function. Accompanying this Disclosure Statement is a copy of (i) the Plan; (ii) a notice fixing the time for the transmission of Ballots accepting or rejecting the Plan; (iii) the date and time of the hearing to consider confirmation of the Plan and related matters and the time for filing objections to the Plan; and (iv) where the recipient is entitled to vote on the plan, a Ballot for accepting or rejecting the Plan.

E. Notice to Holders of Claims and Interests

The information described in this Disclosure Statement is based upon financial and other information supplied by the Debtor and its officers, directors, employees, agents and representatives to the Debtor and its advisors, as well as the independent due diligence of the Debtor and its advisors. Except where specifically noted, the information in this Disclosure Statement has not been subject to an audit or independent review and has not been prepared in accordance with generally accepted accounting principles. Certain of the information is by its nature forward-looking and contains estimates and assumptions that may be materially different from actual, future results. The statements contained in this Disclosure Statement are made as of the date hereof unless otherwise specified, and the delivery of this Disclosure Statement shall not

imply that the information contained herein has not changed since the date the Disclosure Statement was prepared.

This Disclosure Statement does not purport to be a complete description of the Plan, the financial data pertaining to the Debtor, the applicable provisions of the Bankruptcy Code, or other matters that may be deemed significant by the holders of Claims. If any inconsistency exists between the Plan and the Disclosure Statement, the terms of the Plan are controlling. This Disclosure Statement is an attempt by the Debtor to set forth in reasonable detail information sufficient to enable holders of Claims to make an informed judgment regarding the Plan. All holders of Claims with questions regarding this Disclosure Statement or any other materials included with the Disclosure Statement may address written inquiries to the Debtor, in care of his counsel. However, neither information or representation concerning the Debtor or the Plan other than as set forth in this Disclosure Statement is authorized by the Debtor, nor should it be relied upon in reaching a decision whether to vote in favor of the Plan.

IMPORTANT: THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ THIS DOCUMENT WITH CARE. NO PERSON, INCLUDING, WITHOUT LIMITATION, ANY HOLDER OF A CLAIM, SHOULD CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT AS LEGAL, TAX OR INVESTMENT ADVICE, AND THE DEBTOR DISCLAIMS RESPONSIBILITY FOR ANY SUCH ADVICE. CONSEQUENTLY, EACH PERSON IS STRONGLY URGED TO CONSULT HIS OR HER OWN LEGAL COUNSEL, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISORS AS TO ANY LEGAL, TAX, INVESTMENT AND/OR RELATED MATTERS OR CONSEQUENCES ARISING FROM OR ANCILLARY TO THE PLAN OR ANY OF ITS PROVISIONS OR ANY ACTIONS TO BE TAKEN IN FURTHERANCE THEREOF, INCLUDING, WITHOUT LIMITATION, WHETHER TO VOTE IN FAVOR OF THE PLAN.

SUMMARIES OF ANY PROVISIONS OF AGREEMENTS REFERRED TO IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FULL TEXT AND TO ALL OF THE PROVISIONS OF THE APPLICABLE AGREEMENT.

THE DEBTOR BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTOR AND HOLDERS OF CLAIMS AND INTERESTS.

Nothing contained in this Disclosure Statement shall constitute an admission of any fact or liability by the Debtor, or be admissible in any proceeding involving the Debtor and/or any other Person or Entity.

II. ACCEPTANCE OF THE PLAN

A. Voting Procedures

By Order dated _____, 2017, the Bankruptcy Court approved this Disclosure Statement as containing adequate information for holders of Claims and Interests in accordance with section 1125(b) of the Bankruptcy Code. However, the Bankruptcy Court has not considered the fairness or the merits of the Plan and approval of this Disclosure Statement should not be construed as a guaranty of the accuracy or completeness of the information contained herein or as an endorsement of the Plan by the Bankruptcy Court.

The Plan divides the holders of Claims and Interests into four (4) Classes. Only Classes of Claims and Interests impaired under the Plan are entitled to vote. Holders of Claims in Classes whose rights are unaltered by the Plan are not eligible to vote to accept or reject the Plan. The impaired Classes entitled to vote under the Plan are Classes 1, 2, 3, and 4.

In determining whether to accept or reject the Plan, votes will only be counted if submitted by holders of Claims or Interests (a) that have been duly scheduled as undisputed, non-contingent and liquidated, or (b) as to which a proof of claim has been filed and which has not been disallowed or the subject of an unresolved objection before the Confirmation Hearing. If you are in any way uncertain as to whether your Claim or Interest has been correctly scheduled, you should refer to the Debtor's Schedules that are on file with the Bankruptcy Court.

The Bankruptcy Court has fixed _____, 2017 at 5:00 p.m., prevailing Eastern Time, as the date by which holders of Claims and Interests entitled to vote may vote to accept or reject the Plan (the "Voting Deadline"). In order for a vote to count, your Ballot must be properly completed and received at the following address by the Voting Deadline:

Dilworth Paxson LLP
1500 Market Street - Suite 3500E
Philadelphia, PA 19102
Attn: Christine Chapman

Ballots may not be transmitted orally or by facsimile. If more than one timely, properly completed Ballot is received with respect to the same Claim or Interest allowed to vote, only the Ballot bearing the latest date will be counted for purposes of determining whether the relevant requirements for voting on the Plan have been satisfied. If two or more conflicting Ballots with respect to the same Claim or Interest are properly completed and received timely and bear the same date, none of such Ballots will be counted for purposes of determining whether the relevant requirements for voting on the Plan have been satisfied. Any Ballot not executed by the holder of an Allowed Claim or Allowed Interest or not indicating an acceptance or rejection of the Plan will be considered null and void and will not be counted. The Debtor reserves the right to reject any Ballot not in proper form, the acceptance of which would, in his and his counsel's

opinion, be unlawful. The Debtor further reserves the right to waive any defects or irregularities as to a particular Ballot.

If a Ballot is signed by an officer of a corporation or other person acting in a fiduciary or representative capacity, such person should indicate such capacity when signing and, if requested by the Debtor, must submit proper evidence satisfactory to the Debtor of such person's authority to so act.

If you have any questions regarding the procedure for voting, or if you did not receive a Ballot and believe you are entitled to vote to accept or reject the Plan, received a damaged Ballot or lost your Ballot, please call or write to the following:

Dilworth Paxson LLP
Suite 3500E
1500 Market Street
Philadelphia, PA 19102
Attn: Christine Chapman
Phone: 215-575-7000

It is important for each holder of a Claim or Interest entitled to vote on the Plan to cast a ballot. In order for the Plan to be deemed accepted by any Class of Claim holders or Interest holders without having to utilize the "cramdown" provisions of the Bankruptcy Code, the Plan must receive the assent of Claim holders or Interest holders who hold at least two-thirds (2/3) in dollar amount and who comprise more than one-half (1/2) of the holders of Claims or Interests in each Class that is entitled to vote on the Plan. If the "cramdown" provisions are necessary to confirm the Plan because there is at least one impaired class that does not vote to accept the Plan, there must be at least one impaired Class, as that term is used in section 1124 of the Bankruptcy Code (determined without including any acceptances of the Plan by any Insider), that has accepted the Plan in accordance with the above voting percentages.

If the requisite acceptances are received, and the Plan otherwise complies with the provisions of the Bankruptcy Code, it will subsequently be confirmed by the Bankruptcy Court. Once the Effective Date occurs, all holders of Claims and Interests will be bound by the Plan and the transactions contemplated thereby.

B. Confirmation Hearing and Deadline for Objections to Confirmation

Pursuant to Section 1128 of the Bankruptcy Code and Rule 3017(c) of the Federal Rules of Bankruptcy Procedure, the Bankruptcy Court has scheduled the Confirmation Hearing for _____, 2017 at ____:____ .m., prevailing Eastern Time, before the Honorable Magdeline D. Coleman, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Eastern District of Pennsylvania, 900 Market Street, Philadelphia, Pennsylvania. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed with the Clerk of the

Bankruptcy Court and served so that they are RECEIVED on or before _____, 2017 at 5:00 p.m., prevailing Eastern Time, by:

Dilworth Paxson LLP
Suite 3500E
1500 Market Street
Philadelphia, PA 19102
Attn: Martin J. Weis, Esquire
Telephone: 215-575-7000
Facsimile: 215-575-7200

with a copy to: Obermayer Rebmann Maxwell & Hippell LLP
Centre Square West
1500 Market Street – Suite 3400
Philadelphia, PA 19102
Attn: Edmond M. George, Esquire
Phone: 215-665-3400

Unless an objection is timely filed and served as provided herein, such objection may not be considered by the Bankruptcy Court at the Confirmation Hearing.

III. PLAN

A. General Overview

The Plan provides for the method of distribution of the proceeds of the sale of the Debtor's business, real property, and other assets. The Plan contemplates the formation of a liquidating trust, into which the remaining assets, consisting primarily of claims and causes of action, will be contributed. A liquidating trustee will be appointed who will have the responsibilities which include objecting to and reconciling claims; making distributions; and pursuing causes of actions.

B. Classification of Claims

Claims are classified under the Plan as follows;

Class 1 consists of allowed Secured Claims.

Class 2 consists of allowed unsecured Priority Claims.

Class 3 consists of allowed General Unsecured Claims.

Class 4 consists of Electing Malpractice Claims.

In addition to the foregoing classified claims, there is a category of claims which is not permitted under the Bankruptcy Code to be classified because such claims cannot be dealt with based on a vote. These are “administrative claims”, which are claims that arise after the filing of the Chapter 11 case. It should be noted that, because NPHS is a non-profit, non-stock, non-member corporation, there are no equity interests for voting purposes.

C. Asset Sale Process

During the course of the bankruptcy case, NPHS has engaged in a series of asset sales designed to reduce its outstanding indebtedness. This process began before the bankruptcy case, in or about 2015 and continuing into mid-2016 when NPHS began selling various parcels of real estate in the vicinity of the St. Joseph’s Hospital (“SJH”) property located at 1600-50 W. Girard Avenue (“the SJH Property”).

Since the announcement in December 2015 of the planned closure of SJH in early 2016, NPHS received inquiries and expressions of interest, largely from developers which were conducting major projects near SJH, regarding the purchase of the SJH Property.

In 2016, NPHS entered into an agreement of sale for the SJH Property with 1600-50 W. Girard CRCP LLC (“CRCP”), an affiliate of one of the developers to whom it had previously sold other real estate parcels, Christopher Rahn. The parties were unable to close the transaction on multiple occasions.

During the course of the bankruptcy proceeding, NPHS received four (4) additional expressions of interest regarding the SJH Property. By Order dated March 22, 2017, NPHS received Court approval to sell the SJH Property to MMP Hospital Partners, LLP for the purchase price of \$8,117,000. The sale to MMP Hospital Partners closed on April 6, 2017 and the net sale proceeds, coupled with certain other funds from pre-petition property sales, held in escrow by Hunt Mortgage, were transferred to the Bank of New York Mellon (“BNYM”) and utilized to retire approximately \$8.9 million of NPHS’s bond indebtedness.

On or about April 3, 2017, the Debtor engaged the services of SSG Advisors, LLC (“SSG”) as its investment banker. In that capacity, SSG assisted the Debtor in exploring its strategic alternatives and working on a bankruptcy exit strategy. Included in the possible exit strategies were new financing, a strategic buyer to take over the programs, and a real estate sale. Commencing in April, 2017, SSG engaged in discussions and due diligence processes with multiple interested parties.

Shortly after the engagement of SSG, the Debtor determined, in consultation with its advisors, that maximizing the value of the Debtor’s estate would be best accomplished through a sale, free and clear of liens, claims, encumbrances or other interests, of substantially all of its assets. Accordingly, on or about June 27, 2017, NPHS entered into an Asset Purchase Agreement (“APA”) pursuant to which Meridian Behavioral Health System (“Meridian”) would acquire substantially all of the assets of NPHS. The sale transactions contemplated by the APA were subject to competitive bidding on the terms set forth in the bidding procedures approved by the Bankruptcy Court on July 13, 2017 (the “Bid Procedures Order”). In the Bid Procedures

Order, the Court also approved Meridian as the stalking horse bidder as well as certain bid protections in favor of Meridian.

The Bid Procedures Order contemplated the offering of the NPHS assets for sale in three (3) groups. The first group of assets, which were the subject of the Meridian bid and consisted largely of an above ground parking lot located at 1300-42 N. 8th Street, Philadelphia, PA and the Debtor's operating assets, including its real estate and buildings located at 801 W. Girard Avenue.

The second group of assets consisted of certain improved land, referred to generally as the Debtor's Lower Parking Lot for staff, patients and visitors. This group consisted of four (4) parcels of land, 1301-25 N. 8th Street; 1329 N. 8th Street; 1328 N. Perth Street; and 1330 N. Perth Street. At the time of the proposed auction, the Debtor had title to the parcels located at 1301-25 N. 8th Street and 1330 N. Perth Street. The Debtor was in the process, through quiet title actions then pending in the Court of Common Pleas of Philadelphia County, of perfecting its title to 1327 N. 8th and 1328 N. Perth Streets.

The third group of assets consisted of all assets of the Debtor in groups 1 and 2.

On August 11, 2017, the auction sale of substantially all of the Debtor's assets was conducted at the offices of Debtor's counsel. At the auction, NPHS was presented with three (3) qualified bids for the group 1 assets, from Meridian, IS3 W. Girard LLC ("IS3"); and the Rosenberg Family. NPHS was also presented with one qualified bid for the group 2 assets by Project HOME, a Pennsylvania non-profit corporation, and certain of its affiliates ("Project HOME").

At the conclusion of the auction, NPHS, in consultation with its official committee of unsecured creditors ("the Committee"), determined that the highest and best bid for the group 1 assets was presented by IS3, which bid contemplated a cash sales price of \$8,500,000. In determining that the IS3 offer was the best under the circumstances, NPHS and the Committee considered, among other things, that, if the IS3 transaction closes, the City of Philadelphia and Commonwealth of Pennsylvania would waive certain claims against the estate, including secured water and sewer liens of approximately \$600,000 and a Pennsylvania Unemployment Compensation judgment of approximately \$1,554,000. Also considered was the agreement by Community Behavioral Health ("CBH") to waive its prepetition claim of approximately \$3,800,000 and fund NPHS's operating shortfalls from September 1, 2017 through closing of the transaction on or before October 31, 2017.

The Debtor, in consultation with the Committee, also determined that the Project HOME offer of \$1,750,000 for the group 2 assets was the best bid under the circumstances. That offer contemplated payment to the estate of \$1,475,000 at the closing of the 1301-25 N. 8th Street parcel which was to be subdivided at the closing into two parcels, the 1301 and 1315 N. 8th Street and 1330 N. Perth Street. In addition, \$275,000 (\$137,500 per lot) is to be paid upon closing of the 1329 N. 8th and 1328 N. Perth Street properties once NPHS quiets titles to one or both of those lots.

By Order entered August 25, 2017, the Court authorized NPHS to enter into and close each of the transactions. On September 12, 2017, the sale of 1301 and 1315 N. 8th Street and 1330 N. Perth Street to Project HOME closed. The net proceeds of that sale, approximately \$1,300,000, is being held by BNYM in an interest bearing debt service reserve account.

As discussed in this Disclosure Statement, the Plan provides the mechanism for the distribution of the proceeds of sales which were not otherwise distributed at closings and other funds.

IV. INFORMATION REGARDING THE DEBTOR AND THE DEBTOR'S CHAPTER 11 CASE

A. General Information

The Debtor is a Pennsylvania non-profit, non-stock, non-member corporation. The Debtor's mission is to provide quality healthcare through prevention, education, and treatment in the hospital and community, including services and special programs for persons with behavioral medical disorders and/or extended acute behavioral medical conditions. It seeks to provide care with integrity, sensitivity and consistency to the under-served communities of Philadelphia.

The Past

In January of 1990, NPHS was incorporated as a Pennsylvania non-profit corporation, with an IRS 501(c) (3) status, to operate the Girard Medical Center and the St. Joseph's Hospital, collectively. The two hospitals established in the 1800's were rooted in the provision of care to immigrants, the poor and the underserved. The Girard Medical Center began its life as the Philadelphia Children's Homeopathic Hospital established in 1896, and later moved to 8th and Franklin where it was renamed St. Luke's and Children's Medical Center. St. Luke's was one of the first treatment facilities for alcoholism in the 1930's and, in 1947, the Saul Clinic was created to provide medical and sub-acute treatment for alcoholism. The Helen L. Goldman drug rehabilitation program was established in 1904 and, in 1970, the clinic now known as the Goldman Clinic, began offering methadone treatment.

Girard Medical Center has always been at the forefront of innovation in the provision of treatment services for individuals with substance use and mental health challenges and a willing partner to the City of Philadelphia in serving City residents. In the early 1990's, Girard Medical Center opened one of two Residential Intensive Non-hospital Treatment (RINT) programs to serve individuals discharged from the closing Philadelphia State Hospital. Later the hospital partnered with the City of Philadelphia to address the number of individuals imprisoned who were in need of Substance Use Disorder treatment; and to develop a variety of Forensic Intensive Recovery (FIR) programs which allowed men and women to be released from the prison directly into care. In 2007, Girard Medical Center again responded to the request from the City of Philadelphia to open specialized residential treatment programs for chronically homeless men in Philadelphia and, along with five other programs, these programs have helped to significantly reduce homelessness in men as well as address the chronicity of untreated behavioral health

issues with the City's homeless population. The role of Girard Medical Center in the health and wellness of the citizens of Philadelphia has been and continues to be critical, particularly given the location of the hospital and easy access to much needed services for the surrounding communities.

St. Joseph's Hospital was established in 1848 by the Philadelphia Catholic Archdiocese to provide care to immigrants in the North Philadelphia area. It operated as an acute hospital providing medical and surgical services until March 31, 2016 when, after 186 years of serving the poor in North Philadelphia, the hospital closed its doors.

The behavioral services of the closed St. Joseph's Hospital were all were relocated to the 801 W. Girard campus of NPHS. Girard Medical Center was thereafter, in March, 2016, licensed as a Free Standing Psychiatric hospital and continued to provide much needed behavioral health services to the residents of Philadelphia. The hospital provided a full continuum of psychiatric and substance use disorder programs serving residents from more than twenty-five zip codes throughout Philadelphia. GMC specialized in the treatment of dually diagnosed individuals experiencing an exacerbation of psychiatric symptoms and substance use challenges. The programs at GMC offered comprehensive treatment to adults and services were available to all persons 18 and older who meet admission criteria, regardless of gender, ethnic or cultural origin, race, sexual orientation, or religious belief, and regardless of source of payment. The hospital provided a full range of inpatient, outpatient, hospital, non-hospital based residential and medication assisted treatment programs.

The Present

Currently, the Debtor operates the Girard Medical Center, a state-licensed 65 person private psychiatric hospital, and the Goldman Clinic, a medically assisted treatment center, both located at 801 West Girard Avenue ("GMC"). Services offered at the GMC hospital and clinic programs include: hospital-level psychiatric services; residential-level mental health services; outpatient drug and alcohol services; and outpatient mental health services. On a given day, the Debtor will typically provide services to more than 1,000 patients, including approximately 200 on an in-patient, residential basis.

The Debtor employs approximately 575 employees, 70% of whom are members of one of four unions. The Debtor's employee base is drawn largely from the communities which it serves.

B. The Chapter 11 Case

Financially strained due to, among other things, the closure of St. Joseph's Hospital and the residuary liabilities associated with that operation and the declining reimbursement rate for its Medicaid patients (despite corresponding increased costs for the underlying services), NPHS filed for relief pursuant to Chapter 11 of the Bankruptcy Code on December 30, 2016 ("the Petition Date").

According to the Debtor's schedules, at the Petition Date, the Debtor had approximately \$17 million in secured debt and \$29 million in unsecured indebtedness. Included in the secured

debt were claims totaling approximately \$13 million in favor of BNYM; Hunt Mortgage; and HUD (collectively the “HUD Group”) associated with bond indebtedness issued in 1997. There was also approximately \$1 million due to Gemino Healthcare Finance LLC (“Gemino”), the Debtor’s receivable finance lender, and approximately \$1.55 million due to the Commonwealth of Pennsylvania on account of unemployment claims arising out of the closure of SJH by the Commonwealth.

As set forth above, since the filing of the bankruptcy case, the Debtor sold the SJH Property and transferred approximately \$9 million to the HUD Group in satisfaction of the bulk of the outstanding bond indebtedness. NPHS estimates that, after application of all funds escrowed with the HUD Group (with the exception of the escrow established on account of insurance obligations), approximately \$700,000 in principal and interest remained due on the bonds on July 1, 2017. The HUD Group estimated that, as of July 1, 2017, it was also due approximately \$1.3 million in legal fees and other charges.

The Debtor continues to operate its business and manage its property as a debtor-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

1. First-Day Orders

Immediately after the Petition Date, the Debtor obtained a series of orders from the Bankruptcy Court designed to minimize any disruption to its business operations. The Bankruptcy Court entered orders authorizing the Debtor to, among other things, (i) use cash collateral, (ii) pay pre-petition payroll and employee expenses, (iii) use the Debtor’s existing books and records and certain bank accounts, and (iv) maintain utility services.

2. The Debtor’s Professionals

The Debtor sought and obtained Bankruptcy Court approval to retain the following professionals to assist it in connection with the Chapter 11 process:

- Dilworth Paxson LLP, as bankruptcy counsel; and
- SSG Capital Advisors, LLC, as investment bankers.

3. The Patient Care Ombudsman

On January 11, 2017, the Court entered a Consent Order Directing the Appointment of a Patient Care Ombudsman Pursuant to 11 U.S.C. § 333 and, on January 13, 2017, the Office of the United States Trustee (the “US Trustee”) appointed David N. Crapo to serve as the Patient Care Ombudsman in the Debtor’s bankruptcy case.

4. The Committee

On January 23, 2017, the US Trustee appointed representatives of the following creditors to the Committee: Atlantic Diagnostic Laboratories, LLC; Independence Blue Cross, LLC; PECO Energy Company; and Keystone Quality Transport Co. The Committee engaged Edmond C. George, Esquire, of Obermeyer Rebmann Maxwell & Hippel LLP as its counsel.

The Debtor, Ombudsman, and Committee professionals have filed interim and will file final applications seeking compensation and reimbursement of expenses.

5. Debtor-in-Possession Financing

By Order dated May 2, 2017, the Court authorized NPHS to enter into debtor in possession financing with its pre-petition lender, Gemino. Pursuant to the DIP Financing Order, NPHS is permitted, subject to compliance with its financing agreement and the covenant and formulas contained therein, to borrow up to \$2,500,000 on a post-petition basis. At the present time, the borrowing is capped at approximately \$2,000,000.

6. Claims Bar Date for Pre-Petition and Rejection Damages Claims

The Bankruptcy Court entered an order establishing the general deadline for filing proofs of claim against the Debtor. The deadline established by the Bankruptcy Court was May 1, 2017, for all Claims and Interests other than Administrative Expense Claims and Claims of governmental entities, for which the deadline was June 28, 2017. Notice of this bar date was mailed to all known holders of Claims against and Interests in the Debtor and parties in interest on or about March 2, 2017.

In addition, claims arising out of the rejection of executory contracts or unexpired leases, pursuant to the provisions of the Plan, must be filed no later than thirty (30) days after (i) the Confirmation Date or (ii) such other date as may be fixed by order of the Bankruptcy Court. Pursuant to the terms of the Plan, on the Confirmation Date, except for any executory contracts or unexpired leases that were previously assumed or rejected by an Order of the Bankruptcy Court, as to which a motion for approval of assumption or rejection of the contract or lease was filed and served prior to the confirmation date, or certain new contracts enumerated in Article VII A of the Plan, the Confirmation Order shall constitute an Order rejecting all such contracts.

The aggregate amount of proofs of unsecured claim filed against the Debtor is \$58,135,808.46.

7. Sales of Assets.

As set forth in III C above, NPHS has pursued the sales of substantially all of its assets. If the IS3 sale closes as anticipated on or about October 31, 2017, it is anticipated that the Debtor's non-cash assets will consist largely of its interests in 1329 N. 8th Street (if title is not quieted by that date); accounts receivable; and causes of action.

C. The Debtor's Financial Information

The Debtor filed its Schedules of Assets and Liabilities and Statement of Financial Affairs with the Bankruptcy Court on February 13, 2017. The Debtor also has filed monthly operating reports in accordance with applicable requirements. These documents may be examined during normal business hours in the Office of the Clerk of the Bankruptcy Court or reviewed online by parties with access to the Court's "PACER" website.

V. THE PLAN

The following is a summary of the Plan, and is qualified in its entirety by the full text of the Plan, a copy of which accompanies this Disclosure Statement. The Plan, if confirmed by the Bankruptcy Court, will be binding upon the Debtor, holders of Claims against and Interests in the Debtor, and other parties in interest. All holders of Claims and Interests and other parties in interest are urged to read the Plan carefully.

A. Treatment and Classification of Claims

The Plan provides for four Classes of Claims and also provides for the payment of non-classified administrative expense Claims (the holders of which do not vote). The Classes and distributions, if any, to be made to each Class (and non-classified Claims) under the Plan are described below.

1. Administrative Expense Claims.

The Plan provides that, except to the extent that any Entity entitled to payment of an Administrative Expense Claim has been paid before the Effective Date or agrees to a less favorable treatment, each holder of an Administrative Expense Claim will receive Cash in an amount equal to the Allowed Administrative Expense Claim on the later of the Allowance Date or the Effective Date (or as soon thereafter as is practicable); provided, however, that Allowed Administrative Expense Claims representing liabilities incurred in the ordinary course of business by the Debtor will be paid in full by the Debtor or the Plan Administrator, as the case may be, in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions.

Professional fees have been requested and, in some instances allowed, by the Bankruptcy Court. A summary of the outstanding fee requests is as follows:

NPBS FEE APPLICATIONS

Amount
Fee/Expenses

PCO	\$107,028/1,046.02
First Gibbons PLC	\$23,715.50/305.70
First DP	\$438,194.00 /4,407.82
First Obermayer*	\$106,540.00/ 11,022.44
Second DP*	\$358,615.00/ 26,963.11
Second Gibbons*	\$9,813.50/21.08

Second PCO*	\$62,599.50 /1,042.08
SSG Capital	\$400,000

* Application Pending

To the extent professional fees are allowed, NPHS anticipates paying them at or about the time of the closing of the IS3 Sale.

The Debtor estimates that Administrative Expense Claims incurred through a projected Effective Date of December 20, 2017, may total approximately \$2,100,000, inclusive of the amounts set forth above. This is purely an estimate and the actual aggregate amount may be higher or lower.

2. Class 1 – Secured Claims

It is anticipated that the unobjected portion of secured claims will be paid at the closing of the IS3 sale. These will include the agreed upon amounts due to Gemino and the HUD Group.

There are additional parties asserting secured claims to which NPHS anticipates objecting. Specifically, the Philadelphia Hospital & Health Care Employees – District 1199(c) Training and Upgrading Fund is asserting a judgment lien in the approximate amount of \$300,000. As the judgment was entered within the 90 day preference period, NPHS believes that the secured status of that claim is inappropriate.

In addition, NPHS is contesting the amount of claims and the amount of expenses, including legal fees and other charges, being asserted by the HUD Group against the estate. The approximate amount asserted due by those entities is in excess of \$1,300,000. With the exception of Gemino and BNYM, the Debtor does not believe that any secured claims against the estate exist.

As set forth in Section IIIC above, the claims of the City of Philadelphia and CBH and the secured claim of the Commonwealth of Pennsylvania will be deemed satisfied by the closing of the IS3 sale.

Parties holding disputed secured claims are impaired under the Plan. It is the Debtor's intention to escrow 110% of the amount of the contested portion of secured claim pending resolution of the objection.

3. Class 2 – Priority Claims

Class 2 consists of Priority Claims against NPHS. These include priority tax claims, if any, and certain prepetition claims of employees for unpaid wages, salaries or commissions, including vacations, severance and sick leave pay earned by an individual within 180 days of the Petition Date. Allowed priority claims under the Plan shall receive payment in full on the Effective Date without interest.

Priority Claims are impaired and entitled to vote.

NPHS estimates the amount of these claims to be \$600,000. It should be noted that Independence Blue Cross, LLC filed a priority claim in the amount of \$10,445,848.98. NPHS is investigating the extent, validity and priority of this claim and cautions that, if allowed in full as a priority claim, there will likely be no recovery for Class 3 Claimants.

4. Class 3 - General Unsecured Claims

Class 3 consists of General Unsecured Claims. General unsecured claims are impaired and entitled to vote on the Plan. Under the Plan, allowed unsecured claims will receive the holder's pro rata share of the creditor fund available for distribution to unsecured creditors.

The creditor fund is anticipated to be comprised largely of excess cash turned over to the liquidating trustee on the effective date of the Plan, less payment of administrative and other higher priority claims plus additional cash raised or obtained by the liquidating trustee from the liquidation of assets and pursuit of causes of action.

5. Class 4 – Electing Malpractice Claims

Class 4 consists of unsecured claims held by unsecured Malpractice Claims against the former St. Joseph's Hospital of NPHS who properly elect to be included in Class 4.

The holders of allowed Class 4 claims will receive their pro rata interest in Debtor's self-insurance fund and will retain any rights that they have against other applicable and available insurance such as Mcare. Each Class 4 Claimant, by so electing this treatment, will be waiving its ability to participate as a Class 3 Claimant in the creditor fund.

If a Malpractice Claimant does not elect treatment into Class 4, it will limit its recovery to the creditor fund available to Class 3 Claimants.

The insurance fund contains approximately \$600,000. The liquating trustee will have the ability to negotiate resolution of Class 4 claims in exchange for the prompt payment of \$25,000 from the insurance fund. The Plan also provides that the liquating trustee may utilize the funds contained in the insurance fund to defend against the malpractice claims, thereby depleting the amounts available in the fund.

B. Summary of Other Provisions

The Plan also contains various other provisions, including those pertaining to the following:

1. Liquidating Trust.

Prior to the Effective Date, NPHS shall to continue to wind down its business subject to all applicable requirements to the Bankruptcy Code and the Bankruptcy Rules. During this time, it is anticipated that either or both George J. Walmsley III and/or Margaret A. Boemmel will

remain employed by the Debtor for the purposes of facilitating the realization, collection and liquidation of remaining assets in insuring distributions and payments as set forth in the Plan pending the Effective Date.

On the Effective Date, or as soon as practical thereafter, the Debtor will form a liquidating trust and, pursuant to the Plan, transfer certain post-confirmation responsibilities including the liquidation of the remaining assets, pursuit, collection and litigation of claims, causes of action, and reconciliation and payments of claims. The Liquidating Trust shall be established as a Delaware common law trust which shall also be a grantor trust. The Liquidating Trust agreement will contain provisions customary to trust agreements under comparable circumstances.

On the Effective Date, or as soon as practical thereafter, the Debtor will transfer to the Liquidating Trust all cash on hand to make payments required on allowed claims pursuant to the Plan and Liquidating Trust Agreement.

The Debtor, after consultation with the Committee, shall appoint the Liquidating Trustee, who shall have the power to administrate the liquidating trust. A liquidating trust oversight committee will also be appointed as provided in the Plan.

2. Exculpation Injunction, Releases and Related Provisions.

The Plan provides for exculpation provisions regarding the Debtor, its officers, directors, employees, advisors, attorneys, professionals or agents and the Committee, its members, attorneys or professionals for conduct acts and omissions in connection with or related to the Chapter 11 case. The Plan also contains an injunction regarding the pursuit of claims against the Debtor.

The Plan also provides for a release by the Debtor on behalf of itself and its Bankruptcy estate, of its directors and officers from any claims, except those resulting from gross negligence or willful misconduct. Notwithstanding the foregoing, the directors and officers will not be released of any obligation arising under or in connection with the asset purchase agreements underlying the various sales of assets.

3. Rejection of Executory Contracts and Unexpired Leases

The Plan specifies that any executory contracts and unexpired leases that exist between the Debtor and any Person or Entity before and as of the Petition Date and continue to exist as of the Confirmation Date shall be deemed rejected by the Debtor on the Confirmation Date, except for any executory contract or unexpired lease (i) that has been assumed or rejected pursuant to a previous order of the Bankruptcy Court; (ii) as to which a motion for approval of the assumption or rejection of such executory contract or unexpired lease has been filed and served before the Effective Date; or (iii) is listed and treated otherwise in the Plan.

Claims arising out of the rejection of an executory contract or an unexpired lease which are not subject to an earlier deadline must be filed with the Bankruptcy Court and served upon the Liquidating Trustee no later than thirty (30) days after the entry of the Confirmation Order.

All such Claims not filed within such time will be forever barred from assertion against the Debtor, its estate and its property.

4. Bar Date for Administrative Expense Claims

The Plan provides that all requests for allowance of such claims with respect to Administrative Expense Claims incurred on or before the Effective Date must be filed thirty (30) days after the Effective Date (other than for professional compensation and reimbursement claims incurred before the Confirmation Hearing Date). Holders of Administrative Expense Claims not paid before the Confirmation Date must submit proofs of claim on or before the bar date for Administrative Expense Claims or be forever barred from doing so. The Liquidating Trustee will have thirty (30) days following the Administrative Expense Claims bar date (or such longer period as may be allowed by order of the Bankruptcy Court) to review and object to such Administrative Expense Claims before a hearing to determine allowance of such Administrative Expense Claims will be scheduled.

5. Provisions for Objections to Claims and Treatment of Disputed Claims and Interests

Except as otherwise ordered by the Bankruptcy Court, any Party in Interest shall be entitled to object to Administrative Expense Claims, Claims, and Interests. Unless otherwise ordered by the Bankruptcy Court, any Objections to Administrative Expense Claims (except as to applications for allowance of compensation and reimbursement of expenses under sections 330, 331 and 503 of the Bankruptcy Code), Claims, and Equity Interests shall be filed within thirty (30) days after the Administrative Claims Bar Date or such later date as may be approved by the Bankruptcy Court (the "Claims Objection Deadline"). Notwithstanding any other provision of the Plan, no Cash shall be distributed under the Plan on account of any Disputed Claim unless and until such Disputed Claim is and becomes an Allowed Claim.

6. Retiree Benefits

The Plan contemplates the continuation of certain retiree benefits available to approximately six (6) members of Local 1199(c) for rights under COBRA. Specifically, these individuals have the right to participate in a COBRA plan until reaching the age of Medicare eligibility. NPHS will make arrangements through 1199(c), if practicable, for the continuation of this benefit.

7. Funding of the Plan

The Plan will be funded by (i) the remaining proceeds on the Effective Date generated from the sales of the Debtor's assets, (ii) any other Cash on hand as of the Effective Date, (iii) the proceeds of any assets not sold as part of the Debtor's business (including accounts receivables, deposits, refunds and holdbacks), (iv) the prosecution and enforcement of the causes of action; and (v) any release of Cash from escrows after the Effective Date.

VI. CONFIRMATION OF THE PLAN

A. Acceptance

To confirm a plan, the Bankruptcy Code generally requires that the Bankruptcy Court make a series of findings concerning the plan and the debtor (or, in this Chapter 11 Case, the Debtor), including that: (i) the plan classifies Claims in a permissible manner; (ii) the plan complies with applicable provisions of the Bankruptcy Code; (iii) the debtor (or the Debtor) complied with applicable provisions of the Bankruptcy Code; (iv) the plan was accepted by the requisite votes of holders of Claims; (v) the plan was proposed in good faith and not by any means forbidden by law; (vi) the disclosure required by section 1125 of the Bankruptcy Code has been made; (vii) the plan is feasible and it is unlikely that confirmation will be followed by a liquidation or the need for further financial reorganization of the debtor, unless such liquidation or reorganization is proposed in the plan; (viii) the plan is in the “best interests” of all holders of Claims in an impaired Class by providing to such holders on account of their Claims 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 in a liquidation under Chapter 7 of the Bankruptcy Code, unless the holders of Claims or Equity Interests in such Class have accepted the Plan by the requisite votes; (ix) all fees and expenses payable under 28 U.S.C. § 1930 (fees owing to the bankruptcy clerk and the United States Trustee) have been paid or the plan provides for their payment on the effective date of the plan; and (x) if applicable, the plan provides for the continuation after the effective date of all retiree benefits, as defined under section 1114 of the Bankruptcy Code, at the level established before confirmation for the duration of the period the debtor has obligated itself to provide such benefits.

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired Claims as acceptance by holders of at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of claims in that class, but for that purpose counts only those who actually vote to accept or reject the plan. Thus, a class will have voted to accept the plan if two-thirds (2/3) in amount and a majority in number actually voting cast their ballots in favor of the Plan.

B. Best Interests Test

Notwithstanding acceptance of the plan by the requisite majority of the holders of Claims in Classes entitled to vote, in order to confirm the plan, the Bankruptcy Court must independently determine that the plan is in the best interests of all Classes impaired by the plan. In order to confirm a plan, the Bankruptcy Court must find that the plan provides to each Class that rejects the plan a recovery that has a value at least equal to the value of the distribution each such Class would receive if all of the property of the debtor’s bankruptcy estate were liquidated under Chapter 7 of the Bankruptcy Code.

To calculate what holders of Claims would recover if a debtor were liquidated under Chapter 7, the Bankruptcy Court must first determine the aggregate dollar amount that would be generated from the debtor’s remaining assets if the bankruptcy case were converted to a case under Chapter 7 and the assets were liquidated by a trustee in bankruptcy. Upon liquidation, the potential distribution available to holders of Claims and Equity Interests may be reduced (i) to the extent of the value of the Collateral securing the Liens of secured creditors, and (ii) by the

costs of liquidation under Chapter 7, which costs would include the compensation of a trustee, disposition expenses, including possible transfer taxes which may not be payable under Chapter 11, all unpaid administrative expenses incurred by the debtor during the Chapter 11 case (such as compensation of professionals), litigation costs (if any), and Claims arising during the pendency of the Chapter 11 case and the Chapter 7 liquidation proceedings. There may be included Chapter 11 Administrative Expense Claims for the failure of the debtor to fulfill post-petition contracts, if any. These Claims would have to be paid in full out of the liquidation proceeds before the balance, if any, would be made available to pay unsecured creditors. Moreover, any proceeds available for distribution would be reduced by the cost attributable to the time value of money resulting from what is likely to be a more protracted proceeding.

The Debtor has evaluated the range of return to holders of Claims under the Plan, and has compared that anticipated return with what he believes would be realized if a forced liquidation occurs under Chapter 7 of the Bankruptcy Code. Based on this evaluation and the assumptions set forth in the liquidation analysis attached hereto as **Exhibit A**, the Debtor believes holders of Class 3 Unsecured Claims would obtain a recovery under the Plan in excess of what otherwise would be available if the remaining assets of the Debtor were liquidated and the proceeds thereof were distributed as part of liquidation under Chapter 7 of the Bankruptcy Code. In other words, it seems much more likely that the assets available for distribution would only be diminished in the context of the liquidation of the Debtor under Chapter 7, rather than the liquidation of the Debtor under the Plan.

The liquidation analysis for the Debtor contains estimates of the amount of Claims that may ultimately be treated as Allowed Claims, which are based solely upon the Debtor's preliminary review of the proofs of claim filed and the Debtor's books and records. Except to the extent specifically noted, no order has been entered to date estimating or otherwise fixing the amount of Claims at the projected amounts set forth in the liquidation analysis. The estimates set forth therein should not be relied upon for any other purpose, including, without limitation, any determination of the value of any distribution to be made on account of Allowed Claims under the Plan.

C. Cramdown

The Bankruptcy Code contains provisions for confirmation of a plan even if the plan is not accepted by all impaired classes, as long as at least one impaired class of claims has voted to accept the plan. These "cramdown" provisions are set forth in section 1129(b) of the Bankruptcy Code.

A plan may be confirmed pursuant to the cramdown provisions if, in addition to satisfying certain other requirements of section 1129 of the Bankruptcy Code, the Plan: (i) "does not discriminate unfairly;" and (ii) "is fair and equitable with respect to each Class of claims or equity interests that is impaired under, and has not accepted, the Plan." As used by the Bankruptcy Code, the phrases "discriminate unfairly" and "fair and equitable" have meanings unique to bankruptcy law.

The requirement that a plan “not discriminate unfairly” means that a dissenting class must be treated equally with respect to other classes of equal rank. A plan does not discriminate unfairly if claims or interests in different classes but with similar priorities and characteristics receive or retain property of a similar value under a plan. By establishing separate Classes for the holders of each type of Claim and by treating each holder of a Claim in each Class the same, the Debtor submits that the Plan does not “discriminate unfairly” with respect to any Class of Claims.

The “fair and equitable” standard, also known as the “absolute priority rule,” has different meanings with respect to secured claims and unsecured claims. With respect to secured claims, for a plan to be fair and equitable, the plan may provide, among other things, that the holder of such a claim retain the liens securing that claim to the extent of the allowed amount of such claim, and that such holder receive on account of such claim deferred cash payments in an aggregate amount of at least the allowed amount of such claim, as of the plan’s effective date, of at least the value of such holder’s interest in the estate’s interest in such property. Alternatively, a plan may provide for the realization by the holders of secured claims of the indubitable equivalent of such claims. In this case, the Plan provides that the holders of Secured Claims will receive that which they are entitled to under section 1129 of the Bankruptcy Code by virtue of the treatment of such Claims under the Plan, which contemplates the payment by the Debtor or the Liquidating Trustee (as the case may be) of Cash in an amount sufficient to satisfy any Allowed Secured Claims.

With respect to a class of unsecured creditors, a plan can be fair and equitable (i) if it provides that each holder of a claim of such class receives or retains on account of such claim property of a value, as of the plan’s effective date, equal to the allowed amount of such claim, or (ii) if it provides that the holder of a claim or interest junior to the claims of such class will not receive or retain any property under the plan on account of such junior claim or interest any property.

With respect to a class of equity interests (of which there are none in this case), a plan can be fair and equitable if (i) each holder of an equity interest will receive or retain under the Plan property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled or the value of the interest or (ii) the holder of an interest that is junior to the non-accepting class will not receive or retain any property under the plan. The Debtor is a non-stock, non-member nonprofit. Accordingly, the Plan does not provide for the interests of equity holders.

Pursuant to section 1129(b) of the Bankruptcy Code, the Debtor intends to request confirmation of the Plan in the event that all of the applicable requirements of section 1129(a), other than section 1129(a)(8), are met.

D. Feasibility

The Bankruptcy Code permits a plan to be confirmed if it is not likely to be followed by liquidation or the need for further financial reorganization unless such liquidation or reorganization is proposed in the plan. Here, NPHS submits that no further financial reorganization will be necessary. If the Debtor's assets are sold prior to the Confirmation Hearing Date, there will be sufficient available Cash to satisfy the Class 1 and Class 2 Claims, as well as Administrative Expense Claims - except to the extent any holders of such Claims agrees to less favorable treatment. The remaining funds, once the Debtor's post-petition affairs are sufficiently wound up, will be available to deal with Class 3 claims.

VII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the Debtor's alternatives include (i) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code or (ii) the preparation and presentation of an alternative plan of reorganization.

A. Liquidation Under Chapter 7

If no Chapter 11 plan can be confirmed, the Chapter 11 Case may be converted to a case under Chapter 7 of the Bankruptcy Code, in which case a Chapter 7 trustee would be elected or appointed to liquidate the remaining assets of the Debtor. A discussion of the anticipated effect that liquidation under Chapter 7 would have on the recoveries of holders of Claims is set forth above and in the attached Liquidation Analysis. The Debtor believes that liquidation under Chapter 7 would result in, among other things, significantly reduced distributions being made to holders of Allowed Claims than those provided in the Plan due to costs such as additional administrative expenses attendant to the appointment of a Chapter 7 trustee and the Chapter 7 trustee's employment of professionals.

B. Alternative Plan Of Reorganization

If the Plan is not confirmed, the Debtor could attempt to formulate a different plan of reorganization or liquidation. Because the Plan as proposed calls for the distribution of Cash in accordance with the priorities of the Bankruptcy Code (except to the extent that such priority has been modified by agreement of the affected party), it is difficult to conceive of an alternative plan of reorganization or liquidation that could be proposed by the Debtor. An alternative plan may be filed by a creditor or other party in interest. The Plan, in the opinion of the Debtor, represents the best alternative to protect the interests of the holders of Allowed Claims.

VIII. EFFECT OF CONFIRMATION OF THE PLAN

In accordance with section 1141 of the Bankruptcy Code, the provisions of the Plan, if confirmed, will bind the Debtor and the holders of Claims and Interests and their respective successors and assigns, regardless of whether or not the Claim or Interest of such holder is impaired under the Plan and/or whether or not such holder has accepted the Plan.

Because the Debtor's assets and business have been or will be sold prior to the Confirmation Hearing Date, the Debtor will not receive a discharge of any claims.

IX. RISK FACTORS

The distributions and recoveries set forth in this Disclosure Statement are based on the Debtor's estimates of Allowed Claims, which is based on the information provided by the Debtor and through the Debtor's due diligence. The Debtor projects that the Claims asserted against the Debtor will be resolved and reduced to an amount that approximates its estimates and may seek an order or orders from the Bankruptcy Court estimating the dollar amount of certain Allowed and Disputed Claims. There can be no assurance that such assumptions will prove accurate. In addition, if and to the extent that the Debtor has underestimated the amount of Allowed Claims or the Disputed Claims Reserve, the Debtor or the Plan Administrator (as the case may be) could be required to redirect Cash to such Disputed Claims Reserve, resulting in a potential dilution of available Cash for distribution to creditors. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation. The Debtor reserves the right to object to the amount and classification of any Claim. Thus, the estimates set forth in this Disclosure Statement and the Liquidation Analysis attached hereto cannot be relied upon by any holder of a Claim against or Equity Interest in the Debtor whose Claim or Interest is subject to a successful objection in that they may not receive the estimated distributions set forth herein.

X. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The confirmation and consummation of the Plan may have federal, state and/or local tax consequences for holders of Claims and Equity Interests. The Debtor offers no opinion as to any such tax consequences and, consequently, all holders of Claims and Equity Interests should satisfy themselves as to the tax consequences resulting from the approval, confirmation and consummation of the Plan by obtaining independent advice from their own professional advisors.

In connection with the consummation of the Plan, the Debtor or the Liquidating Trustee (as the case may be) shall comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority and all distributions hereunder shall be subject to any such withholding and reporting requirements.

XI. CONCLUSION

For all of the reasons set forth in this Disclosure Statement, the Debtor believes that confirmation and consummation of the Plan is preferable to all other alternatives. **THUS, THE DEBTOR BELIEVES THAT THE PLAN IS IN THE BEST INTERESTS OF ALL HOLDERS OF CLAIMS AND URGES ALL SUCH HOLDERS THAT ARE ENTITLED TO VOTE ON THE PLAN TO VOTE TO ACCEPT THE PLAN.**

Respectfully submitted,

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EXHIBIT A

[Liquidation Analysis]