

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF NEW JERSEY**

Caption in Compliance with D.N.J. LBR 9004-2(c)  
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Proposed Attorneys for Debtor and Debtor-in-Possession

In re:  
  
PASCACK VALLEY HOSPITAL  
ASSOCIATION, INC.  
  
Debtor.

Hon. Rosemary Gambardella  
  
Case No. 07-23686  
  
Chapter 11

**AFFIDAVIT OF LEONARD WEIL IN SUPPORT  
OF DEBTOR'S VARIOUS "FIRST DAY" MOTIONS**

STATE OF NEW JERSEY    )  
  ) ss.:  
COUNTY OF BERGEN     )

LEONARD WEIL, being duly sworn according to law upon his oath, deposes and says:

1. I am the Interim Chief Financial Officer ("CFO") of Pascack Valley Hospital Association, Inc., the above Debtor and Debtor-in-Possession ("PVH" or the "Debtor"). As such, I am personally familiar with PVH's history, operations and financial and business affairs. I am authorized to make this affidavit, on PVH's behalf, in support of the Debtor's First Day Motions (collectively, the "First Day Motions")<sup>1</sup> and the Sale Motion described hereinbelow.

<sup>1</sup> The First Day Motions are as follows:

1. Motion for Expedited Consideration of First Day Motions;
2. Motion to Approve Debtor-in-Possession Financing;

## DEBTOR'S HISTORY AND FINANCIAL STATUS

2. PVH is a licensed 280-bed acute care, not-for-profit hospital located in Westwood, Bergen County, New Jersey. PVH is part of a system of healthcare affiliates known as the Wellcare Group Inc. PVH was incorporated in 1942 and opened its doors as a hospital in 1959. At present, PVH's average daily patient census is approximately 98 or 35% of capacity.

3. PVH's Board of Trustees, in consultation with the Debtor's financial advisors, has determined that the Debtor cannot continue in operation because of its exceptionally poor financial performance and prospects. Accordingly, within the next several days, PVH will submit a Certificate of Need Application to the New Jersey Department of Health ("DOH") setting forth a plan for the expeditious closure of its facility and the transfer of its patients to other hospitals and health care centers in the immediate vicinity.

4. PVH is burdened with approximately \$120,000,000 in debt, including approximately \$80,000,000 of secured debt owed to bondholders, \$20,000,000 owed to its pension plan and another approximately \$15,000,000 owed to other unsecured creditors and vendors. Revenue from all sources has declined from \$132,687,000 in 2005 to \$122,838,000 (projected) in 2007. Due to declining revenues and increased expenses, PVH has suffered cumulative operating losses since 2004 in excess of \$50,000,000. PVH lost almost \$22,000,000 in 2006 and projects a loss in 2007 of over \$17,000,000. At its present level of operations and

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3. Motion to Approve Use of Cash Collateral;
  4. Motion for Authority to Pay Pre-Petition Wages, Salaries and Other Employee Obligations;
  5. Motion for Interim Relief Pursuant to 11 U.S.C. §366(b) and for Authority to Provide Adequate Assurance of Future Performance to Utilities;
  6. Motion for Authority to Maintain Pre-Petition Bank Accounts and Continue to Use Existing Cash Management System and Business Forms and Approve Investment Practices;
  7. Motion for Authority to Pay Pre-Petition Claims of Certain Critical Vendors;
  8. Motion to Extend Time to File Schedules and Statement of Financial Affairs; and
  9. Motion for an Administrative Order Establishing Procedures for Interim Compensation of Professionals.

without additional cash infusions, PVH will literally run out of money before the end of the year.<sup>2</sup>

5. Despite its best efforts and extensive discussions with several parties over an extended time period, PVH has been unable to locate either a buyer for its assets or a strategic partner that would permit it to continue as a health care provider. Concerted efforts by PVH to cut costs, trim payroll and increase demand for services have been insufficient to stem, let alone reverse, the ever-worsening financial situation.

6. PVH's acute financial crisis is a result of several different factors. First, there is intense competition for patients and health care dollars within PVH's geographic area. Five New Jersey hospitals, all of them larger than PVH, are located within a 12 mile radius of PVH's facility. Second, there has been a marked decrease in demand for PVH's in-patient and out-patient services in large measure because of the many hospitals and ambulatory care centers located within the region. All but six of PVH's admitting physicians are also on staff at other hospitals in Bergen County and more often choose to use these hospitals' in-patient and out-patient services. Indeed, PVH's financial woes have contributed to this vicious cycle. Patients and physicians are reluctant to utilize PVH because of its financial crisis and that, in turn, makes the crisis even worse. Third, although PVH's costs have been reduced so too has its revenue. Finally, PVH has no ability to attract significant new financing due to its financial performance and absence of unencumbered assets.

7. Based upon all of the above factors, PVH has made the difficult decision to file a chapter 11 petition in order to effectuate an expedited and orderly closure of its facilities, provide for the safe and efficient transfer of PVH's patients, and allow the sale of its assets, free

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<sup>2</sup> PVH is also "balance sheet" insolvent. Its balance sheet, as of July 31, 2007, shows assets of \$110,609,410 and liabilities of \$125,245,516.

and clear of liens, in order to maximize the return to its creditors. The “First Day Motions,” are specifically designed to provide the mechanisms to effectuate these goals.

### **DESCRIPTION OF FIRST DAY MOTIONS**

#### **A. Cash Collateral and Financing Motions**

8. At present, PVH has approximately \$2 million in cash on hand. However, all of PVH’s cash constitutes the cash collateral of the Bondholders. The Bondholders have consented to PVH’s limited use of cash collateral, for a limited time period (through December 31, 2007), subject to entry of a Court order.

9. Accordingly, PVH has filed a motion to utilize the cash collateral of the Bondholders immediately and through December 31, 2007. The terms and conditions pursuant to which the Bondholders have consented to the use of the cash collateral are set forth in the cash collateral motion as well as in the proposed form of order submitted in connection therewith.

10. Unfortunately, given the Debtor’s negative cash flow, the use of cash collateral alone will be insufficient to sustain the Debtor’s operations even at a reduced level. Accordingly, PVH has successfully negotiated short-term post-petition financing in order to effectuate its orderly liquidation. The HealthCare Finance Group Inc. as Agent and HFG Healthcare-4, LLC as Lender (“HFG”) has agreed to provide up to \$10 million in financing which will be used to fund the orderly closure and sale of PVH and certain administrative expenses of the bankruptcy case. The proposed financing would commence immediately on an emergent basis and continue (subject to further order) through December 31, 2007. The terms and conditions of the proposed financing are set forth in the motion to approve financing on an emergent and short-term basis, as well as in the proposed order submitted in connection therewith.

**B. Utility, Critical Vendor and Other Motions**

11. Any interruption of utility service to a still operating acute care hospital would be catastrophic. The Debtor has therefore filed a motion to prevent a discontinuation of such service and for approval of its proposal to provide adequate assurance of future performance to its utility providers. Upon entry of the proposed cash collateral and financing orders, the Debtor will have adequate cash to furnish utility providers with the “adequate assurance of payment” required under 11 U.S.C. § 366(b).

12. Similarly, the Debtor’s motion to pay critical vendors is designed to ensure that those vendors providing truly critical services to PVH continue to do so. Simply put, a cut-off of essential supplies cannot be permitted to occur. Funds to make these payments will also come from the proposed financing and use of cash collateral.

13. The other first day motions with respect to maintaining existing bank accounts and the payroll service and to pay certain salary and payroll expenses are also necessary and appropriate. They are designed to minimize administrative expenses and disruptions, encourage critical employees to remain in place so as to ensure adequate patient care and maintenance of the Debtor’s facilities and to otherwise streamline and reduce, to the extent possible, the Debtor’s operations so as to facilitate the shut-down and sale.

**C. Extension of Time to File Schedules and Statement of Financial Affairs**

14. PVH has also applied for a short extension of time to file its schedules and statement of financial affairs. My staff and I will have primary responsibility for providing the information required for these filings. Given staff cut-backs and our overwhelming workload, it will be exceptionally burdensome and likely impossible to complete these documents within 15 days of the date of filing of the petition, although we intend to diligently work on them.

However, during the time period immediately after filing, my staff will need to devote the bulk of its time and attention to daily crisis management, as well as the preparation and filing of the closure plan with the DOH and the preparation and assembly of other financial information and data required for the bankruptcy filing itself and the First Day Motions. Accordingly, PVH has filed an application for a 15 day extension of time (30 days total from date of filing) to file the Statement of Financial Affairs and Schedules.

**D. Expedited Motion to Approve Sale and Bidding Procedures and to Sell Assets**

15. As noted above, notwithstanding PVH's diligent efforts over the last several years, it has been unable to stem or reverse its accelerating operating losses. Moreover, notwithstanding lengthy discussions with numerous parties, PVH has been unable to either "partner" with another healthcare institution to continue in operation or to sell its facilities.

16. Given this scenario, PVH has determined, in the exercise of its business judgment, that the most effective way to maximize its assets for the benefit of its creditors, is to hold an auction sale of its facilities as soon as possible. Accordingly, the Debtor intends to file a motion on shortened time, for authority to sell its assets, by way of auction ("Sale Motion") within a few days of the filing of its petition. The Sale Motion will request the expedited approval of proposed sale and auction procedures by the Court and, if said approval is granted, and there is a successful bidder, to thereafter confirm the results of the sale. In connection therewith, PVH will also seek court approval of its real estate consultants and brokers to provide assistance and expertise to the Debtor and its counsel with respect to the proposed sale.

17. Because of PVH's dire financial position, it is crucial that the Sale Motion be approved and the assets marketed for sale as soon as possible. Any delay will only serve to diminish the value of these assets.

18. The Sale Motion will contain a detailed description of the proposed sale and bidding procedures and timetables with respect thereto. The application for retention of real estate consultants and brokers similarly contains a detailed description of the services to be rendered and the proposed compensation.



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Leonard Weil

Sworn to and subscribed before me this  
17<sup>th</sup> day of September, 2007



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Notary Public

**KAREN WRIGHT  
NOTARY PUBLIC OF NEW JERSEY  
MY COMMISSION EXPIRES SEPT. 19, 2008**