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UNITED STATES BANKRUPTCY COURT
 DISTRICT OF NEW JERSEY

In re:	:	Chapter 11
	:	
NATHAN AND MIRIAM BARNERT	:	
MEMORIAL HOSPITAL ASSOCIATION,	:	Case No. 07-
d/b/a BARNERT HOSPITAL,	:	
	:	
Debtor.	:	
	:	
	:	

**AFFIDAVIT OF PETER J. BETTS IN SUPPORT OF
 DEBTOR’S VARIOUS FIRST DAY MOTIONS**

STATE OF NEW JERSEY)
) ss.
 COUNTY OF PASSAIC)

PETER J. BETTS, LFACHE, of full age, being duly sworn according to law, upon his oath deposes and states:

1. I am the Interim Chief Executive Officer of Nathan and Miriam Barnert Memorial Hospital Association d/b/a Barnert Hospital, the within debtor and debtor-in-possession (the “Hospital” or the “Debtor”). I have served as the Debtor’s Interim CEO since July 30, 2007. I have been working as a hospital executive for over thirty-five years. From mid-

2002 until the present, I have run a health care consulting firm, first in Louisiana and now in Florida. I hold a Master's degree in hospital administration and am a Life Fellow in the American College of Healthcare Executives. I have led turnarounds and have provided interim management both as a full-time employee and as a consultant. I am generally familiar with the Debtor's day-to-day operations, business affairs and records, and am authorized to make this Affidavit on the Debtor's behalf.

I. INTRODUCTION

2. On August 15, 2007 (the "Petition Date"), the Debtor filed a voluntary petition for relief pursuant to Chapter 11, Title 11 of the United States Code (the "Bankruptcy Code"). Since the Petition Date, the Debtor has remained in possession of its assets and has continued management of its business as a debtor-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

3. To avoid the potentially disruptive impact this Chapter 11 case might have on the Debtor's ability to continue operating, to protect the interests of the Debtor's patients, the community at large and other parties-in-interest, and to facilitate the orderly transition into Chapter 11, the Debtor has requested that the Court consider, on an expedited basis, the following motions filed simultaneously with the Debtor's Chapter 11 petition: (a) motion for an Interim Order pursuant to 11 U.S.C. §363(c)(2) and Fed. R. Bankr. P. 4001 authorizing the Debtor to use cash collateral; providing adequate protection for use of cash collateral; and scheduling a final hearing; (b) motion for an Order authorizing the Debtor to satisfy, and directing payroll banks to honor, prepetition gross salaries, commissions and related obligations to the Debtor's employees; (c) motion for an Order authorizing the Debtor to maintain its active bank accounts and continue using its existing business forms and cash management system; (d)

motion for an Order authorizing the payment of adequate assurance for postpetition utility services and fixing a final hearing date to determine adequate assurance; (e) application for designation as a complex Chapter 11 case; and (f) motion for an Order extending the Debtor's time to file schedules and statement of financial affairs pursuant to Fed. R. Bankr. P. 1007(c) (collectively, the "First Day Motions").

4. The purposes of the First Day Motions are, among other things, to: (a) protect the Debtor's patients and the public during the Debtor's Chapter 11 case by ensuring the Debtor's ability to provide vital medical services; (b) maintain and bolster employee morale so as to reduce employee attrition during the Debtor's Chapter 11 proceeding; (c) enable the Debtor to continue operating as it pursues its restructuring; and (d) preserve the value of the Debtor's estate. Each of the First Day Motions is crucial to the Debtor's ability to remain open and to provide high-quality care to its patients as it works to reorganize in a manner that best protects the public's health and interests as well as the interest of the Debtor's creditors.

5. This Affidavit is intended to explain the circumstances precipitating the Debtor's Chapter 11 proceeding and to provide general information about the Debtor and its business operations that are germane to the First Day Motions. The factual statements in this Affidavit are based on my personal knowledge, information supplied to me by others under my supervision, my review of relevant documents and/or my opinions based on my experience and knowledge of the Debtor's operations, financial condition and the healthcare industry in general, as limited by my short tenure in my present position.

II. THE DEBTOR'S BUSINESS AND BACKGROUND

A. The Debtor's Business

6. The Debtor is a New Jersey non-profit corporation that owns and operates a 256 bed general acute care community hospital (the "Hospital") located at 680 Broadway, Paterson, New Jersey (the "Property").¹ The Debtor was established and operates to serve the public interest by providing medical and surgical treatment and care for sick, injured and infirm persons, regardless of their race, creed, nationality, or their financial ability to pay for such services. The Hospital embraces the multi-cultural communities in counties that it serves and its dedicated and diverse staff is focused on delivering culturally competent care specific to their health care needs.

7. Founded in 1908, the Debtor provides a full complement of vital medical and community services to the citizens of Northern New Jersey. The Hospital is an important resource in the community. The Hospital is the only center in the State of New Jersey that provides services to the hearing impaired. The Debtor is the only area hospital capable of providing a full range of services for women's reproductive rights. In 2006, the Debtor treated approximately 118,500 patients, including 6,500 in-patients and 112,000 outpatients.

8. The Debtor has approximately 635 full-time employees practicing a broad range of specialties. The Barnert Occupational Health Center provides diagnosis and treatment of work-related issues related to asbestos and hazardous waste, hearing loss, employment physicals, and injury prevention. Centers for pain management, sleep disorders, and breast health supplement the trauma facilities of the Hospital. Outreach services include the Family and Child

¹ In addition to the real property on which the Hospital is located (the "Hospital Real Property"), the Debtor also owns several other parcels of real property in the City of Paterson and the surrounding areas that are contiguous to, or in the general vicinity of, the Hospital Real Property. That additional real property located at (i) 666 Broadway, Paterson, NJ; (ii) 1819 River Road, Fairlawn, NJ; (iii) 210 East 32nd Street, Paterson, NJ.

Education project operated in conjunction with the Paterson Public School District, with an eye toward prevention of health problems particularly among economically disadvantaged populations.

9. As of June 2007, the Debtor had total assets of approximately \$47,000,000 and total liabilities of approximately \$61,250,000. A copy of the Debtor's balance sheet as of December 31, 2006 is attached hereto as Exhibit "A". In 2006, the Debtor had operating revenues totaling approximately \$80,987,168 and an operating loss of (\$2,631,269). A copy of the Debtor's Income Statement as of December 31, 2006 is attached hereto as Exhibit "B". For the first 6 months of this year, the Debtor recorded an operating loss of approximately (\$4,267,000) against total operating revenues of approximately \$39,709,000. A copy of the six month income statement is attached hereto as Exhibit "C". As discussed in greater detail below, the Debtor's losses are attributable to, *inter alia*, declining patient volumes and an increase in uncompensated care.

10. Developments in health care delivery during the past two decades have forced changes on hospitals nationwide. In response to these nationwide trends, some hospitals have reduced bed capacity and services, or closed altogether. Approximately seven percent (7%) of the nation's hospitals have closed since 1995. New Jersey has experienced an even greater number of closures: seventeen percent (17%) of New Jersey's hospitals have closed in the same period.

B. The Debtor's Prepetition Secured Debt

11. The New Jersey Health Care Facilities Financing Authority (the "Authority") was organized and it exists pursuant to the provisions of the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, Chapter 29, N.J.S.A. 26:2I-1 et seq. (the "Act"). The

Debtor entered into a Loan Agreement (“Loan Agreement”) with the Authority dated as of January 1, 1999 (the “1999 Financing”). In connection with the 1999 Financing, the Debtor executed and delivered a Mortgage Note dated January 28, 1999 (the “Note”) to the Authority in the principal amount of \$34,876,000 bearing interest at 3.78%. In addition, the Debtor executed and delivered a mortgage dated January 28, 1999 (the “Mortgage”) and a security agreement dated January 28, 1999 (the “Security Agreement”; the Loan Agreement, the Note, the Mortgage and Security Agreement are referred to herein as the “Pre-Petition Loan Documents”). In connection with the Pre-Petition Loan Documents, a debt reserve fund was established (the “DRF”) . As of the Petition Date, there is approximately \$2.1 million in the DRF. In the event that the Debtor fails to make a required payment under the Note, it is possible that funds in the DRF can be applied against that obligation to prevent a payment default.

12. Under the Pre-Petition Loan Documents, the Authority has liens and security interests upon “all building materials, equipment, furniture, furnishings, accounts receivable or other property installed or to be installed or used in and about the building or buildings now erected or hereafter to be erected upon the lands secured by the [Property]” (collectively, the “Collateral”).

13. As of the Petition Date, the Authority is asserting a claim against the Debtor for approximately \$30.6 million (the “Pre-Petition Debt”).

III. FACTORS PRECIPITATING THE DEBTOR’S CHAPTER 11 FILING

14. The Debtor has suffered from a steady decline in patient volume resulting from, in part, an industry-wide increasing shift toward the delivery of care from the inpatient to ambulatory facilities, with many of the latter owned and operated by teams of independent entrepreneurs and physicians.

15. As a non-profit hospital in the State of New Jersey, the Debtor is also required to provide care to all patients, regardless of their ability to pay. There is a growing number of low-income residents without health insurance and ability to pay for costly care. According to an analysis by the U.S. Census Bureau, Passaic County has nearly the highest rate of uninsured persons in the State of New Jersey (16.6%). Although this information is not available specifically for Paterson only, it is expected that the rate is significantly higher within the Hospital's primary service area.

16. The Debtor receives charity care payments from the State of New Jersey on a monthly basis, based upon a formula approved annually as part of the State's budgetary process. There are fiscal pressures from the federal and state governments seeking to control their budgets in part by reimbursing hospitals at fees far below the cost of caring for publicly insured patients. Thus, although the Debtor receives reimbursement from the State of New Jersey for a portion of such charity care, the Debtor's commitment to provide uncompensated care in the face of declining volume of paying patients further exacerbated the Debtor's financial condition and contributed to its need to seek Chapter 11 relief at this time.

17. Approximately forty (40) creditors of the Debtor have either commenced litigation or have threatened to commence litigation against the Debtor. The combined claims of these creditors exceed \$8,000,000. Certain of these creditors have either obtained or, upon information and belief, are on the verge of obtaining writs of execution in attempts to levy on the Debtor's property.

18. For example, on July 23, 2007, Phoenix Healthcare, Inc. ("Phoenix"), obtained a final judgment against the Debtor in the amount of \$548,683.37. On or about July 27, 2007, Phoenix caused a writ of execution to be served on Commerce Bank, where the Debtor maintains

an operating account. The Debtor's operating account is presently restricted as a result of that levy.

19. Additionally, on May 25, 2007, AMN Healthcare, Inc. ("AMN Healthcare"), obtained summary judgment against the Debtor in the amount of \$144,792.25. Upon information and belief, AMN Healthcare has obtained writs of execution, and is in the process of levying on the Debtor's assets.

20. Another creditor, Fox Hollow Technologies ("Fox Hollow"), obtained final judgment against the Debtor in the amount of \$37,410.61 on or about June 6, 2007. Although Fox Hollow and the Debtor entered into a settlement agreement permitting the judgment to be paid in equal monthly installments over an eighteen (18) month period commencing August 5, 2007, the Debtor defaulted, and upon information and belief, Fox Hollow has obtained writs of execution and is in the process of enforcing its judgment.

21. Finally, on or about June 20, 2007, KForce, Inc. ("KForce"), obtained a judgment against the Debtor in the amount of \$17,724.87. KForce has agreed not to enforce its judgment provided that the Debtor makes monthly payments of \$1,000 until the judgment is satisfied in full. If the Debtor defaults, it is likely that KForce will seek to immediately enforce its Judgment.

22. In addition to the above, there are numerous other creditors that have either threatened litigation, commenced litigation or in the process of obtaining imminent judgments.

III. THE DEBTOR’S OBJECTIVES IN CHAPTER 11

23. The Debtor intends to utilize the Chapter 11 process to obtain a “breathing period” in which it can seek to implement a financial restructuring that is fair to all its creditor constituents and that allows the Hospital to serve its community constituents. The Debtor’s existing revenue stream, continued charity care advances by the State of New Jersey and post-petition use of cash collateral should provide sufficient additional working capital and cash flow to enable the Debtor to continue to operate and provide high-quality healthcare services to the citizens of Northern New Jersey, while it pursues an analysis of the alternatives for a successful exit from Chapter 11 reorganization and implements the same.

24. The relief requested by the First Day Motions is necessary to allow the Debtor to stabilize its affairs as it transitions into Chapter 11. It is therefore respectfully requested that the Court grant each of the Debtor’s First Day Motions and enter the proposed Orders accompanying same.

Dated: August 15, 2007
Newark, New Jersey

/s/ Peter J. Betts
Peter J. Betts, LFACHE

Sworn and subscribed to
before me this 15th day of
August, 2007.

David J. Adler
Notary Public:
State of New Jersey

EXHIBIT "A"

EXHIBIT "B"

Statement of Operations
DECEMBER, 2006

	Year-to-Date				
	Actual	Budget	Variance	Prior Year	Variance
Inpatient Revenues	288,895,074	297,000,958	(8,105,884)	298,794,655	(9,899,581)
Outpatient Revenues	<u>154,102,904</u>	<u>167,224,835</u>	<u>(13,114,922)</u>	<u>153,945,352</u>	<u>164,547</u>
Total Revenues	443,004,980	464,225,793	(21,220,813)	452,740,015	(9,735,034)
Revenue Deductions	<u>374,050,504</u>	<u>392,370,632</u>	<u>18,320,135</u>	<u>387,112,128</u>	<u>13,068,624</u>
Net Patient Service Revenues	68,954,477	71,855,154	(2,900,677)	65,620,817	3,333,660
<u>Other Operating Revenue</u>					
Subsidy Funding	7,147,370	7,022,574	125,096	7,264,144	(116,474)
Other	<u>4,885,021</u>	<u>3,038,947</u>	<u>1,846,074</u>	<u>3,251,132</u>	<u>1,633,839</u>
Total Other Operating Revenues	12,032,691	10,061,521	1,971,170	10,515,326	1,517,365
Total Rev, Gains and Other Support	80,987,168	81,916,675	(929,507)	76,136,143	4,851,025
<u>Expenses</u>					
Salaries and Wages - Employees	32,077,790	31,762,854	(314,936)	31,439,980	(637,810)
Salaries and Wages - Physicians	834,470	845,021	10,551	833,592	(877)
Agency Fees	1,574,456	1,622,400	47,944	3,402,350	1,827,894
Benefits	6,630,021	7,394,766	764,745	7,170,425	540,404
Physician Fees	4,392,688	3,607,950	(784,738)	3,890,139	(502,548)
Purchased Services	4,980,258	4,990,451	10,193	4,763,729	(216,529)
Supplies	7,370,167	7,913,882	543,715	7,845,685	475,518
Other Expenses	7,431,113	6,689,874	(741,239)	7,155,809	(275,303)
Pharmacy/Drugs	3,037,468	3,531,500	494,032	3,080,439	42,970
Employee Drugs	-	-	-	186,165	186,165
Interest Expense	1,798,751	1,851,083	52,332	1,805,468	6,717
Collection Expense	123,765	242,199	118,434	140,196	16,431
Insurance Expense	1,626,075	1,550,000	(76,075)	1,536,225	(89,851)
Depreciation	3,625,000	3,350,000	(275,000)	3,040,801	(584,199)
Bad Debt Expense	<u>8,116,415</u>	<u>5,895,443</u>	<u>(2,220,972)</u>	<u>6,850,427</u>	<u>(1,265,938)</u>
Total Expenses	83,618,438	81,247,423	(2,371,015)	83,141,481	(476,957)
Operating Income	(2,631,269)	669,252	(3,300,521)	(7,005,337)	4,374,068
Unrealized Gain (Loss) on Board Designated Assets whose use is Limited	<u>28,204</u>	-	<u>28,204</u>	<u>(82,617)</u>	<u>110,221</u>
Income Before Extraordinary Items	(2,603,066)	669,252	(3,272,318)	(7,087,354)	4,484,289
Extraordinary Items	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	<u>(2,603,066)</u>	<u>669,252</u>	<u>(3,272,318)</u>	<u>(7,087,354)</u>	<u>4,484,289</u>
EBIDA	<u>2,792,482</u>	<u>5,870,335</u>	<u>(3,077,853)</u>	<u>(2,159,068)</u>	<u>4,951,550</u>

EXHIBIT "C"

Barnert Hospital
Income Statement
(In Thousands)

	Six Months Ended June-30 2007
Revenue:	
Net patient service revenue	\$34,617
Other revenue	5,092
Contributions from Barnert Hospital Foundation, Inc. for operating purposes	<u>0</u>
Total revenue	<u>39,709</u>
Expenses:	
Salaries and wages	17,352
Employee benefits	3,528
Physician Fees	3,083
Agency Fees	488
Purchased Services	2,215
Collection Expense	80
Insurance Expense	864
Supplies and other	8,881
Interest	879
Depreciation	1,775
Provision for bad debts	<u>4,831</u>
Total expenses	<u>43,976</u>
Operating income (loss)	(4,267)
Prior Period Settlements	<u>0</u>
Excess (deficiency) of revenue over expenses	(4,267)
Change in net unrealized (loss) gain on investments	(7)
Increase (decrease) in unrestricted net assets	<u><u>(\$4,274)</u></u>