

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re)
Chapter 11
PRIMARY HEALTH SYSTEMS, INC.,)
Case No. 99-615 (MFW)
PHS CLEVELAND, INC.,)
PHS PHYSICIAN MANAGEMENT OF OHIO, INC.,) (Jointly Administered)
PHS MT. SINAI, INC.,)
PRIMARY HEALTH SYSTEMS OF OHIO, L.P.,)
PHS ST. ALEXIS, INC.,)
PHS LAURELWOOD, INC.,)
PHS ROXBOROUGH, INC., and)
LOWER BUCKS, INC.,)
Debtors.)

DECLARATION OF BRENT MARTIN RELATING TO THE STATUS OF ADMINISTRATIVE EXPENSE CLAIMS AND THE DISPOSITION OF ASSETS

Brent Martin declares as follows:

- 1. I am the Assistant Secretary and Chief Financial Officer of Primary Health Systems, Inc. and Secretary and Treasurer of each of the other above-captioned Debtors.
2. By order dated October 31, 2000, this Court directed the Debtors to prepare and submit a monthly status report advising the Court of the following items: (i) the amount of outstanding administrative claims incurred by the Debtors, (ii) the Debtors' efforts to market and sell remaining property of their estates, and (iii) the Debtors' obligations and operations in support of Deaconess Hospital.
3. With respect to the amount of outstanding administrative claims incurred by the Debtors, as set forth by my September 24, 2001 Declaration, the Debtors' books and records as at August 31, 2001 indicated that the total amount of unpaid administrative expense claims appearing on the books and records was approximately \$6,122,538 (the "August Estimate"). The

template 000 002

ERIDS 000 1748

August Estimate includes an accounting reserve of \$1,000,000 for certain unliquidated and/or disputed administrative claims as described in the Declarations filed with the Court on October 13, 2000 and May 24, 2001. The Debtors believe that the August Estimate may be revised and restated as set forth below to reflect the total amount of unpaid administrative expense claims appearing on the Debtors' books and records as at September 30, 2001.¹

4. During the month of September, 2001, according to the Debtors' books and records, the Debtors accrued accounts payable invoices and adjustments in the approximate aggregate net amount of \$75,916 (the "Additional Claims"). The Additional Claims, however, include (a) approximately \$1,370 on account of a reduction of credit balance entries on the Debtors' books and records, and (b) approximately \$37,819 on account of invoices for professional fees.

a) As set forth in the previous Declarations filed with the Court, the August Estimate includes the addition of all of the credit balances on the Debtors' books and records which were applied by the Debtors' accounting system as setoffs to the total amount of outstanding administrative expense claims. The Debtors believe that it is appropriate to subtract the \$1,370 reduction in credit balances from the Additional Claims in calculating any adjustments to the August Estimate, because the August Estimate already accounted for such credit balances.

b) Additionally, the Debtors believe that it is appropriate to subtract from the Additional Claims the \$37,819 of additional professional fees on the Debtors' books and

¹ As explained in the August 30 Declaration, the Debtors have determined to simplify their analysis and reporting of unpaid administrative claims by tracking the changes in payables and disbursements on a monthly basis.

records for September in calculating any adjustments to the August Estimate. Consistent with the declarations previously filed with the Court, the Debtors believe that such professional fees, to the extent they are allowed by the Court, are covered by a carve-out from the cash collateral of the Debtors' secured lenders (the "Lenders") or by retainers held by the professionals.

5. Therefore, based upon the Debtors' books and records for September, 2001, the Debtors have increased the August Estimate by approximately \$36,727 representing the approximate aggregate amount of the Additional Claims as described above.

6. While the Debtors have increased the August Estimate on account of the Additional Claims as set forth above, the Debtors paid certain accounts payable during September, thus requiring a reduction in the August Estimate. In particular, during September, 2001, according to the Debtors' books and records, the Debtors paid disbursements and expenses in the approximate aggregate amount of \$35,648 in the ordinary course of business pursuant to a Servicing Agreement Budget provided to and approved by the Lenders, which amended the original servicing agreement budget (as described in the August 24 Declaration) attached to the comprehensive Agreement of Settlement and Compromise dated February 5, 2001 (the "Settlement Agreement"), which was approved by the Court on February 15, 2001. Accordingly, the Debtors have reduced the August Estimate by \$35,648.

7. As a result of the above-listed adjustments, the Debtors have increased the August Estimate by the approximate net amount of \$1,079 and believe that the amount of unpaid and unfunded administrative expenses appearing on the Debtors' books and records as at September 30, 2001 (the last month for which the Debtors have closed their books) is approximately \$6,123,617. I believe that this figure is consistent with the total amount of unpaid and unfunded

administrative expense claims appearing on the Debtors' books and records as estimated in the monthly declarations previously filed with the Court.

8. As more thoroughly described in the August 24, 2001 Declaration, the Court has established April 2, 2001 as an administrative claims bar date for claims incurred during these chapter 11 cases prior to November 30, 2000, and the Debtors have completed a preliminary analysis of such claims, which indicates that the Debtors' liability to administrative claimants may be less than the amounts estimated based upon the Debtors' books and records. The Debtors are assisting the Creditors' Committee in analyzing these administrative claims.

9. With respect to the efforts of the Debtors to liquidate their remaining assets, the Debtors entered into an agreement with the Lenders to extend the Servicing Agreement through December 31, 2001, in accordance with the terms of the Settlement Agreement, in order to allow for the Debtors to continue to liquidate their remaining assets and to assist and work with the Creditors' Committee in developing a chapter 11 plan.

10. With respect to the operations of the Debtors in support of Deaconess Hospital, as set forth in the January 24 Declaration, the Debtors' obligations in support of Deaconess Hospital ended as of December 31, 2000.

[Remainder of page left blank intentionally]

OCT-24-2001 WED 11:01 AM GD & C NY

FAX NO. 0

P. 06

10/23/2001 13:57 PHS MARTIN → 12123514035
OCT-23-2001 TUE 01:01 PM GD&C

FAX NO. 212 351 4035

NO. 628 002
P. 06

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 24th day of October, 2001.


Brent Martin

80197264_1.DOC