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9 Proposed Attorneys for Chapter 11
10 Debtors and Debtors in Possession

11 **UNITED STATES BANKRUPTCY COURT**
12 **CENTRAL DISTRICT OF CALIFORNIA**
13 **LOS ANGELES DIVISION**

14 In re:) Main Case No. LA 07-12312-EC
15 PLEASANT CARE CORPORATION, a)
16 California corporation,) Case No. LA 07-12322-EC
17) Case No. LA 07-12319-EC
18) Case No. LA 07-12326-EC

19 In re:) Case No. LA 07-12316-EC
20 SNF PROPERTIES INCORPORATED,)
21 a California corporation,) Chapter 11
22)

23) **DEBTORS' EMERGENCY MOTION FOR AN**
24 In re:) **INTERIM ORDER AUTHORIZING THE**
25 PCC HEALTH SERVICES, INC., a) **DEBTORS TO USE CASH COLLATERAL**
26 California corporation,) **ON AN INTERIM BASIS PENDING A**
27) **FINAL HEARING AND DIRECTING**
28) **BRIDGE HEALTHCARE FINANCE, LLC,**

29 In re:) **THE LOCK BOX BANK AND OTHERS TO**
30 ATLAS CARE ENTERPRISES,) **CAUSE ALL POST-PETITION**
31 INC., a California) **COLLECTIONS TO BE DEPOSITED INTO**
32 corporation,) **THE DEBTORS' BANK ACCOUNTS;**
33) **MEMORANDUM OF POINTS AND**

34 In re:) **AUTHORITIES; DECLARATION OF**
35 EMBER CARE CORPORATION, a) **EMMANUEL I. BERNABE IN SUPPORT**
36 California corporation,) **THEREOF**

37) Date: [To be scheduled]
38) Time: [To be scheduled]
39 Debtors.) Place: Courtroom 1639
40) 255 E. Temple St.
41) Los Angeles, CA
42)

1 Pursuant to Local Bankruptcy Rule 9075-1, General Order
2 02-02 and 11 U.S.C. § 363, Pleasant Care Corporation, SNF
3 Properties Incorporated, PCC Health Services, Inc., Atlas Care
4 Enterprises, Inc., and Ember Care Corporation, California
5 corporations, Chapter 11 debtors and debtors in possession
6 herein (collectively, the "Debtors"), hereby move, on an
7 emergency basis, for an interim order authorizing the Debtors
8 to use cash collateral and directing Bridge Healthcare Finance,
9 LLC ("Bridge"), the Debtors' pre-petition banks, and the lock
10 box bank to cause all post-petition collections to be deposited
11 into the Debtors' bank accounts (the "Motion").
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14 On March 22, 2007 (the "Petition Date"), the Debtors filed
15 voluntary petitions under Chapter 11 of the Bankruptcy Code.
16 Since the commencement of these cases, the Debtors have been
17 operating their businesses as debtors in possession pursuant to
18 Sections 1107 and 1108 of the Bankruptcy Code.
19

20 The Debtors are principally engaged in the business of
21 owning and operating 30 skilled nursing facilities and
22 residential care facilities. A skilled nursing facility cares
23 for patients who require a higher level of nursing care, most
24 of whom remain there permanently. A residential care facility
25 cares for patients who require a lesser level of care. Both
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1 types of facilities generally involve patients who remain at
2 the facilities on a long term basis.

3 While there are five separate corporate Debtors, the
4 Debtors essentially operate as one consolidated business
5 entity. There is one group of management for all five Debtors;
6 all of the Debtors' approximately 3,500 employees are paid by
7 one Debtor; and all of the Debtors' operating revenue is
8 ultimately deposited into one general bank account. The
9 Debtors prepare consolidated financial statements.

11 The Debtors collectively generate annual revenue of
12 approximately \$200 million and employ approximately 3,500
13 people. The Debtors have approximately 3,000 residents at
14 their facilities.

16 As more described below, after many years of operating
17 profitably, the Debtors have experienced recent operating
18 losses, which is the primary factor that caused the Debtors to
19 incur their current level of debt. The Debtors have developed
20 a program to stop the Debtors' operating losses in a short
21 period of time and place the Debtors in a position to
22 effectively reorganize and/or sell facilities for their maximum
23 going concern value.

26 There are two secured creditors who assert an interest in
27 the Debtors' cash. The Debtors' primary secured creditor is
28

1 Bridge Healthcare Finance, LLC ("Bridge"). Bridge is currently
2 owed approximately \$9.7 million secured by a first priority
3 lien against substantially all of the Debtors' accounts
4 receivable and certain of the Debtors' real property leases.
5 The Bridge loan was originated in 2004 in the original amount
6 of approximately \$27 million and has since been significantly
7 reduced. The only other creditor that the Debtors are aware of
8 who may have a lien against the Debtors' cash is OmniCare,
9 which holds secured debt of approximately \$3 million secured by
10 a second priority lien against the accounts receivable and much
11 of the Debtors' other assets, junior only to the lien in favor
12 of Bridge.
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15 As more described below, the Debtors believe that just
16 their accounts receivable and 23 profitable facilities have a
17 fair market value of approximately \$58 million. Indeed, just
18 the Debtors' accounts receivable have a current fair market
19 value of approximately \$23.5 million.
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21 There cannot be any question that both Bridge and Omni are
22 adequately protected by an overwhelming equity cushion and
23 cannot be harmed in any way by the Debtors' use of cash
24 collateral. Any contention to the contrary would be entirely
25 false.
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27 In addition to the approximately \$9.7 million secured debt
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1 owed to Bridge and the approximately \$3 million secured debt
2 owed to OmniCare, the Debtors owe approximately \$8.2 million to
3 the Internal Revenue Service; approximately \$6.7 million of
4 unsecured promissory notes; approximately \$2.2 million in
5 litigation settlements; and approximately \$26.4 million in
6 accounts payable.
7

8 Since it is so clear that both Bridge and Omni will be
9 paid in full from just the Debtors' accounts receivable,
10 regardless of the outcome of these Chapter 11 cases, the
11 Debtors are deeply concerned that Bridge may not have any
12 incentive to protect the going concern value of the Debtors'
13 business, and do not care if the Debtors' business is shut
14 down. That could help explain why Bridge moved for the
15 appointment of a state court receiver on an ex parte emergency
16 basis and instantly cut off funding the Debtors' business
17 operations without any prior notice and thereby prompt
18 emergency bankruptcy filings by the Debtors when there is no
19 question that Bridge will be paid in full under any
20 circumstance.
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23 The Debtors require an immediate order of this Court
24 authorizing the Debtors to use cash collateral to pay all of
25 their normal and ordinary operating expenses (such as payroll,
26 rent, utilities and payments to suppliers) as they come due in
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1 the ordinary course of the Debtors' business and to purchase
2 new inventory in order for the Debtors to preserve the going
3 concern value of their business, assets and reorganization
4 efforts.

5 It is clear that the Debtors' businesses have significant
6 going concern value and the cessation of the Debtors' business
7 operations would place that going concern value in serious
8 jeopardy, as well as cause the loss of the jobs of the Debtors'
9 approximately 3,500 employees and displacement of the Debtors'
10 approximately 3,000 residents, many of whom would have no place
11 else to go.
12

13 The Debtors believe that their trade suppliers and
14 creditors have a very serious vested interest in the Debtors'
15 continued business operations and going concern value. The
16 Debtors intend to work with the Office of the United States
17 Trustee to form an Official Committee of Unsecured Creditors on
18 an expedited basis. The Debtors believe that the Creditors'
19 Committee will take a very active role in these cases. Since
20 it is crystal clear that Bridge and Omni will be paid in full
21 under any circumstance, it is the Debtors' unsecured creditors
22 who have a real financial interest in the outcome of these
23 cases. The Debtors therefore believe that it is critically
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1 important that the status quo be maintained until the
2 Creditors' Committee is formed and can make its views known.

3 The Debtors have submitted two different budgets (the
4 "Budgets") attached as Exhibits "B" and "C" to the annexed
5 Declaration of Emmanuel I. Bernabe. The Budgets are prepared
6 on a weekly basis and continue through the end of June, 2007.
7 The differences between the Budgets are set forth below.

8
9 The Debtors require the immediate use of cash collateral
10 to pay the expenses set forth in the Budgets in order to avoid
11 immediate and irreparable harm to the Debtors. The Debtors
12 therefore seek authority to use cash collateral on an interim
13 emergency basis pending a final hearing in accordance with the
14 Budgets, except that the Debtors seek Court authority to exceed
15 the total budgeted sums in any single week by no more than 15%
16 so long as the total itemized expense items remain the same.
17 If actual expenditures for any line items are less than the
18 Budget, the difference shall carryover to the following weeks.

19
20 The Debtors' principal, Emmanuel I. Bernabe, is offering
21 to lend the Debtors \$500,000 of his personal funds to assist
22 the Debtors with their cash flow needs. The Debtors are filing
23 an emergency motion for authority to borrow funds, which the
24 Debtors are requesting the Court to consider in conjunction
25 with this Motion.
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1 In addition, pre-petition, the Debtors' funds were paid
2 into a lock box account under the control of Bridge. Until
3 March 21, 2007, Bridge swept the lock box account on a daily
4 basis and then advanced funds back to the Debtors to enable the
5 Debtors to pay their operating expenses. On March 21, 2007,
6 without any prior notice, Bridge advised the Debtors that
7 Bridge would no longer advance funds back to the Debtors, but
8 that Bridge did intend to continue to sweep the lock box on a
9 daily basis. Since Bridge knew full well that the Debtors'
10 payroll to approximately 3,500 employees would be due just a
11 few days after Bridge took these precipitous actions, the
12 Debtors believe that Bridge's actions were terribly
13 irresponsible and may even have been intentionally timed to
14 have occurred when the Debtors were most vulnerable. These
15 actions taken by Bridge have had the economic effect of
16 depriving the Debtors of all of their cash and any ability to
17 continue to operate without immediate use of cash collateral in
18 a bankruptcy case. The continued survival of approximately
19 3,000 residents and the continued employment of approximately
20 3,500 employees are entirely dependent upon the Debtors'
21 immediate use of cash collateral.

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26 Given the devastating impact that a closure of the
27 Debtors' 30 facilities would have on the Debtors' employees,
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1 residents and unsecured creditors, and given the overwhelming
2 equity cushion that secures the Bridge debt, the Debtors submit
3 that immediate use of cash collateral is clearly warranted and
4 appropriate.

5 In addition, by this Motion, the Debtors respectfully
6 request that the Court direct Wells Fargo Bank and any other
7 institutions who have placed holds and/or freezes on any of the
8 Debtors' prepetition accounts to release them. The Debtor
9 believes that Wells Fargo Bank just recently placed holds
10 and/or freezes on the Debtors' two payroll accounts referenced
11 in the motion to approve the payment of payroll and to honor
12 vacation and other benefits filed by the Debtor concurrently
13 herewith (the "Wage Motion"), as well as on 30 resident trust
14 accounts. By this Motion, the Debtors also request that the
15 Court order and direct such institutions to release those holds
16 and/or freezes on the Debtors' trust and non-trust accounts.

17 **ADDITIONAL INFORMATION**

18 Pursuant to General Order 02-02, the Debtors submit that
19 their proposed order authorizing the Debtors' use of cash
20 collateral on an interim basis pending a final hearing will not
21 contain the following provisions:

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1 2	Provision	Cash Collateral Order
3 4 5	A provision that provides cross-collateralization protection to any secured creditor (i.e., a clause that would secure the creditor's pre-petition claims by post-petition assets that the creditor does not otherwise have a security interest in by virtue of its pre-petition loan agreements or applicable law)	No
6 7 8	A provision or finding of fact that binds the estate or parties in interest with respect to the validity, perfection or amount of a creditor's pre-petition liens or claims or the waiver of claims against the creditor	No
9 10	A provision that waives the estate's rights under 11 U.S.C. § 503	No
11	A provision that grants to the creditor liens upon the avoidance actions	No
12 13	A provision that deems the creditor's pre-petition claims to be post-petition claims	No
14 15	A provision regarding the extension of any post-petition loans or financial accommodations from the creditor or any third party to the Debtor	No
16 17	Any disparate treatment of the professionals retained by a creditors' committee from that provided to the professionals retained by the Debtor with respect to a professional fee carve out.	No

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The relief sought in the Motion is based upon the Motion, the annexed Memorandum of Points and Authorities, the Declaration of Emmanuel I. Bernabe attached hereto, other Declarations submitted concurrently herewith, the statements, arguments and representations of counsel to be made at the hearing on the Motion, and any other evidence properly presented to the Court at or prior to the hearing on the Motion.

1 **WHEREFORE**, the Debtors respectfully request that this
2 Court hold a hearing on this Motion **no later than Monday, March**
3 **26, 2007**, which is when the Debtors' next payroll to its nearly
4 3,500 employees is due, and:

5 (a) authorize the Debtors to use the cash collateral on
6 an emergency interim basis pending a final hearing pursuant to
7 the terms and conditions set forth in the Motion;

8 (b) enter an order directing Bridge, the lock box bank
9 and others to deposit all of the Debtors' post-petition
10 collections into the Debtors' bank accounts;

11 (c) ordering and directing all banks and other financial
12 institutions who have frozen and/or placed holds on any and all
13 prepetition accounts in the Debtors' names (including trust and
14 non-trust accounts) to release those freezes and/or holds;

15 (d) set a final hearing to consider the Motion; and

16 (e) grant such other and further relief as the Court

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deems just and proper.

Dated: March 22, 2007

PLEASANT CARE CORPORATION;
SNF PROPERTIES INCORPORATED;
PCC HEALTH SERVICES, INC.;
ATLAS CARE ENTERPRISES, INC.
EMBER CARE CORPORATION

By: Monica Y. Kim

Ron Bender
Monica Y. Kim
Jacqueline L. Rodriguez
Levene, Neale, Bender,
Rankin & Brill L.L.P.
Proposed Attorneys for
Debtors and Debtors
in Possession

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MEMORANDUM OF POINTS AND AUTHORITIES

I. STATEMENT OF FACTS

A. Background.

On March 22, 2007 (the "Petition Date"), the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code. Since the commencement of these cases, the Debtors have been operating their businesses as debtors in possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

B. The Debtors' Business Structure and Background.

The Debtors are principally engaged in the business of owning and operating 30 skilled nursing facilities and residential care facilities. A skilled nursing facility cares for patients who require a higher level of nursing care, most of whom remain there permanently. A residential care facility cares for patients who require a lesser level of care. Both types of facilities generally involve patients who remain at the facilities on a long term basis.

Pleasant Care Corporation ("PCC") owns and operates 14 such facilities; SNF Properties, Inc. ("SNF") owns and operates 5 such facilities; PCC Health Services, Inc. ("PCCH") owns and operates 5 such facilities; Ember Care Corporation ("ECC") owns and operates 5 such facilities; Atlas Care Enterprises,

1 Incorporated ("Atlas") owns and operates one such facility.
2 The Debtors currently have approximately 3,000 residents at the
3 Debtors' various facilities. A break down of which facilities
4 are owned by which Debtor is set forth on Exhibit "A" to the
5 attached Declaration of Emmanuel I. Bernabe.
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7 While there are five separate corporate Debtors, the
8 Debtors essentially operate as one consolidated business
9 entity. There is one group of management for all five Debtors;
10 all of the Debtors' approximately 3,500 employees are paid by
11 one Debtor; and all of the Debtors' operating revenue is
12 ultimately deposited into one general bank account. The
13 Debtors prepare consolidated financial statements.
14

15 PCC owns 100% of the stock of SNF, PCCH and Atlas and 94%
16 of ECC. Mr. Bernabe owns 100% of the stock of PCC.
17

18 Mr. Bernabe started the business in 1982 by acquiring one
19 facility. Over the next 25 years, Mr. Bernabe acquired and
20 sold approximately 50 facilities and built the Debtors'
21 business to its current state. The Debtors collectively
22 generate annual revenue of approximately \$200 million and
23 employ approximately 3,500 people. The Debtors have and care
24 for approximately 3,000 residents at their 30 care facilities.
25

26 In addition to the 30 care facilities, the Debtors have
27 three business offices. The primary business office is located
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1 at 2258 Foothill Blvd., La Canada, California 91011. The other
2 two business offices are located in Pasadena and Stockton.

3 The Debtors' generally operated profitably until
4 approximately two years ago.

5 In mid-2005, the Debtors' facility located in Napa,
6 California and the Debtors' facility located in San Joaquin,
7 California were decertified by the Department of Health
8 Services ("DHS"), which contended that the two facilities did
9 not meet the standards for participation under the
10 Medical/Medicare programs, which account for approximately 85%
11 of the Debtors' revenue.
12

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14 A temporary manager was assigned to the Napa facility by
15 DHS, with the consent of the Debtors, who had the
16 responsibility of restoring that facility into DHS compliance.
17 The agreement was that the Debtors would have no oversight of
18 the temporary manager, but assist and work with the temporary
19 manager to restore the Napa facility into DHS compliance. DHS
20 decided not to recertify the Napa facility even after the
21 appointment of the temporary manager, and the Debtors closed
22 the Napa facility, with the consent of DHS and in accordance
23 with DHS regulations.
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26 The Debtors had no realistic alternative facility to which
27 the Debtors could transfer the San Joaquin residents, leaving
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1 the Debtors in a position of shutting down the San Joaquin
2 facility or continuing to incur the expenses associated with
3 the San Joaquin facility without receiving the corresponding
4 revenue from Medical/Medicare. At the urging of the San
5 Joaquin residents and their families, the Debtors have
6 permitted the San Joaquin location to remain open, which was
7 costing the Debtors approximately \$1 million per month in
8 operating expenses at the outset of the decertification. Those
9 losses have reduced to a current level of approximately
10 \$475,000 per month, resulting from normal resident attrition.
11

12 Thereafter, in September 2006, DHS proceeded to decertify
13 the Debtors' other two facilities under the same district as
14 Napa, located in Novato, California and Ukiah, California. The
15 result of the decertifications was that Medical/Medicare ceased
16 paying for services provided by those two facilities, which
17 resulted in reducing the Debtors' monthly revenue by
18 approximately \$775,000, broken down as \$570,000 for Novato and
19 \$205,000 for Ukiah.
20

21 While the Debtors could have discharged the patients at
22 the two decertified locations, at the urging of the residents
23 and their families, who did not want the residents to be
24 relocated, the Debtors have continued to this day to provide
25 normal and required services for those residents without
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1 receiving the reimbursement from Medical/Medicare in exchange.
2 In Novato, there is no alternative facility. The Debtors
3 continued to provide services to the residents with the
4 expectation that DHS would revisit the decertification issue
5 and ultimately recertify the locations because the Debtors had
6 taken what the Debtors believed to be the appropriate steps
7 necessary to cause the locations to be recertified.
8 Unfortunately, DHS has not at this time elected to recertify
9 those locations.
10

11 The expenses associated with the decertified facilities
12 without the corresponding revenue from Medical/Medicare have
13 caused the Debtors to incur severe operating losses over the
14 past approximately two years. In fiscal year 2006, which
15 covered the period of July 1, 2005 through June 30, 2006, the
16 Debtors incurred operating losses of approximately \$7,500,000.
17 During the first approximately six months of fiscal year 2007
18 (ending December 31, 2006), the Debtors incurred operating
19 losses of approximately \$7,300,000. In their current
20 configuration, the Debtors suffer operating losses of
21 approximately \$2 million per month.
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1 C. The Debtors' Business Plan to Stop the Operating
2 Losses.

3 Given the Debtors' financial condition and need for
4 emergency Chapter 11 bankruptcy filings, the Debtors understand
5 and recognize that they cannot financially afford to wait and
6 hope to have the three currently decertified facilities
7 recertified. The Debtors must immediately sell, transfer or
8 close all three decertified facilities (San Joaquin, Novato and
9 Ukiah), which cost the Debtors approximately \$1,250,000 in
10 monthly operating expenses without corresponding revenue from
11 Medical/Medicare, along with a number of additional facilities
12 which lose money from their business operations. The Debtors
13 believe that the four facilities located at Petaluma, Alameda,
14 Yuba City and Santa Cruz cause operating losses of
15 approximately \$500,000 per month. The Debtors believe that
16 selling or closing these seven facilities (the "Problem
17 Facilities") will cause the Debtors' business operations to
18 operate at essentially a break even level.

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22 The Debtors have engaged Citra Capital Management, LLC
23 ("Citra") as a financial advisor to assist the Debtors to
24 eliminate their operating losses, including closing and/or
25 selling the seven Problem Facilities. Citra has extensive
26 experience in arranging financing for, and sales of, nursing
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1 homes for nearly 20 years. Citra has already assisted the
2 Debtors to sell four of their facilities over the past year,
3 and Citra is currently in discussions and negotiations with a
4 number of prospective buyers of other facilities. Citra has
5 two principals, Herb Saltzman and Michael L. Janda, both of
6 whom have extensive experience in the health care industry.
7

8 The Debtors are confident that within a very short period
9 of time, the Debtors will be operating profitably and will
10 either be able to reorganize or be sold as a going concern for
11 maximum value.
12

13 D. The Debtors' Secured Debt.

14 The Debtors' primary secured creditor is Bridge Healthcare
15 Finance, LLC ("Bridge"). Bridge is currently owed
16 approximately \$9.7 million secured by a first priority lien
17 against substantially all of the Debtors' accounts receivable
18 and certain of the Debtors' real property leases. One of those
19 leases is for the Debtors' location in San Diego which is
20 likely the Debtors' most valuable location, worth in the range
21 of approximately \$5-\$6 million. The Bridge loan was originated
22 in 2004 in the original amount of approximately \$27 million.
23

24 Until March 21, 2007, the day before the date of the
25 Debtors' Chapter 11 filings, all of the Debtors' collections
26 were paid into a lock box controlled by Bridge and then swept
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1 by Bridge on a daily basis, and then Bridge would make daily
2 advances to the Debtors. On March 21, 2007, Bridge advised the
3 Debtors that Bridge intended to continue to sweep the Debtors'
4 lock box account, but that Bridge would no longer advance any
5 funds to the Debtors. Bridge also advised the Debtors that
6 Bridge intended to seek a state court receiver at a hearing to
7 be held the next day, on March 22, 2007, on an ex parte basis.
8 The Debtors also learned that Bridge instructed the Debtors'
9 pre-petition financial bank (Wells Fargo) to remit to Bridge
10 all proceeds collected from private insurance providers and
11 individuals.
12

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14 The Debtors believe that Bridge's precipitous actions were
15 completely unnecessary and inappropriate given the parties
16 long-standing relationship and the fact that Bridge is under
17 absolutely no risk of not being repaid in full. As more
18 discussed below, just the accounts receivable which secure the
19 Bridge loan are worth approximately \$23.5 million, meaning that
20 Bridge is secured by an equity cushion of approximately 200%
21 (ten times the conservative Ninth Circuit legal standard of
22 20%) just by the Debtors' accounts receivable alone before
23 including any of Bridge's other valuable collateral. Under any
24 analysis, Bridge is clearly adequately protected by an
25 overwhelming equity cushion.
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1 The only other creditor that the Debtors are aware of who
2 may have a lien against the Debtors' cash is OmniCare, which
3 holds secured debt of approximately \$3 million secured by a
4 second priority lien against the accounts receivable and much
5 of the Debtors' other assets, junior only to the lien in favor
6 of Bridge.
7

8 A complete lien search of the California Secretary of
9 State's Office is attached as Exhibits "A-E" to the Declaration
10 of Monica Y. Kim, Esq. filed concurrently herewith.
11

12 E. The Debtors' Asset Base.

13 As of the Petition Date, the Debtors' primary two assets
14 consist of their accounts receivable and facilities. As of the
15 Petition Date, the Debtors had collectible accounts receivable
16 of approximately \$23.5 million. With respect to the Debtors'
17 facilities, the Debtors have approximately 4,100 beds.
18 Facilities such as the ones owned by the Debtors sell for a
19 range of \$8,000-\$27,000 per bed, with an expected average sale
20 price of more than \$10,000 per bed. This means that even after
21 closing or selling the seven Problem Facilities described
22 above, the Debtors would be left with 23 remaining facilities
23 which would have a total of approximately 3,000 of beds. With
24 a conservative average sale price of approximately \$10,000 per
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1 bed, that would equate to a total value of approximately \$30
2 million.

3 Indeed, the Debtors have sold four of their facilities
4 over the past year. The Debtors sold one facility in June,
5 2006 for \$27,000 per bed. The Debtors sold two facilities in
6 January, 2007, one for approximately \$14,200 per bed, and the
7 other for approximately \$15,000 per bed. The Debtors sold a
8 fourth facility in March, 2007 for approximately \$18,000 per
9 bed.
10

11 Thus, the Debtors believe that their current accounts
12 receivable and 23 facilities remaining after closing or selling
13 the seven Problem Facilities have a total value of at least \$58
14 million. In addition to the foregoing, the Debtors have a
15 deposit of approximately \$6.8 million with American Insurance
16 Guaranty for workers compensation claims, when a total of only
17 approximately \$1.8 million of such claims have been asserted,
18 and approximately \$1.5 million of lease deposits. The Debtors
19 also own the real estate where their corporate office is
20 located, and believe that the real estate has approximately \$1
21 million of equity.
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25 F. The Debtors' Debt Structure.

26 In addition to the approximately \$9.7 million secured debt
27 owed to Bridge and the approximately \$3 million secured debt
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1 owed to OmniCare, the Debtors owe approximately \$8.2 million to
2 the Internal Revenue Service; approximately \$6.7 million of
3 unsecured promissory notes; approximately \$2.2 million in
4 litigation settlements; and approximately \$26.4 million in
5 accounts payable.

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7 G. The Debtors' Proposed Operating Budgets.

8 Two proposed operating budgets (the "Budgets") for the
9 Debtors through the period ending June 29, 2007, prepared on a
10 weekly basis, are attached as Exhibits "B" and "C",
11 respectively, to the annexed Declaration of Emmanuel I.
12 Bernabe. The Budgets were prepared by Fernando Pedraja, the
13 Debtors' controller, with the assistance of Michael L. Janda of
14 Citra, under the supervision of Mr. Bernabe, and are based upon
15 the Debtors' actual current operating performance.
16

17 The first Budget, attached as Exhibit "B" to the Bernabe
18 Declaration, assumes no sale or closure of any of the seven
19 Problem Facilities and assumes that Mr. Bernabe and Mr. Saul
20 Majer will lend the Debtors the sum of \$1 million during the
21 first week of these cases to make up for any cash flow
22 shortfall on a junior lien basis in accordance with a financing
23 motion being filed concurrently herewith. As set forth in the
24 Budgets, with this \$1 million loan, the Debtors project an
25 ability to continue operating through June 29, 2007 without the
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1 infusion of any additional new money and without taking into
2 account the sale or closure of any of the seven Problem
3 Facilities.

4 The second Budget, attached as Exhibit "C" to the Bernabe
5 Declaration, assumes the immediate sale of the Novato and San
6 Joaquin Problem Facilities and assumes that Mr. Bernabe and Mr.
7 Saul Majer will lend the Debtors the combined sum of \$1 million
8 during the first week of these cases to make up for any cash
9 flow shortfall on a junior lien basis in accordance with a
10 financing motion being filed concurrently herewith. The
11 Debtors believe that consummating such an immediate sale of the
12 Novato and San Joaquin Problem Facilities is realistic based
13 upon conversations the Debtors have had with prospective
14 buyers. While these proposed sales would not generate any
15 revenue for the Debtors, they would eliminate significant
16 operating expenses for the Debtors. As set forth in the Second
17 Budget, this \$1 million loan coupled with the immediate sale of
18 the Novato and San Joaquin Problem Facilities would enable the
19 Debtors to operate on a nearly cash flow breakeven basis
20 immediately.

21 H. The Debtors' Reorganization and/or Sales Goals.

22 The Debtors are highly confident of their ability to
23 successfully reorganize and/or sell their assets so that the
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1 maximum going concern value of the Debtors' assets is realized
2 for the benefit of all parties in interest. Working in close
3 conjunction with the Creditors' Committee, which the Debtors
4 will seek to have formed on an expedited basis, and with the
5 two professionals of Citra (Mr. Janda and Mr. Saltzman), the
6 Debtors intend to formulate an expedited reorganization and/or
7 sale strategy. The Citra professionals are currently engaged
8 in sale discussions with a number of prospective buyers for a
9 number of the Debtors' facilities, including the seven Problem
10 Facilities.
11

12
13 I. Authority for Use of Cash Collateral and Other Relief
14 Requested.

15 By this Motion, the Debtors seek Court authority to use
16 cash collateral on an immediate interim basis in accordance
17 with the Budgets to enable the Debtors to avoid immediate and
18 irreparable harm to the Debtors pending a final hearing. If
19 actual expenditures for any line items are less than the
20 Budgets, the difference shall carryover to the following weeks.
21 The Debtors also request that the Court set a final hearing
22 after the interim hearing to approve, on a final basis, the
23 Debtor's use of cash collateral.
24
25

26 In addition, the Debtors request that the Court direct
27 Bridge and all others to cause all of the Debtor's post-
28

1 petition collections, which currently are deposited into a
2 lockbox, to be deposited into the Debtors Debtors-in-Possession
3 bank accounts, which the Debtors expect will be at Wells Fargo
4 Bank.

5 Furthermore, as the Debtor believes that Wells Fargo Bank
6 just recently placed holds and/or freezes on the Debtors' two
7 payroll accounts referenced in the motion to approve the
8 payment of payroll and to honor vacation and other benefits
9 filed by the Debtor concurrently herewith (the "Wage Motion"),
10 as well as on 30 resident trust accounts, by this Motion, the
11 Debtors respectfully request that the Court direct Wells Fargo
12 Bank and any other institutions who have placed holds and/or
13 freezes on any of the Debtors' prepetition accounts to release
14 them.
15

16
17 **II. DISCUSSION**

18
19 **A. The Debtors Should Be Authorized To Use Cash**

20 **Collateral To Operate, Maintain and Preserve their Business.**

21 The Debtors' use of property of the estates is governed by
22 Section 363 of the Bankruptcy Code. Section 363(c)(1) provides
23 in pertinent part:

24 "If the business of the debtor is authorized to
25 be operated under section. . .1108. . . of this
26 title and unless the court orders otherwise, the
27 trustee may enter into transactions, including
28 the sale or lease of property of the estate, in
the ordinary course of business, without notice
or a hearing, and may use property of the estate

1 in the ordinary course of business without
2 notice or a hearing."

3 11 U.S.C. §363(c)(1). A debtor in possession has all of the
4 rights and powers of a trustee with respect to property of the
5 estate, including the right to use property of the estate in
6 compliance with Section 363. See 11 U.S.C. §1107(a).

7 "Cash collateral" is defined as "cash, negotiable
8 instruments, documents of title, securities, deposit accounts
9 or other cash equivalents in which the estate and an entity
10 other than the estate have an interest. . . ." 11 U.S.C.
11 §363(a). Section 363(c)(2) establishes a special requirement
12 with respect to "cash collateral," providing that the trustee
13 or debtor in possession may use "cash collateral" under
14 subsection (c)(1) if:
15

16 (A) each entity that has an interest in such cash
17 collateral consents; or
18

19 (B) the court, after notice and a hearing,
20 authorizes such use, sale or lease in accordance with the
21 provisions of this section.
22

23 See 11 U. S.C. §363(c)(2)(A) and (B).

24 It is well settled that it is appropriate for a Chapter 11
25 debtor to use cash collateral for a reasonable period of time
26 for the purpose of maintaining and operating its property. 11
27
28

1 U.S.C. § 363(c)(2)(B); In re Oak Glen R-Vee, 8 B.R. 213, 216
2 (Bankr. C.D. Cal. 1981); In re Tucson Industrial Partners, 129
3 B.R. 614 (9th Cir. BAP 1991). In addition, where the debtor is
4 operating a business, it is extremely important that the access
5 to cash collateral be allowed in order to facilitate the goal
6 of reorganization: "the purpose of Chapter 11 is to
7 rehabilitate debtors and generally access to cash collateral is
8 necessary to operate a business." In re Dynaco Corporation,
9 162 B.R. 389 (Bankr. D.N.H. 1993), quoting In re Stein, 19 B.R.
10 458, 459.
11

12 The Debtors are viable operating entities whose going
13 concern value must be maintained in order for the Debtors to
14 maximize their value for all creditors and parties in interest,
15 to enable the Debtors either to sell their businesses as going
16 concerns and/or successfully reorganize. The Debtors can do so
17 only with the continued use of cash collateral. The inability
18 of the Debtors to continue to use cash collateral would cause
19 the decimation of the Debtors' significant going concern value,
20 as well as the loss of jobs of the Debtors' approximately 3,500
21 employees, and displacement of the Debtors' approximately 3,000
22 residents.
23

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1 B. Bridge and Omni Are Clearly Adequately Protected By
2 an Overwhelming Equity Cushion

3 To the extent that an entity has a valid security interest
4 in the revenues generated by property, those revenues
5 constitute "cash collateral" under Section 363(a) of the
6 Bankruptcy Code. Pursuant to Section 363(c)(2), the Court may
7 authorize the debtor to use a secured creditor's cash
8 collateral if the secured creditor is adequately protected. In
9 re Mellor, 734 F.2d 1396, 1400 (9th Cir. 1984). See also In re
10 O'Connor, 808 F.2d 1393, 1398 (10th Cir. 1987); In re McCombs
11 Properties VI, Ltd., 88 B.R. 261, 265 (Bankr. C.D. Cal. 1988)
12 ("McCombs").
13

14 Pursuant to the Supreme Court case of United Savings
15 Association v. Timbers of Inwood Forest Associates, 108 S.Ct.
16 626, 629 (1988) ("Timbers") and subsequent case law, the
17 property interest that a debtor must adequately protect
18 pursuant to Sections 361(1) and (2) of the Bankruptcy Code is
19 only the value of the lien that secures the creditor's claim.
20 108 S.Ct. at 630. See also McCombs, Id., at 266. Section
21 506(a) "limit[s] the secured status of a creditor (i.e., the
22 secured creditor's claim) to the lesser of the [allowed amount
23 of the] claim or the value of the collateral." McCombs, Id.,
24 at 266.
25
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1 The Ninth Circuit made clear in Mellor, Id. at 1401, that
2 an equity cushion of 20% is considered clear adequate
3 protection of a secured creditor's interest in cash collateral.
4 See also In re McGowan, 6 B.R. 241, 243 (B.Ct.E.D.Pa.1980)
5 [holding a 10% cushion is sufficient to be adequate
6 protection]; In re Rogers Development Corp., 2 B.R. 679, 685
7 (B.Ct.E.D.Virg.1980) [court decided that an equity cushion of
8 approximately 15% to 20% was sufficient adequate protection to
9 the creditor, even though the debtors had no equity in the
10 property.]
11

12 Here, there can be no question that both Bridge and Omni
13 are clearly adequately protected by an overwhelming equity
14 cushion which is well in excess of 20%.
15

16 Bridge is owed only approximately \$9.7 million resulting
17 from the significant pay down of its loan. Just the Debtors'
18 accounts receivable alone, against which Bridge has a first
19 priority lien, have a current fair market value of
20 approximately \$23.5 million. Bridge is therefore secured by an
21 equity cushion of approximately 200% by just the Debtors'
22 accounts receivable alone, and this is before taking into
23 account the value of any of the Debtors' facilities.
24
25

26 Omni is owed only approximately \$3 million secured by a
27 second priority lien against the Debtors' accounts receivable
28

1 and a lien against substantial additional assets of the
2 Debtors. Omni is therefore secured by an equity cushion of
3 approximately 600% by just the Debtors' accounts receivable
4 alone, and this is before taking into account the value of any
5 of the Debtors' facilities.

6
7 As described above, the Debtors believe that their
8 facilities are likely worth in excess of \$30 million, and this
9 is in addition to the Debtors' accounts receivable. With the
10 other assets described above, the Debtors' total assets are
11 worth well in excess of \$60 million. With less than \$13
12 million of total secured debt owing to Bridge and to Omni,
13 there can be absolutely no question that both Bridge and Omni
14 are adequately protected and will be paid in full under any
15 circumstance. Any argument to the contrary would simply be
16 false.
17

18
19 Since just the Debtors' approximately \$23.5 million of
20 accounts receivable are sufficient to pay Bridge and Omni in
21 full, Bridge and Omni would not really be harmed by a shut down
22 of the Debtors' business and denial of cash collateral use
23 since they would be paid in full in any event. The loss of the
24 going concern value of the Debtors' business will therefore
25 likely not have any economic impact upon Bridge or Omni.
26
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28

1 However, a shut down of the Debtors' business and loss of
2 the going concern value of the Debtors' business would have an
3 absolutely devastating impact upon the Debtors' other
4 creditors, including the Debtors' approximately \$43.5 million
5 of unsecured creditors, and the Debtors' equity holders. That
6 is precisely why the Debtors intend to work with the Office of
7 the United States Trustee in an effort to form an Official
8 Committee of Unsecured Creditors on an expedited basis, so that
9 the unsecured creditors can have a representative take an
10 active role in these cases. A shut down of the Debtors'
11 business would also have a devastating impact upon the Debtors'
12 approximately 3,500 employees who would lose their jobs and the
13 Debtors' approximately 3,000 residents who would be displaced.

14 The law is also clear that the preservation of the value
15 of a secured creditor's lien is sufficient to provide adequate
16 protection to a secured creditor when a debtor seeks to use
17 cash collateral. In re Triplett, 87 B.R. 25 (Bankr. W.D.Tex.
18 1988). See also In re Stein, 19 B.R. 458 (Bankr. E.D.Pa.
19 1982). In Stein, the Court found that, as a general rule, a
20 debtor may use cash collateral where such use would enhance or
21 preserve the value of the collateral, and allowed the debtor
22 therein to use cash collateral even though the secured party
23 had no equity cushion for protection. The Stein Court
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1 determined that the use of cash collateral was necessary to the
2 continued operations of the debtor, and that the creditor's
3 secured position could only be enhanced by the continued
4 operation of the debtor's business. See also In re McCombs,
5 supra, where the court determined that the debtor's use of cash
6 collateral for needed repairs, renovations and operating
7 expenses eliminated the risk of diminution in the creditor's
8 interest in the cash collateral and such use would more likely
9 increase cash collateral.
10

11 Additionally, in determining adequate protection, Courts
12 have stressed the importance of promoting a debtor's
13 reorganization. In In re O'Connor, supra, the Tenth Circuit
14 stated:
15

16 "In this case, Debtors, in the midst of a Chapter
17 11 proceeding, have proposed to deal with cash
18 collateral for the purpose of enhancing the
19 prospects of reorganization. This quest is the
20 ultimate goal of Chapter 11. Hence, the Debtor's
21 efforts are not only to be encouraged, but also
22 their efforts during the administration of the
23 proceeding are to be measured in light of that
24 quest. Because the ultimate benefit to be achieved
25 by a successful reorganization inures to all the
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1 creditors of the estate, a fair opportunity must be
2 given to the Debtors to achieve that end. Thus,
3 while interests of the secured creditor whose
4 property rights are of concern to the court, the
5 interests of all other creditors also have bearing
6 upon the question of whether use of cash collateral
7 shall be permitted during the early stages of
8 administration."
9

10 808 F.2d at 1937.

11 In addition to the overwhelming equity cushion in favor of
12 Bridge and Omni, the Debtors also propose to provide Bridge and
13 Omni with replacement liens against the Debtors' post-petition
14 assets with such replacement liens to have the same extent,
15 validity, and priority as the pre-petition liens held by Bridge
16 and Omni. Such replacement liens will provide Bridge and Omni
17 with further adequate protection.
18
19

20 III. CONCLUSION

21 Based upon all of the foregoing, the Debtors respectfully
22 request that this Court hold a hearing on this Motion **no later**
23 **than Monday, March 26, 2007**, which is when the Debtors' next
24 payroll to its nearly 3,500 employees is due, and:
25
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1 (a) authorize the Debtors to use the cash collateral on
2 an emergency interim basis pending a final hearing pursuant to
3 the terms and conditions set forth in the Motion;

4 (b) enter an order directing Bridge, the lock box bank
5 and others to deposit all of the Debtors' post-petition
6 collections into the Debtors' bank account;


7
8 (c) ordering and directing all banks and other financial
9 institutions who have frozen and/or placed holds on any and all
10 prepetition accounts in the Debtors' names (including trust and
11 non-trust accounts) to release those freezes and/or holds;

12 (d) set a final hearing to consider the Motion; and

13 (e) grant such other and further relief as the Court
14 deems just and proper.
15

16 Dated: March 23, 2007

PLEASANT CARE CORPORATION;
SNF PROPERTIES INCORPORATED;
PCC HEALTH SERVICES, INC.;
ATLAS CARE ENTERPRISES, INC.
EMBER CARE CORPORATION

17
18
19
20 By: 
21 Ron Bender
22 Monica Y. Kim
23 Jacqueline L. Rodriguez
24 Levene, Neale, Bender,
25 Rankin & Brill L.L.P.
26 Proposed Attorneys for
27 Debtors and Debtors
28 in Possession

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DECLARATION OF EMMANUEL I. BERNABE

I, Emmanuel I. Bernabe, hereby declare as follows:

1. I have personal knowledge of the facts set forth below and, if called to testify, I would and could competently testify thereto.

2. On March 22, 2007 (the "Petition Date"), the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code. Since the commencement of these cases, the Debtors have been operating their businesses as debtors in possession.

3. The Debtors are principally engaged in the business of owning and operating 30 skilled nursing facilities and residential care facilities. A skilled nursing facility cares for patients who require a higher level of nursing care, most of whom remain there permanently. A residential care facility cares for patients who require a lesser level of care. Both types of facilities generally involve patients who remain at the facilities on a long term basis.

4. Pleasant Care Corporation ("PCC") owns and operates 14 such facilities; SNF Properties, Inc. ("SNF") owns and operates 5 such facilities; PCC Health Services, Inc. ("PCCH") owns and operates 5 such facilities; Ember Care Corporation ("ECC") owns and operates 5 such facilities; Atlas Care

1 Enterprises, Incorporated ("Atlas") owns and operates one such
2 facility. The Debtors currently have approximately 3,000
3 residents at the Debtors' various facilities. A break down of
4 which facilities are owned by which Debtor is set forth on
5 Exhibit "A" hereto.

6
7 5. While there are five separate corporate Debtors, the
8 Debtors essentially operate as one consolidated business
9 entity. There is one group of management for all five Debtors;
10 all of the Debtors' approximately 3,500 employees are paid by
11 one Debtor; and all of the Debtors' operating revenue is
12 ultimately deposited into one general bank account. The
13 Debtors prepare consolidated financial statements.

14
15 6. PCC owns 100% of the stock of SNF, PCCH and Atlas and
16 94% of ECC. I own 100% of the stock of PCC.

17
18 7. I started the business in 1982 by acquiring one
19 facility. Over the next 25 years, I acquired and sold
20 approximately 50 facilities and built the Debtors' business to
21 its current state. The Debtors collectively generate annual
22 revenue of approximately \$200 million and employ approximately
23 3,500 people. The Debtors have and care for approximately
24 3,000 residents at their 30 care facilities.

25
26 8. In addition to the 30 care facilities, the Debtors
27 have three business offices. The primary business office is
28

1 located at 2258 Foothill Blvd., La Canada, California 91011.

2 The other two business offices are located in Pasadena and
3 Stockton.

4 9. The Debtors' generally operated profitably until
5 approximately two years ago.

6 10. In mid-2005, the Debtors' facility located in Napa,
7 California and the Debtors' facility located in San Joaquin,
8 California were decertified by the Department of Health
9 Services ("DHS"), which contended that the two facilities did
10 not meet the standards for participation under the
11 Medical/Medicare programs, which account for approximately 85%
12 of the Debtors' revenue.

13 11. A temporary manager was assigned to the Napa facility
14 by DHS, with the consent of the Debtors, who had the
15 responsibility of restoring that facility into DHS compliance.
16 The agreement was that the Debtors would have no oversight of
17 the temporary manager, but assist and work with the temporary
18 manager to restore the Napa facility into DHS compliance. DHS
19 decided not to recertify the Napa facility even after the
20 appointment of the temporary manager, and the Debtors closed
21 the Napa facility, with the consent of DHS and in accordance
22 with DHS regulations.
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1 12. The Debtors had no realistic alternative facility to
2 which the Debtors could transfer the San Joaquin residents,
3 leaving the Debtors in a position of shutting down the San
4 Joaquin facility or continuing to incur the expenses associated
5 with the San Joaquin facility without receiving the
6 corresponding revenue from Medical/Medicare. At the urging of
7 the San Joaquin residents and their families, the Debtors have
8 permitted the San Joaquin location to remain open, which was
9 costing the Debtors approximately \$1 million per month in
10 operating expenses at the outset of the decertification. Those
11 losses have reduced to a current level of approximately
12 \$475,000 per month, resulting from normal resident attrition.

13 13. Thereafter, in September 2006, DHS proceeded to
14 decertify the Debtors' other two facilities under the same
15 district as Napa, located in Novato, California and Ukiah,
16 California. The result of the decertifications was that
17 Medical/Medicare ceased paying for services provided by those
18 two facilities, which resulted in reducing the Debtors' monthly
19 revenue by approximately \$775,000, broken down as \$570,000 for
20 Novato and \$205,000 for Ukiah.

21 14. While the Debtors could have discharged the patients
22 at the two decertified locations, at the urging of the
23 residents and their families, who did not want the residents to
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1 be relocated, the Debtors have continued to this day to provide
2 normal and required services for those residents without
3 receiving the reimbursement from Medical/Medicare in exchange.
4 In Novato, there is no alternative facility. The Debtors
5 continued to provide services to the residents with the
6 expectation that DHS would revisit the decertification issue
7 and ultimately recertify the locations because the Debtors had
8 taken what the Debtors believed to be the appropriate steps
9 necessary to cause the locations to be recertified.
10 Unfortunately, DHS has not at this time elected to recertify
11 those locations.
12

13
14 15. The expenses associated with the decertified
15 facilities without the corresponding revenue from
16 Medical/Medicare have caused the Debtors to incur severe
17 operating losses over the past approximately two years. In
18 fiscal year 2006, which covered the period of July 1, 2005
19 through June 30, 2006, the Debtors incurred operating losses of
20 approximately \$7,500,000. During the first approximately six
21 months of fiscal year 2007 (ending December 31, 2006), the
22 Debtors incurred operating losses of approximately \$7,300,000.
23 In their current configuration, the Debtors suffer operating
24 losses of approximately \$2 million per month.
25
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28

1 16. Given the Debtors' financial condition and need for
2 emergency Chapter 11 bankruptcy filings, I understand and
3 recognize that the Debtors cannot financially afford to wait
4 and hope to have the three currently decertified facilities
5 recertified. The Debtors must immediately sell, transfer or
6 close all three decertified facilities (San Joaquin, Novato and
7 Ukiah), which cost the Debtors approximately \$1,250,000 in
8 monthly operating expenses without corresponding revenue from
9 Medical/Medicare, along with a number of additional facilities
10 which lose money from their business operations. I believe
11 that the four facilities located at Petaluma, Alameda, Yuba
12 City and Santa Cruz cause operating losses of approximately
13 \$500,000 per month. I believe that selling or closing these
14 seven facilities (the "Problem Facilities") will cause the
15 Debtors' business operations to operate at essentially a break
16 even level.
17
18

19
20 17. The Debtors have engaged Citra Capital Management,
21 LLC ("Citra") as a financial advisor to assist the Debtors to
22 eliminate their operating losses, including closing and/or
23 selling the seven Problem Facilities. Citra has extensive
24 experience in arranging financing for, and sales of, nursing
25 homes for nearly 20 years. Citra has already assisted the
26 Debtors to sell four of their facilities over the past year,
27
28

1 and Citra is currently in discussions and negotiations with a
2 number of prospective buyers of other facilities. Citra has
3 two principals, Herb Saltzman and Michael L. Janda, both of
4 whom have extensive experience in the health care industry.

5 18. I am confident that within a very short period of
6 time, the Debtors will be operating profitably and will either
7 be able to reorganize or be sold as a going concern for maximum
8 value.
9

10 19. The Debtors' primary secured creditor is Bridge
11 Healthcare Finance, LLC ("Bridge"). Bridge is currently owed
12 approximately \$9.7 million secured by a first priority lien
13 against substantially all of the Debtors' accounts receivable
14 and certain of the Debtors' real property leases. One of those
15 leases is for the Debtors' location in San Diego which is
16 likely the Debtors' most valuable location, worth in the range
17 of approximately \$5-\$6 million. The Bridge loan was originated
18 in 2004 in the original amount of approximately \$27 million.
19

20 20. Until March 21, 2007, the day before the date of the
21 Debtors' Chapter 11 filings, all of the Debtors' collections
22 were paid into a lock box controlled by Bridge and then swept
23 by Bridge on a daily basis, and then Bridge would make daily
24 advances to the Debtors. On March 21, 2007, Bridge advised the
25 Debtors that Bridge intended to continue to sweep the Debtors'
26
27
28

1 lock box account, but that Bridge would no longer advance any
2 funds to the Debtors. Bridge also advised the Debtors that
3 Bridge intended to seek a state court receiver at a hearing to
4 be held the next day, on March 22, 2007, on an ex parte basis.
5 The Debtors also learned that Bridge instructed the Debtors'
6 pre-petition financial bank (Wells Fargo) to remit to Bridge
7 all proceeds collected from private insurance providers and
8 individuals.
9

10 21. I believe that Bridge's precipitous actions were
11 completely unnecessary and inappropriate given the parties
12 long-standing relationship and the fact that Bridge is under
13 absolutely no risk of not being repaid in full. As more
14 discussed below, just the accounts receivable which secure the
15 Bridge loan are worth approximately \$23.5 million, meaning that
16 Bridge is secured by an equity cushion of approximately 200%
17 just by the Debtors' accounts receivable alone before including
18 any of Bridge's other valuable collateral. Under any analysis,
19 Bridge is clearly adequately protected by an overwhelming
20 equity cushion.
21
22

23 22. The only other creditor that I am aware of who may
24 have a lien against the Debtors' cash is OmniCare, which holds
25 secured debt of approximately \$3 million secured by a second
26 priority lien against the accounts receivable and much of the
27
28

1 Debtors' other assets, junior only to the lien in favor of
2 Bridge.

3 23. As of the Petition Date, the Debtors' primary two
4 assets consist of their accounts receivable and facilities. As
5 of the Petition Date, the Debtors had collectible accounts
6 receivable of approximately \$23.5 million. With respect to the
7 Debtors' facilities, the Debtors have approximately 4,100 beds.
8 Facilities such as the ones owned by the Debtors sell for a
9 range of \$8,000-\$27,000 per bed, with an expected average sale
10 price of more than \$10,000 per bed. This means that even after
11 closing or selling the seven Problem Facilities described
12 above, the Debtors would be left with 23 remaining facilities
13 which would have a total of approximately 3,000 of beds. With
14 a conservative average sale price of approximately \$10,000 per
15 bed, that would equate to a total value of approximately \$30
16 million.
17
18
19

20 24. Indeed, the Debtors have sold four of their
21 facilities over the past year. The Debtors sold one facility
22 in June, 2006 for \$27,000 per bed. The Debtors sold two
23 facilities in January, 2007, one for approximately \$14,200 per
24 bed, and the other for approximately \$15,000 per bed. The
25 Debtors sold a fourth facility in March, 2007 for approximately
26 \$18,000 per bed.
27
28

1 25. Thus, I believe that the Debtors' current accounts
2 receivable and 23 facilities remaining after closing or selling
3 the seven Problem Facilities have a total value of at least \$58
4 million. In addition to the foregoing, the Debtors have a
5 deposit of approximately \$6.8 million with American Insurance
6 Guaranty for workers compensation claims, when a total of only
7 approximately \$1.8 million of such claims have been asserted,
8 and approximately \$1.5 million of lease deposits. The Debtors
9 also own the real estate where their corporate office is
10 located, and I believe that the real estate has approximately
11 \$1 million of equity.
12

13
14 26. In addition to the approximately \$9.7 million secured
15 debt owed to Bridge and the approximately \$3 million secured
16 debt owed to OmniCare, the Debtors owe approximately \$8.2
17 million to the Internal Revenue Service; approximately \$6.7
18 million of unsecured promissory notes; approximately \$2.2
19 million in litigation settlements; and approximately \$26.4
20 million in accounts payable.
21

22 27. Two proposed operating budgets (the "Budgets") for
23 the Debtors through the period ending June 29, 2007, prepared
24 on a weekly basis, are attached as Exhibits "B" and "C",
25 respectively, hereto. The Budgets were prepared by Fernando
26 Pedraja, the Debtors' controller, with the assistance of
27
28

1 Michael L. Janda of Citra, under my supervision, and are based
2 upon the Debtors' actual current operating performance.

3 28. The first Budget, attached hereto as Exhibit "B",
4 assumes no sale or closure of any of the seven Problem
5 Facilities and assumes Mr. Saul Majer and I will lend the
6 Debtors the combined sum of \$1 million during the first week of
7 these cases to make up for any cash flow shortfall on a junior
8 lien basis in accordance with a financing motion being filed
9 concurrently herewith. As set forth in the Budgets, with this
10 \$1 million loan, the Debtors project an ability to continue
11 operating through June 29, 2007 without the infusion of any
12 additional new money and without taking into account the sale
13 or closure of any of the seven Problem Facilities.

16 29. The second Budget, attached hereto as Exhibit "C",
17 assumes the immediate sale of the Novato and San Joaquin
18 Problem Facilities and assumes that Mr. Majer and I will lend
19 the Debtors the sum of \$1 million during the first week of
20 these cases to make up for any cash flow shortfall on a junior
21 lien basis in accordance with a financing motion being filed
22 concurrently herewith. I believe that consummating such an
23 immediate sale of the Novato and San Joaquin Problem Facilities
24 is realistic based upon conversations I have had with
25 prospective buyers. While these proposed sales would not
26
27
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1 generate any revenue for the Debtors, they would eliminate
2 significant operating expenses for the Debtors. As set forth
3 in the Second Budget, this \$1 million loan coupled with the
4 immediate sale of the Novato and San Joaquin Problem Facilities
5 would enable the Debtors to operate on a nearly cash flow
6 breakeven basis immediately.
7

8 30. I am highly confident of the Debtors' ability to
9 successfully reorganize and/or sell their assets so that the
10 maximum going concern value of the Debtors' assets is realized
11 for the benefit of all parties in interest. Working in close
12 conjunction with the Creditors' Committee, which the Debtors
13 will seek to have formed on an expedited basis, and with the
14 two professionals of Citra (Mr. Janda and Mr. Saltzman), the
15 Debtors intend to formulate an expedited reorganization and/or
16 sale strategy. The Citra professionals are currently engaged
17 in sale discussions with a number of prospective buyers for a
18 number of the Debtors' facilities, including the seven Problem
19 Facilities.
20
21

22 31. The Debtors seek Court authority to use cash
23 collateral on an immediate interim basis in accordance with the
24 Budgets to enable the Debtors to avoid immediate and
25 irreparable harm to the Debtors pending a final hearing. If
26 actual expenditures for any line items are less than the
27
28

1 Budgets, the difference shall carryover to the following weeks.
2 The Debtors also request that the Court set a final hearing
3 after the interim hearing to approve, on a final basis, the
4 Debtor's use of cash collateral.

5 32. In addition, the Debtors request that the Court
6 direct Bridge and all others to cause all of the Debtor's post-
7 petition collections, which currently are deposited into a
8 lockbox, to be deposited into the Debtors Debtors-in-Possession
9 bank accounts, which the Debtors expect will be at Wells Fargo
10 Bank.
11

12 33. The Debtors are viable operating entities whose going
13 concern value must be maintained in order for the Debtors to
14 maximize their value for all creditors and parties in interest,
15 to enable the Debtors either to sell their businesses as going
16 concerns and/or successfully reorganize. The Debtors can do so
17 only with the continued use of cash collateral. The inability
18 of the Debtors to continue to use cash collateral would cause
19 the decimation of the Debtors' significant going concern value,
20 as well as the loss of jobs of the Debtors' approximately 3,500
21 employees, and displacement of the Debtors' approximately 3,000
22 residents.
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1 34. Here, there can be no question that both Bridge and
2 Omni are clearly adequately protected by an overwhelming equity
3 cushion which is well in excess of 20%.

4 35. Bridge is owed only approximately \$9.7 million
5 resulting from the significant pay down of its loan. Just the
6 Debtors' accounts receivable alone, against which Bridge has a
7 first priority lien, have a current fair market value of
8 approximately \$23.5 million. Bridge is therefore secured by an
9 equity cushion of approximately 200% by just the Debtors'
10 accounts receivable alone, and this is before taking into
11 account the value of any of the Debtors' facilities.

12 36. Omni is owed only approximately \$3 million secured by
13 a second priority lien against the Debtors' accounts receivable
14 and a lien against substantial additional assets of the
15 Debtors. Omni is therefore secured by an equity cushion of
16 approximately 600% by just the Debtors' accounts receivable
17 alone, and this is before taking into account the value of any
18 of the Debtors' facilities.

19 37. As described above, I believe that the Debtors'
20 facilities are likely worth in excess of \$30 million, and this
21 is in addition to the Debtors' accounts receivable. With the
22 other assets described above, the Debtors' total assets are
23 worth well in excess of \$60 million. With less than \$13
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1 million of total secured debt owing to Bridge and to Omni,
2 there can be absolutely no question that both Bridge and Omni
3 are adequately protected and will be paid in full under any
4 circumstance. Any argument to the contrary would simply be
5 false.

6
7 38. Since just the Debtors' approximately \$23.5 million
8 of accounts receivable are sufficient to pay Bridge and Omni in
9 full, Bridge and Omni would not really be harmed by a shut down
10 of the Debtors' business and denial of cash collateral use
11 since they would be paid in full in any event. The loss of the
12 going concern value of the Debtors' business will therefore
13 likely not have any economic impact upon Bridge or Omni.

14
15 39. However, a shut down of the Debtors' business and
16 loss of the going concern value of the Debtors' business would
17 have an absolutely devastating impact upon the Debtors' other
18 creditors, including the Debtors' approximately \$43.5 million
19 of unsecured creditors, and the Debtors' equity holders. That
20 is precisely why the Debtors intend to work with the Office of
21 the United States Trustee in an effort to form an Official
22 Committee of Unsecured Creditors on an expedited basis, so that
23 the unsecured creditors can have a representative take an
24 active role in these cases. A shut down of the Debtors'
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27 business would also have a devastating impact upon the Debtors'
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1 approximately 3,500 employees who would lose their jobs and the
2 Debtors' approximately 3,000 residents who would be displaced.

3 40. In addition to the overwhelming equity cushion in
4 favor of Bridge and Omni, the Debtors also propose to provide
5 Bridge and Omni with replacement liens against the Debtors'
6 post-petition assets with such replacement liens to have the
7 same extent, validity, and priority as the pre-petition liens
8 held by Bridge and Omni. Such replacement liens will provide
9 Bridge and Omni with further adequate protection.

11 41. In addition, to the other relief requested by the
12 Motion, the Debtors respectfully request that the Court direct
13 Wells Fargo Bank and any other institutions who have placed
14 holds and/or freezes on any of the Debtors' prepetition
15 accounts to release them.

17 42. Wells Fargo Bank just recently placed holds and/or
18 freezes on the Debtors' two payroll accounts referenced in the
19 motion to approve the payment of payroll and to honor vacation
20 and other benefits filed by the Debtor concurrently with the
21 Motion (the "Wage Motion"), as well as on 30 resident trust
22 accounts.

24 43. I hereby respectfully request that the Court order
25 and direct such institutions to release those holds and/or
26 freezes on the Debtors' trust and non-trust accounts.
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I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Executed on this 23rd day of March, 2007, at Los Angeles, California.


See attached

EMMANUEL I. BERNABE

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I declare under penalty of perjury that the foregoing
true and correct to the best of my knowledge.

Executed on this 23rd day of March, 2007, at Los Ang
California.



EMMANUEL I. BERNABE