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HONORABLE MARY JO HESTON

Chapter 11

HEARING DATE: November 27, 2019

HEARING TIME: 11:30 a.m.

LOCATION: Telephonic

RESPONSE DATE: At hearing

**UNITED STATES BANKRUPTCY COURT  
WESTERN DISTRICT OF WASHINGTON**

In re:

PNW HEALTHCARE HOLDINGS,  
LLC, *et al.*,<sup>1</sup>

DEBTOR

Lead Case No. 19-43754

(Joint Administration Requested)

**DECLARATION OF WILL MASTERSON IN  
SUPPORT OF FIRST DAY MOTIONS**

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<sup>1</sup> The Debtors in the above-captioned chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: PNW Healthcare Holdings, LLC (9801); North Auburn Health, LLC dba North Auburn Rehabilitation & Health Center (3159); Sequim Health, LLC dba Sequim Health & Rehabilitation (7737); Bremerton Health, LLC dba Bremerton Convalescent & Rehabilitation Center (3188); Crestwood Convalescent-Port Angeles, LLC dba Crestwood Health & Rehabilitation Center (6565); Fir Lane Health-Shelton, LLC dba Fir Lane Health & Rehabilitation Center (7798); Forest Ridge Health-Bremerton, LLC dba Forest Ridge Health & Rehabilitation Center (4019); Meadow Park Health-St Helen, LLC dba Meadow Park Health & Specialty Care Center (9109); Cherrywood Place-Spokane, LLC dba Cherrywood Place (7776); Riverside Nursing-Centralia, LLC dba Riverside Nursing & Rehabilitation Center (3792); PNW Master Tenant I, LLC (9824); Franklin Hills Health-Spokane, LLC dba Franklin Hills Health & Rehabilitation Center (1763); Aldercrest Health-Edmonds, LLC dba Aldercrest Health & Rehabilitation Center (3827); PNW Master Tenant II, LLC (5319); Gardens on University-Spokane Valley, LLC dba The Gardens on University (1917); Puget Sound Healthcare-Olympia, LLC dba Puget Sound Healthcare Center (4419); Care Center East Health-Portland, LLC dba Care Center East Health & Specialty Care Center (8950); LaCrosse Health-Coeur d'Alene, LLC dba LaCrosse Health & Rehabilitation Center (8594); Ivy Court-Coeur d'Alene, LLC dba Ivy Court (3197).

Foley & Lardner LLP  
555 South Flower St., Suite 3300  
Los Angeles, CA 90071-2418  
Phone: 213-972-4500  
Fax: 213-486-0065

1 I, Will Masterson, declare as follows:

2 1. I am the CEO of Cornerstone Healthcare Services, LLC, the management services  
3 company for the Debtors, and am directly responsible for management of the business and  
4 financial affairs of PNW Healthcare Holdings, LLC, North Auburn Health, LLC dba North  
5 Auburn Rehabilitation & Health Center; Sequim Health, LLC dba Sequim Health &  
6 Rehabilitation; Bremerton Health, LLC dba Bremerton Convalescent & Rehabilitation Center;  
7 Crestwood Convalescent-Port Angeles, LLC dba Crestwood Health & Rehabilitation Center; Fir  
8 Lane Health-Shelton, LLC dba Fir Lane Health & Rehabilitation Center; Forest Ridge Health-  
9 Bremerton, LLC dba Forest Ridge Health & Rehabilitation Center; Meadow Park Health-St  
10 Helen, LLC dba Meadow Park Health & Specialty Care Center; Cherrywood Place-Spokane,  
11 LLC dba Cherrywood Place; Riverside Nursing-Centralia, LLC dba Riverside Nursing &  
12 Rehabilitation Center; PNW Master Tenant I, LLC; Franklin Hills Health-Spokane, LLC dba  
13 Franklin Hills Health & Rehabilitation Center; Aldercrest Health-Edmonds, LLC dba Aldercrest  
14 Health & Rehabilitation Center; PNW Master Tenant II, LLC; Gardens on University-Spokane  
15 Valley, LLC dba The Gardens on University; Puget Sound Healthcare-Olympia, LLC dba Puget  
16 Sound Healthcare Center; Care Center East Health-Portland, LLC dba Care Center East Health  
17 & Specialty Care Center; LaCrosse Health-Coeur d'Alene, LLC dba LaCrosse Health &  
18 Rehabilitation Center; and Ivy Court-Coeur d'Alene, LLC dba Ivy Court, which (collectively  
19 "Cornerstone Healthcare" or the "Debtors"). As discussed below, these entities operate as a  
20 consolidated business.

21 2. I have been the CEO of Cornerstone, and responsible for the business operations  
22 of the Cornerstone Healthcare business since September 18, 2018. I make this declaration of my  
23 personal knowledge and based on my review of Cornerstone Healthcare's books and records and  
24 inquiries of Cornerstone Healthcare's management and employees. I could and would  
25 competently testify as follows:

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1 **I. OVERVIEW**

2 3. Cornerstone Healthcare operates a community of skilled nursing facilities  
3 throughout Washington, as well as in Oregon and Idaho. These facilities provide quality care to  
4 approximately 1182 residents on a daily basis, and employ more than 1200 people in their local  
5 communities. The overall Cornerstone Healthcare business is sound. In the first three quarters  
6 of 2019, the business generated \$94 million in revenue, and was profitable on both an EBITDA  
7 and net income basis.

8 4. The Cornerstone Healthcare Debtors filed these cases primarily in order to  
9 address specific issues with their secured debt and leases. Cornerstone Healthcare fully expects  
10 to confirm a plan of reorganization, emerge from Chapter 11 in a stronger position, and continue  
11 to provide the highest quality of care.

12  
13 **II. THE CORNERSTONE HEALTHCARE BUSINESS**

14 **A. Background of the Cornerstone Healthcare Facilities**

15 5. Cornerstone Healthcare is made up of fourteen skilled nursing facilities located  
16 Washington, Oregon, and Idaho, and one assisted living center in Washington. These facilities  
17 serve local communities throughout Washington, as well as two in Idaho and one in Oregon.<sup>2</sup>  
18 The facilities range in size from 52 to 135 operational resident beds, with most in the 80 to 120  
19 range. In total the facilities have capacity to provide skilled nursing services to approximately  
20 1508 residents. Currently the facilities serve approximately 1182 residents.

21 6. The Cornerstone Healthcare skilled nursing centers provide a variety of care to  
22 residents, serving both residents with shorter term rehabilitation needs following surgery or  
23 cardiac events, and those who need long-term skilled nursing care. Each center has a  
24 compassionate and professional team dedicated to provide excellent, resident-centered care. In  
25 addition to their employees, the Cornerstone Healthcare centers contract with independent  
26

27 <sup>2</sup> A second location in Oregon was closed pre-petition.

1 medical professionals to provide complete care and rehabilitation service to their residents.  
2 Cornerstone Healthcare is dedicated to providing high quality and compassionate care to its  
3 residents.

4 7. The Cornerstone Healthcare businesses support approximately 1200 jobs in their  
5 local communities. More than eighty percent are full time, with the rest part time. Mostly of the  
6 employees work in, and are employed by, the local facilities. In addition, there are  
7 approximately one hundred shared pool employees who float between facilities. This  
8 arrangement improves efficiency by allowing the pool employees to work in the various  
9 Cornerstone centers on an as needed basis. There are also approximately 24 employees who  
10 work in the central management company office, providing corporate administrative services to  
11 all of the Cornerstone Healthcare entities, as further described below.

12 **B. Financial Performance**

13 8. Although issues with its lender and lessor required this filing, the Cornerstone  
14 Healthcare business generates substantial cash flow and is fundamentally sound. In the trailing  
15 twelve months prior to the petitions, through September 2019, the Cornerstone Healthcare  
16 business generated a little over \$127 million in revenue. Approximately \$53.2 million was paid  
17 out in salaries and wages to local employees in the sixteen locations and the central office. In  
18 the current year to date, through September 30, 2019, revenue is \$94,916,285. On that revenue  
19 the business generated \$2,195,340 in positive EBITDA, and \$515,682 in net income.

20 **C. Corporate Structure**

21 9. There are a total of nineteen debtor entities. Each facility is a separate LLC, and  
22 there are sixteen facility LLCs. Each facility is a wholly owned subsidiary of PNW Healthcare  
23 Holdings, LLC ("PNW Holdings"), which is also a debtor in this case. The equity in PNW  
24 Holdings is held by three non-debtor equity holders. The majority interest is held indirectly by  
25 Dov E. Jacobs, who is also the Manager of each of the debtor LLCs.

26 10. In addition to the facilities and PNW Holdings, there are two other debtor entities:  
27 PNW Master Tenant I, LLC ("Master Tenant I"), and PNW Master Tenant II, LLC ("Master

1 Tenant II” and together with Master Tenant I, the “Master Tenants”). The Master Tenants hold  
2 the leases for each of the sixteen facilities.

3 11. The reason for the two Master Tenants is based on the division between buildings  
4 with Department of Housing and Urban Development (“HUD”) loans, and those without. These  
5 are referred to as the “HUD” and “non-HUD” facilities. There are seven HUD facilities, and  
6 nine non-HUD facilities.

7 12. An organizational chart showing the nineteen debtors and the equity holders is  
8 attached hereto as Exhibit A.

9 13. The Cornerstone Healthcare centers, their locations, and the number of beds are as  
10 shown in the following table:

11

12 Facility Name and Address	12 LLC Legal Name (HUD status)	12 Number of Resident Beds <sup>3</sup>
13 WASHINGTON		
14 North Auburn Rehabilitation & Health Center 15 2830 I Street NE 16 Auburn, WA 98002	14 North Auburn Health, LLC 15 ( <b>non-HUD</b> )	14 87
17 Bremerton Convalescent & Rehabilitation Center 18 2701 Clare Ave 19 Bremerton, WA 98310	17 Bremerton Health, LLC 18 ( <b>non-HUD</b> )	17 125
20 Forest Ridge Health & Rehabilitation Center 21 140 Marion Ave South 22 Bremerton, WA 98312	20 Forest Ridge Health-Bremerton, 21 LLC 22 ( <b>HUD</b> )	20 98
23 Riverside Nursing & Rehabilitation Center 24 1305 Alexander St 25 Centralia, WA 98531	23 Riverside Nursing-Centralia, LLC 24 ( <b>non-HUD</b> )	23 91
26 Aldercrest Health & Rehabilitation Center 27 21400 72 <sup>nd</sup> Ave W 28 Edmonds, WA 98026	26 Aldercrest Health-Edmonds, LLC 27 ( <b>non-HUD</b> )	26 128
Puget Sound Healthcare Center 4001 Capital Mall Dr SW Olympia, WA 98502	Puget Sound Healthcare-Olympia, LLC ( <b>HUD</b> )	108

3 This reflects the approximately number of operational beds, not the number of licensed beds, which would usually be higher.

1	Crestwood Health & Rehabilitation Center 1116 E Lauridsen Blvd Port Angeles, WA 98362	Crestwood Convalescent-Port Angeles, LLC <b>(HUD)</b>	101
2			
3	Sequim Health & Rehabilitation 650 West Hemlock St Sequim, WA 98382	Sequim Health, LLC <b>(non-HUD)</b>	100
4			
5	Fir Lane Health & Rehabilitation Center 2430 North 13 <sup>th</sup> St Shelton, WA 98584	Fir Lane Health-Shelton, LLC <b>(HUD)</b>	135
6			
7	Cherrywood Place 100 East Dalke Ave Spokane, WA 99208	Cherrywood Place-Spokane, LLC <b>(non-HUD)</b>	52
8			
9	Franklin Hills Health & Rehabilitation Center 6021 North Lidgerwood St. Spokane, WA 99208	Franklin Hills Health-Spokane, LLC <b>(HUD)</b>	100
10			
11	The Gardens on University 414 S University Rd Spokane Valley, WA 99206	Gardens on University-Spokane Valley, LLC <b>(HUD)</b>	121
12	<b>OREGON</b>		
13	Care Center East Health & Specialty Care Center 11325 NE Weidler Portland, OR 97220	Care Center East Health-Portland, LLC <b>(non-HUD)</b>	83 (now closed)
14			
15	Meadow Park Health & Specialty Care Center 75 Shore Dr St Helens, OR 97051	Meadow Park Health-St Helens, LLC <b>(non-HUD)</b>	83
16			
17	<b>IDAHO</b>		
18			
19	Ivy Court 2200 Ironwood Pl Coeur d'Alene, ID 83814	Ivy Court-Coeur d'Alene, LLC <b>(HUD)</b>	80
20			
21	LaCrosse Health & Rehabilitation Center 210 West LaCrosse Ave Coeur d'Alene, ID 83814	LaCrosse Health-Coeur d'Alene, LLC <b>(non-HUD)</b>	99

22           14.     Collective administrative services are provided through three non-debtor entities:  
23 PNW Healthcare Management, LLC (“PNW Management”), Cornerstone Healthcare Services,  
24 LLC (“Cornerstone LLC”), and CRN Pool, LLC (“CRN Pool”).

25           15.     PNW Management was formed as the original administrative services company  
26 for the Cornerstone Healthcare facilities. Each of the Debtor facilities is party to an  
27 Administrative Services Agreement (“ASA”) with PNW Management. The ASAs provide for  
28

1 PNW Management to receive a 5% management fee based on gross revenue, in exchange for  
2 providing various administrative services to effectively manage the business (as opposed to  
3 healthcare) matters for the Debtors.

4 16. As a practical matter, the business affairs of the Debtors are now managed  
5 through Cornerstone LLC, which acts as the central organizing entity for the business.  
6 Cornerstone LLC employees approximately 24 employees, who work primarily out of the central  
7 corporate office for Cornerstone Healthcare in Gig Harbor, Washington. These employees  
8 provide essential business management and administrative services to the Debtor entities that are  
9 absolutely necessary to the ability of the Cornerstone Healthcare facilities to operate.

10 17. The expenses of operating Cornerstone LLC are paid directly by the Cornerstone  
11 Healthcare facilities, as part of the necessary costs of operating. Approximately 77% of the  
12 Cornerstone LLC expenses are payroll and benefits for the central office employees, and  
13 approximately 7% is for employee reimbursable expenses. Another 12% is in the four categories  
14 of human resources consulting expenses, legal expenses, information technology expenses, rent  
15 for the central office, and travel expenses.<sup>4</sup> These costs are paid by the Cornerstone Healthcare  
16 facilities as a means of pooling these collective administrative expenses. By doing this, the  
17 Debtors are able to realize a significant savings. Cornerstone LLC provides for pooling of  
18 expenses – it does not profit or receive payments in excess of the pooled expenses, which are for  
19 the benefit of the Debtors.

20 18. While Cornerstone LLC provides general administrative services, accounting  
21 back office service is provided by Apex, an unaffiliated professional back office accounting  
22 services firm.

23 19. It should be noted that the PNW Management 5% management fee is currently  
24 not being paid, and has been deferred for more than a year, because Cornerstone Healthcare  
25 deducts the costs of both Cornerstone LLC's expenses and the Apex contract for back office  
26

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27 <sup>4</sup> These calculations are based on the trailing twelve months ended September 30, 2019.  
28

1 support from the management fee amount, and those costs exceed 5% by a relatively small  
2 margin.

3 20. CRN Pool is merely a pass-through entity that simplifies employment of  
4 approximately 100 pool employees who move between facilities on an as needed basis. Having  
5 these employees employed through CRN Pool avoids having to change their employer every  
6 time they move. Charges for CRN Pool employees are allocated based on hours worked at each  
7 facility, and payroll for CRN Pool employees is funded directly by the Cornerstone Healthcare  
8 facility entities. CRN Pool does not have other material expenses or income.

9 **D. The Leases**

10 21. The real property that each Cornerstone Healthcare facility operates in is owned  
11 by a separate special purpose entity of the ultimate landlord, Formation Capital. Rights in each  
12 property are assigned to one of two master landlords: Canyon nH, LLC, and Canyon Z, LLC (the  
13 “Canyon Landlords”). The Canyon Landlords are unaffiliated non-debtor entities.

14 22. The real properties for the seven HUD facilities are leased by Canyon Z to Master  
15 Tenant I. Likewise, the real properties for the nine non-HUD facilities are leased by Canyon nH  
16 to Master Tenant II.<sup>5</sup> The facility real properties are then sub-leased by the Master Tenants to  
17 the individual facility entities.

18 **E. Debt Structure**

19 23. The Debtor and MidCap Financial Trust, as Agent and lender and other lenders,  
20 are parties to two Credit and Security Agreements (the “Credit Agreements”). The HUD  
21 facilities are the borrowers under one of the Credit Agreements, and the non-HUD facilities are  
22 the borrowers under the other of the Credit Agreements.

23 24. The Credit Agreements provide the Debtor with revolving credit in an aggregate  
24 amount of up to \$17,000,000, with a maturity date of December 1, 2020. To secure its  
25 performance under the Credit Agreements, the Debtor granted a lien and security interest in the  
26

27 <sup>5</sup> “nH” for “non-HUD.”



1 assets identified therein (the “Prepetition Collateral”). The Credit Agreements, along with all  
2 other documents related to the pre-petition loans made to the Debtor by the Lender, shall be  
3 referred to collectively as the “Loan Documents.”

4 25. As of the Petition Date, the aggregate amount due and owing to the Lender under  
5 the Loan Documents (collectively, the “Prepetition Debt”) was approximately \$9,085,645.

6 26. The Debtors also have approximately \$20.9 million in general unsecured debt, the  
7 majority of which is trade debt.

### 8 III. EVENTS LEADING TO CHAPTER 11

9 27. Cornerstone Healthcare filed these Chapter 11 cases in order to address three  
10 primary issues.

11 28. On October 14, 2019, the Debtors received default notices from MidCap under  
12 both the HUD and non-HUD credit agreements (the “Default Notices”). These Default Notices  
13 assert prior and continuing covenant defaults based on the fixed charge coverage ratio under the  
14 credit agreements. MidCap had previously sent notices of default regarding the fixed charge  
15 coverage ratio, most recently on August 20, 2019. Although MidCap had not taken aggressive  
16 action, its continuing reservation of rights raised significant concerns.

17 29. The Default Notices further provided for institution of default interest, at a default  
18 rate of 5.00% above the standard contract rate, retroactively effective as of February 1, 2019.  
19 This imposition of default interest has negatively impacted cash flow, and is a major driving  
20 factor being the bankruptcy filing.

21 30. In addition to the MidCap issues, the Canyon Landlords have asserted that there  
22 are various defaults under the lease agreements. The Canyon Landlords have not sent a formal  
23 notice of default. Nevertheless, the possibility of an attempt by the Canyon Landlords to  
24 terminate the leases based on these asserted defaults, with the catastrophic consequences that  
25 would result, was determined by the Debtors to be an unacceptable risk.

26 31. Although it was not a driving force behind the filing, the Debtors also have  
27 approximately \$20.9 million in general unsecured debt that is past due, which they are not  
28

1 currently able to pay in full on time. The Chapter 11 filing will provide an opportunity to  
2 restructure this debt.

#### 4 **IV. INTENDED REORGANIZATION**

5 32. Cornerstone Healthcare believes that its business is strong, and that the  
6 appropriate outcome of this case is a reorganization through a Chapter 11 plan, once immediate  
7 issues have been addressed.

#### 9 **V. FACTS SPECIFIC TO INDIVIDUAL FIRST DAY MOTIONS**

##### 10 **A. Joint Administration Motion**

11 33. The Debtors seek the joint administration of their Chapter 11 Cases, 19 in total,  
12 for procedural purposes only. Many of the motions, hearings, and other matters involved in  
13 these Chapter 11 Cases will affect all of the Debtors. Thus, I believe that the joint administration  
14 of these cases will avoid the unnecessary time and expense of duplicative motions, applications,  
15 orders and other pleadings, thereby saving considerable time and expense for the Debtors and  
16 resulting in substantial savings for their estates. I also believe that joint administration of these  
17 Chapter 11 Cases will ease the administrative burden on the Court and all parties in interest.

18 34. While the Debtors maintain bookkeeping information on the individual financial  
19 performance of the facilities, such that separate financial statements can be prepared for each  
20 entity, the Debtors themselves prepare financial statements on a consolidated basis. It would be  
21 burdensome and expensive for the Debtors to begin producing entirely separate financial  
22 statements for each of the 19 entities. The Debtors therefore request that they be permitted to  
23 continue to prepare all periodic reports, including Monthly Operating Reports, on a consolidated  
24 basis, pending further Order of the Court.

##### 25 **B. Creditor Matrix Motion**

26 35. Through the Creditor Matrix Motion, the Debtors are seeking authority to: (a)  
27 prepare a consolidated list of creditors in lieu of submitting separate mailing matrices for each  
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1 Debtor (the “Creditor Matrix”), (b) authorizing the Debtors to redact certain personal  
2 identification information for individual creditors, (c) approving a limited notice procedure for  
3 the Debtors’ employees; and (d) approving the form and manner of notifying creditors of  
4 commencement of these chapter 11 cases.

5 36. The preparation of separate lists of creditors for each debtor would be expensive,  
6 and time consuming. As such, the Debtors have requested to file a consolidated creditor matrix.  
7 Filing a consolidated creditor matrix will help alleviate administrative burdens, costs, and the  
8 possibility of duplicative service. Also, the list of creditors may include information of  
9 individual creditors with personal information; such information can be used to perpetrate  
10 identity theft. Further, mailing initial notices of bankruptcy through the Debtors’ proposed  
11 claims and noticing agent, Omni Agent Solutions, to parties in interest will maximize efficiency  
12 in administering these chapter 11 cases and will ease administrative burdens that would  
13 otherwise fall upon the Court and the U.S. Trustee.

14 37. In addition, the Debtors employ more than 1,200 employees. The Debtors are  
15 seeking authority to pay any outstanding prepetition amounts owed to Employees, subject to the  
16 statutory limit—which I do not believe any Employee’s unpaid amounts exceed. As such, I  
17 believe that the Employees will not have any claims for prepetition amounts owed to them. In  
18 addition, the Debtors’ management intends to keep the Employees up to date with any significant  
19 events occurring within these Chapter 11 Cases. Therefore, I do not believe that Employees will  
20 need notice other than for the Complete Notice Matters (as defined below).

21 38. As such, the Debtors intend on providing notice to employees for the following  
22 matters or proceedings: (a) the commencement of these Chapter 11 Cases; (b) the date for filing  
23 proofs of claim; (c) the entry of an order confirming a plan; and (f) a hearing regarding the  
24 dismissal or conversion of these Chapter 11 Cases (the “Complete Notice Matters”). I believe  
25 that such notice will keep the Employees abreast essential matters of these Chapter 11 Cases,  
26 while not unduly burdening the Debtors will excessive service costs. To the extent any  
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1 employee wishes to receive additional notices during the case, they can submit a request for  
2 special notice.

3 39. Given the number of employees and the Debtors' proposed treatment to leave  
4 those employees unimpaired and communicate significant developments internally, it would be  
5 impractical and would impose a large administrative and economic burden upon the Debtors'  
6 estates if the Debtors were required to notice the Employees beyond the Complete Notice  
7 Matters identified above. Therefore, the Debtors request that the Court approve the limited  
8 notice procedures described herein for the Employees.

9 **C. Cash Collateral Motion**

10 40. The MidCap credit facilities are secured by liens encumbering substantially all of  
11 the assets of the entities. The Debtors are not presently aware of any meritorious basis on which  
12 the nature, extent, perfection or validity of the liens could be challenged.<sup>6</sup> The Debtors believe  
13 that most of its net revenues constitute "cash collateral."

14 41. The Debtor needs to use Cash Collateral pursuant to the budget attached as  
15 Exhibit A to the Cash Collateral Motion (the "Budget") to (a) protect patients, (b) protect jobs of  
16 approximately 1200 employees, (c) preserve the going-concern value of its business; and (d)  
17 minimize the disruption to, if not cessation of operations.

18 42. Without immediate use of Cash Collateral, the Debtor would likely cease  
19 operations, likely harming patients, resulting in a loss of jobs for the employees, and greatly  
20 reducing the value of the business as it would no longer be an ongoing enterprise. The requested  
21 relief is necessary for the Debtor to: (a) protect approximately 1200 patients, (b) pay  
22 approximately 1200 employees, (c) preserve the going-concern value of its business; and (d)  
23 minimize the disruption to business operations caused by these bankruptcy cases. Unless the  
24 Debtor is authorized immediately to use Cash Collateral pursuant to the Budget, the Debtor will

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26  
27 <sup>6</sup> The Debtors do not waive any right to challenge the nature, extent, perfection, or validity of the  
28 liens asserted by MidCap.

1 suffer immediate and irreparable harm, and so will patients, employees, creditors, and other  
2 stakeholders.

3 43. The Debtor's use of the Cash Collateral will generate additional revenues that will  
4 allow the Debtor to continue to operate, while working to restructure its indebtedness and  
5 rehabilitate and improve its relationship with vendors, service providers, and related parties in  
6 interest. The Debtor seeks to use Cash Collateral to fund working capital, operating expenses,  
7 capital expenditures, fixed charges, payroll, and all other general corporate purposes arising in  
8 the Debtor's ordinary course of business, consistent with and in compliance with the Budget, and  
9 to pay the costs and expenses related to the administration of the Debtor's bankruptcy case,  
10 including reasonable professional fees and certain other expenses as contemplated in the Budget,  
11 and as set forth in the applicable Interim and/or Final Orders. The Debtor needs the brief  
12 breathing spell provided by this bankruptcy case to restructure its indebtedness and preserve  
13 value for all stakeholders. During that breathing spell, the Debtor must use Cash Collateral to  
14 avoid immediate and irreparable harm. In sum, the Debtor intends to use these bankruptcy cases  
15 to stabilize operations and preserve value for all stakeholders.

16 **D. Cash Management Motion**

17 44. In the ordinary course of business, Cornerstone Healthcare maintains more than  
18 50 accounts and sub-accounts for deposits, disbursements, and payroll. A chart showing the  
19 account structure is attached hereto as **Exhibit B**. In general the account structure is divided  
20 between the HUD and non-HUD parts of the business. All accounts are held at CIBC.

21 45. Each of the Debtor facilities maintains two deposit accounts. Government  
22 receipts from Medicare and Medicaid have to be deposited into a separate government deposit  
23 account. All other deposits, for example payments from private insurance, are deposited into a  
24 general deposit account. All of the deposit accounts are "zero balance accounts," meaning that  
25 the balance is regularly swept. The government deposit accounts are swept into the general  
26 deposit account for each Debtor facility. The general deposit accounts are then swept into a  
27 main concentration account (the "Concentration Accounts").

1           46.     There are two Concentration Accounts: one held by Master Tenant I for the HUD  
2 facilities, and one held by Master Tenant II for the non-HUD facilities. The Concentration  
3 Accounts are zero balance accounts as well, and pre-petition were swept into a lockbox account  
4 controlled by Midcap.

5           47.     On the disbursement side, there are similarly two main disbursement accounts: a  
6 HUD facility account held by Master Tenant I, and a non-HUD account held by Master Tenant II  
7 (the “Main Disbursement Accounts”). These are funded by draws from MidCap. Funds are then  
8 pushed down from the Main Disbursement Accounts to the individual facility disbursement  
9 accounts. Cornerstone Healthcare makes disbursements from the individual facility accounts to  
10 pay the expenses of the business.

11           48.     There is also a payroll account for each side of the business, as well as a Master  
12 Tenant Account held by Master Tenant I for payment of rent, and an account for PNW Holdings.

13           49.     The Debtors request authority to maintain their Cash Management System  
14 accounts as described above and shown on the attached chart unchanged, except that funds shall  
15 not be swept to the Midcap account, and shall instead be swept from the Concentration Accounts  
16 into the Main Disbursement Accounts. I think that it is critical that CIBC be authorized to  
17 maintain these accounts, so that the Debtors business is not interrupted.

18           50.     The Debtors will work with CIBC to ensure that no payments are made on  
19 prepetition checks or other obligations, except to the extent authorized by the Court (for  
20 example, pursuant to the Employee Wage and Benefits Motion).

21           **E.     Employee Wage and Benefits Motion**

22           51.     The Debtors collectively utilize approximately 1,225 Employees, consisting of  
23 approximately 1,000 full-time Employees and 225 part-time Employees. Further, approximately  
24 1130 of these Employees are paid hourly and 95 are salaried Employees. These Employees are  
25 utilized at either the Debtors’ skilled nursing facilities or are contracted to provide as-needed  
26 nursing services or back-office and management services from non-debtor affiliated entities.  
27 These Employees perform a variety of functions including, but not limited to, medical services,  
28

1 administrative services, and other tasks for the necessary operations of the Debtors' businesses.

2 The number of Employees at each Debtor is broken out as follows:

3

4

Debtor	Number of Employees
Aldcrest Health-Edmonds, LLC (" <u>Aldcrest</u> ")	76
Bremerton Health, LLC (" <u>Bremerton</u> ")	84
Cherrywood Place-Spokane, LLC (" <u>Cherrywood</u> ")	18
Crestwood Convalescent-Port Angeles, LLC (" <u>Crestwood</u> ")	67
Fir Lane Health-Shelton, LLC (" <u>Fir Lane</u> ")	84
Forest Ridge Health-Bremerton, LLC (" <u>Forest Ridge</u> ")	73
Franklin Hills Health-Spokane, LLC (" <u>Franklin Hills</u> ")	60
Gardens on University-Spokane Valley, LLC (" <u>Gardens</u> ")	86
Ivy Court-Coeur d'Alene, LLC (" <u>Ivy Court</u> ")	80
LaCrosse Health-Coeur d'Alene, LLC (" <u>LaCrosse</u> ")	104
Meadow Park Health-St Helens, LLC (" <u>Meadow Park</u> ")	49
North Auburn Health, LLC (" <u>North Auburn</u> ")	80
Puget Sound Healthcare-Olympia, LLC (" <u>Puget Sound</u> ")	106
Riverside Nursing-Centralia, LLC (" <u>Riverside</u> ")	75
Sequim Health, LLC (" <u>Sequim Health</u> ")	83

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21 52. As discussed above, there are also approximately 100 employees who are  
22 employed through CRN Pool. The use of these CRN Pool Employees allows for the Debtors'  
23 skilled nursing facilities to flexibly operate and adjust Employee levels depending on demands.  
24 Payroll for these employees is funded through the Debtors' regular payroll process.

25 53. The Debtors' PNW Healthcare Holdings, LLC, PNW Master Tenant I, LLC, and  
26 PNW Master Tenant II, LLC do have any Employees. The 24 central corporate employees are

1 management level personnel employed through Cornerstone LLC. Payroll for these employees  
2 is funded through the Debtors' regular payroll process.

3 54. Approximately 289 of the Debtors' Employees are represented by a union  
4 (collectively, the "Represented Employees"). Of the Represented Employees, 76 are at  
5 Aldercrest, 84 are at Fir Lane, 80 are at North Auburn, and 49 are at Meadow Park. The  
6 Represented Employees are represented by SEIU (the "Union"). The Debtors' contractual  
7 arrangements with the Union regarding the employment of the Represented Employees are  
8 reflected in a Collectively Bargaining Agreement, effective November 12, 2018-May 31, 2021.

9 55. The Employees, as with any business entity, perform a variety of critical functions  
10 for the Debtors, and their knowledge, skills, and understanding of the Debtors' infrastructure,  
11 business operations, and vendor relations is essential to the success of these Chapter 11 Cases.  
12 Without the continued service and dedication of the Employees, it will be difficult, if not  
13 impossible, to operate the Debtors' businesses without an unexpected or inopportune  
14 interruption, and to prosecute these Chapter 11 Cases in a manner that will maximize the value  
15 of the Debtors' estates. Thus, to successfully accomplish the foregoing, to minimize the personal  
16 hardship that the Employees will suffer if prepetition employee-related obligations are not paid  
17 when due or as otherwise expected, and to maintain employee morale and a focused workforce  
18 during this critical time, I believe that it is necessary and in the best interest of their estates and  
19 all stakeholders to seek the relief requested herein.

20 56. **Payroll Process.** The Debtors bifurcate their payroll into two groups, each  
21 payable on alternating Fridays on a bi-weekly basis. The Debtors Aldercrest, Crestwood,  
22 Franklin Hills, Gardens, Meadow Park, North Auburn, Puget Sound, and Riverside are paid on  
23 one payroll cycle ("Cycle A") and the other Debtors, CRN Pool, and Cornerstone are paid on  
24 another payroll cycle ("Cycle B"). The Debtors perform this structure to even out the cash flows  
25 necessary to pay payroll.

26 57. The pay periods for each payroll cycle are two weeks. The pay cycle starts on a  
27 Sunday and extends through the following Saturday. Payroll is then paid on the Friday following  
28



1 the Saturday in which that payroll cycle ended. For example, Cycle A's most recently completed  
2 payroll cycle started on October 27, 2019 and ended on November 9, 2019, with this payroll  
3 being paid on November 15, 2019. Cycle B's most recently completed payroll cycle started on  
4 November 3, 2019 and ended on November 16, 2019, with this payroll being paid on November  
5 22, 2019. As of the date hereof, the Debtors will have earned but unpaid Employee  
6 compensation for both Cycle A and Cycle B due to the timing of the two cycles (collectively, the  
7 "Unpaid Compensation").

8 58. Each payroll cycle is approximately \$1.1 million, which varies due the fact that  
9 the majority of the Debtors' Employees being paid hourly. As of the Petition Date, the Debtors  
10 estimate there is approximately \$1.7 million in Unpaid Compensation that is payable within two  
11 weeks of the Petition Date.

12 59. **Unpaid Compensation.** In the ordinary course, the Debtors incur obligations to  
13 their Employees for, among other things, wages, salaries, overtime, sales commissions, and other  
14 obligations described herein (collectively, the "Employee Compensation"). The Debtors'  
15 historical average monthly gross Employee Compensation, including wages, salaries,  
16 commissions, related compensation, and Withholding Obligations (as defined herein), has been  
17 approximately \$4.3 million. As of the Petition Date, the Debtors estimate that they have  
18 approximately \$1.7 million in Unpaid Compensation. Further, the Debtors may find that certain  
19 Employees had Unpaid Compensation as of the Petition Date when the Debtors reconcile their  
20 books and records. As described above, loss of the Unpaid Compensation that the Employees  
21 are owed could cause such Employees to experience financial hardship. In light of the  
22 substantial benefit the Employees will continue to provide to the Debtors' estates, the Debtors  
23 wish to avoid imposing such a hardship.

24 60. **Withholding Obligations.** During each applicable payroll period, the Debtors  
25 routinely deduct certain amounts from Employees' paychecks, including Union dues,  
26 garnishments, child support, and similar deductions, legally ordered deductions, and  
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1 miscellaneous deductions (collectively, the “Deductions”), and forward such amounts to various  
2 third-party recipients.

3           61. In addition to the Deductions, certain federal and state laws require that the  
4 Debtors withhold certain amounts from Employees’ gross pay related to federal, state, and local  
5 income taxes, as well as Social Security and Medicare taxes (collectively, the “Employee Payroll  
6 Taxes”) for remittance to the appropriate federal, state, or local taxing authorities. The Debtors  
7 must then match the Employee Payroll Taxes from their own funds and pay, based upon a  
8 percentage of gross payroll, additional amounts for federal and state unemployment insurance  
9 and Social Security and Medicare taxes (together with the Employee Payroll Taxes, the “Payroll  
10 Taxes”). The Payroll Taxes are generally processed and forwarded to the appropriate federal,  
11 state, and local taxing authorities at the same time the Employees’ payroll checks are disbursed.  
12 As of the Petition Date, the Debtors estimate that they will have approximately \$170,000 in  
13 Deductions and Payroll Taxes (together, the “Withholding Obligations”) outstanding. Further,  
14 the Debtors may find that certain prepaid Withholding Obligations are outstanding when the  
15 Debtors reconcile their books and records.

16           62. ***Payroll Processing.*** The Debtors utilize SNF Payroll & HR (“SNF Payroll”) to  
17 process the Debtors’ payroll and Withholding Obligations, administer benefit enrollment, and  
18 pay the Debtors’ Employees. SNF Payroll provides these services pursuant to an Administrative  
19 Services Agreement. The Debtors do not have the functionality to perform the payroll  
20 processing services that SNF Payroll provides and seek to continue utilizing SNF Payroll for its  
21 services on a post-petition basis, including the payment of administrative fees owed to SNF  
22 Payroll under the Administrative Services Agreement (the “Payroll Processing Fees”). The  
23 Payroll Processing Fees are 0.09% of the gross payroll for each pay period and are paid when  
24 each payroll is processed. The Debtors pay approximately \$38,000 per month for such services.  
25 Further, the Debtors estimate that there is approximately \$15,000 in amounts outstanding that the  
26 Debtors will need to pay related to processing the Unpaid Compensation and request authority to  
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1 pay any outstanding, prepetition Payroll Processing Fees to SNF Payroll to ensure that there is no  
2 interruption to the Debtors' payroll.

3           63.     ***Reimbursable Expenses.*** In the ordinary course, the Debtors reimbursed  
4 Employees or paid credit card invoices of certain Employees for approved expenses incurred on  
5 behalf of the Debtors in the scope of their employment (the "Reimbursable Expenses"). The  
6 Reimbursable Expenses are largely on account of costs incurred related to Employee travel for  
7 reasonable business related purposes, but also include expenses for, among other things, license  
8 renewals, Google suite costs, electronic protection monitoring, maintenance, office and nursing  
9 supplies, and business development. These expenses are either paid by the Employee and then  
10 sought as reimbursement from the Debtors and/or Cornerstone or paid from an American  
11 Express credit card maintained at Cornerstone, which are then allocated to the Debtors  
12 depending on where those costs were incurred. For example, if a Cornerstone employee is  
13 required to travel to a skilled nursing facility, such expenses will be allocated to that skilled  
14 nursing facility.

15           64.     In addition, the Debtors reimburse employees for mileage spent traveling for  
16 company business through automobiles. The reimbursement rate is either at the IRS standard  
17 mileage rate or at a lower rate if the Cornerstone employee also received a vehicle stipend. On  
18 average, the Debtors pay Reimbursable Expenses of approximately \$25,000 per month in the  
19 aggregate. As of the Petition Date, the Debtors estimate that they owe approximately \$6,100 in  
20 aggregate Reimbursable Expenses, all of which would come due within the first 21 days of these  
21 Chapter 11 Cases.

22           65.     ***Employee Benefit Programs.*** The Debtors offer their eligible, full time  
23 Employees the ability to participate in a number of insurance and benefits programs, including,  
24 among other programs, medical, vision and dental plans, Hyatt legal plan, life insurance,  
25 accidental death and dismemberment insurance, disability benefits, workers' compensation, paid  
26 time off, and other employee benefit plans (collectively, the "Employee Benefits Programs").

1           66.     **Health Benefit Plans.** The Debtors offer their Employees the opportunity to  
2 participate in a number of health benefit plans, including medical, vision, and dental plans  
3 (collectively, the “Health Plans”). The Debtors pay for a percentage of premiums on the Health  
4 Benefit Plans through employee contributions and the Debtors’ cash flow. Specifically, the  
5 Debtors provide the following

- 6           • Medical Plan: The Debtors offer Employees and their families two medical plans  
7 (together, the “Medical Plans”) offered through MultiPlan and the PHCS PPO  
8 network. The two Medical Plans options include a Basic Plan and a Value Plus  
9 Plan. Each of the Medical Plans have specific benefits and related expenses for  
10 participants. Employees become eligible to participate in the Medical Plans on the  
11 first day of the month following 60 days of employment. The Debtors also make  
12 COBRA coverage available for Employees that leave employment with the  
13 Debtors.
- 14           • Dental Plan: The Debtors offer Employees the option of participating in a dental  
15 plan (the “Dental Plan”) after 30 days of employment. The Dental Plan is  
16 administered by MetLife.
- 17           • Vision Plan: In addition to the eye medical benefits offered under the Medical  
18 Plans, the Debtors also offer their Employees the option of participating in a vision  
19 plan (the “Vision Plan”) administered by MetLife.

20           67.     The Employee’s share of the costs of medical, dental, and vision insurance is  
21 deducted from the Employee’s paycheck on a pre-tax basis. For the Represented Employees, the  
22 Debtors pay the dollar equivalent of 80% of the Basic Plan premium towards whichever health  
23 plan option the Represented Employee elects. Represented Employees, however, pay the full  
24 expense for the Dental Plan and Vision Plan.

25           68.     As the Debtors self-insure their Health Plans, the Debtors rely on Shomer  
26 Insurance track the claims and costs associated with the Health Plans. Shomer Insurance then  
27 sends the Debtors a monthly invoice that is paid by Cornerstone and then billed to the respective  
28 skilled nursing facility based on the claim and Employee. The Debtors pay approximately  
\$390,000 in medical expenses covering the Medical Plan, Dental Plan, and Vision Plan per

1 month. The Debtors believe that there may be amounts outstanding for prepetition claims  
2 associated with the Health Plans.

3 69. The Debtors also provide voluntary benefits that the Employee may elect to  
4 participate in. At the election of the Employee, the Debtors may provide \$10,000 in life  
5 insurance to the Employee at no charge to the Employee. This benefit is provided through  
6 MetLife. Further, the Debtors' benefit plans permit Employees to participate in optional  
7 insurance coverage for accident, critical illness, hospital confinement, disability, and additional  
8 life insurance through AFLAC Life. These optional insurance coverages are payable by the  
9 Employee.

10 70. ***Workers' Compensation Program.*** The Debtors maintain workers'  
11 compensation insurance for their Employees (or are otherwise self-insured) at the statutorily  
12 required level for each state in which the Debtors have Employees (collectively, the "Workers'  
13 Compensation Program"). For the Debtors skilled nursing facilities in Idaho and Oregon, the  
14 Debtors maintain a workers' compensation and employers' liability policy through Pharmacist  
15 Mutual Insurance Company. The limits of the policy are set by the statutory limits imposed by  
16 state law. The monthly premium on Oregon and Idaho workers' compensation coverage is  
17 approximately \$27,355. I believe the Debtors are current on the monthly premium payments  
18 related to the Idaho and Oregon insurance premiums.

19 71. For the Debtors' skilled nursing facilities in Washington, the Debtors maintain  
20 workers' compensation insurance through the State of Washington's sponsored programs.  
21 Through the program, the Washington skilled nursing facilities pay premiums to the Washington  
22 State L&I fund on a quarterly basis. The quarterly costs is approximately \$320,000. With  
23 regards to the Washington L&I program and as of September 30, 2019, certain of the  
24 Washington Debtors<sup>7</sup> have yet to pay premiums under the L&I program in the collective amount  
25 of approximately \$630,000. These Debtors have either negotiated or are negotiating payment

26 \_\_\_\_\_  
27 <sup>7</sup> These Debtors include Bremerton, Forest Ridge, Riverside, Puget Sound, Crestwood, Sequim Health, Fir Lane,  
28 Cherrywood, Franklin Hills, and Gardens.

1 plans with the Washington Department of Labor and Industries with regards to the outstanding  
2 amounts. The Debtors intend to comply with the terms of the relevant payment plans to maintain  
3 workers' compensation insurance for their Washington skilled nursing facilities. Because the  
4 Debtors are statutorily and/or contractually obligated to maintain the Workers' Compensation  
5 Program, their inability to do so may result in adverse legal consequences that disrupt the  
6 restructuring process.

7       72. ***Paid Time Off.*** In the ordinary course of business, the Debtors provide paid time  
8 off to their Employees through vacation time, holidays, and personal-wellness leave  
9 (collectively, the "Paid Time Off"). Vacation generally accrues at specified rates up to a  
10 maximum amount based on the applicable state limit, if any. The rate and maximum amount of  
11 vacation that a given Employee is allowed to accrue depends on the years of service. For  
12 example, non-Union Employees with less than one year of service accrue Paid Time Off at a rate  
13 of 0.03846154 per hour worked. That rate of accrual increases with Employees with a length of  
14 service of 16 years and more accruing at a rate of 0.11923007 per hour worked. Represented  
15 Employees earn Paid Time Off at a rate of one hour of Paid Time Off for every 26 hours of pay  
16 for Represented Employees with less than one year of service to one hour of Paid Time Off for  
17 every 8.4 hours of pay for Represented Employees with 16 years and more of service.

18       73. Paid Time Off may be carried over from year to year at a maximum of 120 hours.  
19 Once an Employee reaches 120 hours they will be automatically paid out 20 hours at the rate of  
20 50% value for non-Union Employees and 50% of the value of Paid Time Off for all hours over  
21 120 hours for Represented Employees. Non-Union regular, full-time Employees may cash out  
22 Paid Time Off at a rate of 50% value. Paid Time Off, however, will not be paid out upon  
23 employment separation for non-Union Employees, but may be paid at 50% of value for  
24 Represented Employees. As of the Petition Date, the Debtors have approximately \$941,570 in  
25 accrued Paid Time Off.

26       74. Further, non-union part-time, seasonal, temporary, per diem, and on call  
27 Employees are eligible for sick leave ("Sick Pay") benefits that accrue at .025 hours per month  
28

1 of service. An Employee may use Sick Pay beginning on the 90th day of employment. Sick Pay  
2 can carry over to subsequent years, but are capped at 40 hours. Sick Pay is not vested. As of the  
3 Petition Date, the Debtors have approximately \$51,375 in accrued Sick Pay.

4 75. Accruals of Paid Time Off and Sick Pay, however, are not a current cash payment  
5 obligation. By this Motion, the Debtors seek authority, but not direction, to pay any “cash out”  
6 amounts required under applicable law with respect to earned but unused Paid Time Off and  
7 Sick Pay and to continue the Paid Time Off and Sick Pay policies in the ordinary course.

8 76. I believe that the continuation of Paid Time Off and Sick Pay is essential to  
9 maintaining Employee morale during these Chapter 11 Cases. Further, the policies are broad-  
10 based programs upon which all Employees have come to depend. I anticipate that their  
11 Employees will utilize any accrued Paid Time Off and Sick Pay in the ordinary course of  
12 business, which will not create any material cash flow requirements beyond the Debtors’ regular  
13 payroll obligations

14 77. ***Incentive Plan.*** In addition to regular Employee Compensation, the Debtors offer  
15 an incentive plan for their non-insider skilled nursing facility executive directors, directors of  
16 nursing, and regional executive directors (collectively, the “Incentive Parties”). None of the  
17 Incentive Parties are believed to be insiders. The Incentive Parties are located at specific skilled  
18 nursing facilities and are eligible to receive incentives as described below based on the  
19 performance of their specific facility. In addition to being responsible for a specific facility, the  
20 regional executive directors are also provide support for other skilled nursing facilities in their  
21 geographic region, and are therefore eligible for incentives based on the performance of those  
22 facilities. To incentivize Employee retention, motivation, and appreciation, the Debtors have an  
23 incentive plan for the Incentive Parties whereby they will receive a bonus upon meeting certain  
24 financial criteria (the “Incentive Plan”).

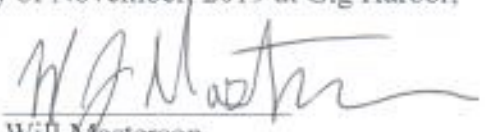
25 78. I believe that maintaining the Incentive Plan is important to support Employee  
26 morale through the reorganization process. Because it is paid out only on achieving financial  
27 performance targets, the incentive plan can only improve financial performance. I also believe  
28

1 that the Incentive Plan is critical because it provides incentives that help the facilities to maintain  
2 the highest quality of care for the residents.

3 79. If the skilled nursing facility achieves a higher EBITDAR than the targeted  
4 EBITDAR by a certain percentage, then the Incentive Parties may receive a percentage of the net  
5 operating income at that skilled nursing facility. In addition, regional executive directors also  
6 receive a percentage of the amounts earned for skilled nursing facilities that they support. If the  
7 requirements are satisfied under the Incentive Plan, then the Incentive Parties will receive a  
8 monthly bonus payment, with 60% of the payment paid in the month following the quarter that  
9 previously closed and 40% escrowed until the end of the year. The escrowed amount will be re-  
10 evaluated depending on subsequent financial and operational performance at that skilled nursing  
11 facility.

12 80. The Incentive Plan only pays the Incentive Parties when the skilled nursing  
13 facilities are exceeding financial expectations. The Debtors implemented the Incentive Plan in  
14 September 2019 and no skilled nursing facility has met the benchmarks for the payment of a  
15 bonus. As such, the Debtors do not have any prepetition amounts due and owing as of the  
16 Petition Date. I, however, believe that maintaining the Incentive Plan on a post-petition date  
17 basis will be instrumental in incentivizing a successful reorganization of the Debtors' businesses  
18 and request authority to maintain the Incentive Plan in accordance with the prepetition metrics  
19 and terms

20  
21 I declare under penalty of perjury under the laws of the United States of America that the  
22 foregoing is true and correct. Executed this 24th day of November, 2019 at Gig Harbor,  
23 Washington.

24   
25 Will Masterson

26  
27  
28  
DECL. OF W. MASTERSON  
ISO FIRST DAY MOTIONS, Page 24

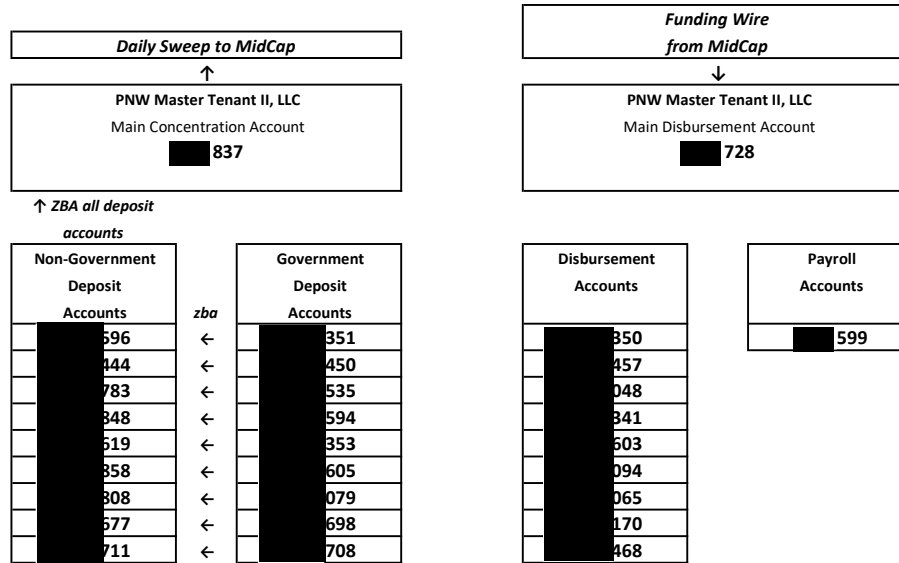
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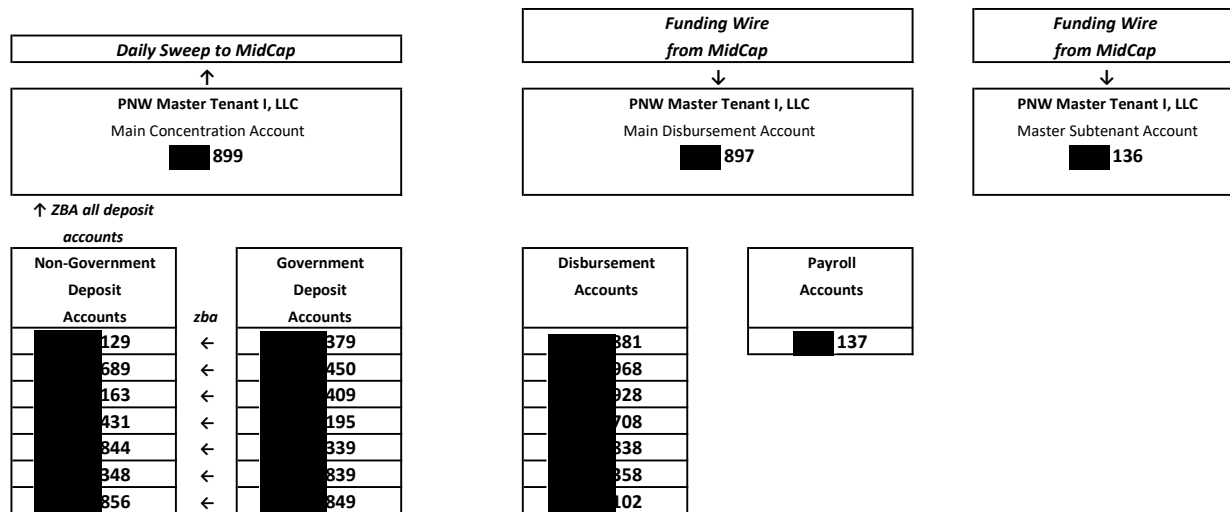
# EXHIBIT A

**Cornerstone Healthcare  
Non-HUD Account Structure**



Legal Entities - Legal Name
North Auburn Health, LLC
Bremerton Health, LLC
Riverside Nursing-Centralia, LLC
Aldcrest Health-Edmonds, LLC
Sequim Health, LLC
Cherrywood Place-Spokane, LLC
Care Center East Health-Portland, LLC
Meadow Park Health-St. Helens, LLC
LaCrosse Health-Coeur d'Alene, LLC

**Cornerstone Healthcare  
HUD Account Structure**



Legal Entities - Legal Name
Forest Ridge Health-Bremerton, LLC
Puget Sound Healthcare-Olympia, LLC
Crestwood Convalescent-Port Angeles, LLC
Fir Lane Health-Shleton, LLC
Franklin Hills Health-Spokane, LLC
Gardens on University-Spokane Valley, LLC
Ivy Court-Coeur d'Alene, LLC

**Stand-alone Accounts**  
PNW Healthcare Holdings LLC

2638126

# EXHIBIT B

