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**Executive Summary**  
**ABC SNF Facilities (11 properties and 1,036 beds)**

Eleven skilled care nursing Facilities with a total of \_\_\_\_\_ licensed beds are available for acquisition or lease from ABC and affiliates ("ABC"). Seven of the Facilities containing \_\_\_\_\_ beds have been owned and operated by ABC or related parties for an extended period of time. Four additional Facilities with \_\_\_\_\_ licensed beds have been owned by ABC for an extended period of time, but only operated by ABC since \_\_\_\_\_, when \_\_\_\_\_, Inc., the former Lessee, terminated the leases. The Sellers consist of ten separate entities that own the operations, and eleven additional entities that own the real estate, with a common controlling or managing partner, \_\_\_\_\_. All of the Facilities are managed by a separate and distinct entity, ABC Healthcare, Inc., which has an excellent reputation in the communities they serve.

Overall, these Facilities have excellent track records in compliance with the Department of Health regulations, consistent occupancy and operational stability when compared to \_\_\_\_\_ Facilities overall, and specifically in their market areas. Seven of the Facilities are located in \_\_\_\_\_, in small cities with availability of staff at lower wages, with only one unionized Facility of the eleven. Current management does an excellent job in all areas of operations with the exceptions of having limited staff to provide marketing admissions support to all Facilities or certain aspects of fiscal compliance, since only one of the eleven Facilities currently has any debt. Additional support to be provided by the new members of the Management Company will result in improved payor mix, and, to a lesser degree, occupancy, at selected Facilities. Seven Facilities are accredited by JCAHO, with the other four pending accreditation. Extensive due diligence has been conducted and is available upon request.

The existing entities that own the operations of the eleven Facilities will continue to operate them after transfer. The new shareholders of these entities would be \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and key members of the current management team, all of whom would also have an interest in the existing Management Company, which would remain.

The sales price for the purchase of the real estate and the business interests of all eleven Facilities is \$35,207,000, in addition to the assumption of a mortgage of \$750,000 on one of the properties. DEF will also obtain a credit line secured by receivables for up to \$5,000,000 for operating capital and will invest capital and/or provide guarantees depending on terms and conditions provided by the Lessor.

## Management Overview

It is expected that the senior members of the existing Management Company will remain in the existing central office in \_\_\_\_\_, \_\_\_\_\_, which includes payroll and central billing, under the direction of \_\_\_\_\_, a former CEO of several integrated health care delivery systems with an excellent reputation. See Summary of key management personnel to follow with resumes of management and key facility staff available upon request.

- \_\_\_\_\_ - Pending President and Chairman of Management Company and President of DEF Health Care Services, LLC, who has served as CEO and President of several health care delivery systems, which included hospitals, nursing facilities, and home health organizations. Currently CEO at \_\_\_\_\_, previously at \_\_\_\_\_ in \_\_\_\_\_ during its transition to \_\_\_\_\_ Health Care. He has served in similar positions throughout \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ over his distinguished career.
- \_\_\_\_\_ - Current CEO of Management Company for over eight years. Previous positions include serving as an area Vice President for Rehabilitation Company in charge of 42 nursing facilities, Vice President of Operations for a skilled nursing care facility chain and CEO of a regional hospital.
- \_\_\_\_\_ - Current COO of Management Company for nearly ten years. In this position, \_\_\_\_\_ has implemented three dedicated special care units. Previous positions include administrator of skilled nursing care facilities throughout \_\_\_\_\_.
- \_\_\_\_\_ - Current CFO of Management Company for almost two years. Previous positions include CFO positions for hospitals and Director of Reimbursement for hospitals and a Medicare Intermediary, \_\_\_\_\_, with fiscal reimbursement responsibility for 51 hospital, nursing homes and rehabilitation providers.
- \_\_\_\_\_ - Current VP of Professional Services for Management Company, which includes clinical oversight, staff development and compliance. \_\_\_\_\_ has been full time with the management company for over a year but a part-time consultant for four years. She has served in similar positions for other mid-sized skilled nursing care operators.
- \_\_\_\_\_ - Pending Vice President of Business Development, with duties including marketing, admissions, new programs and services and other as needed services. Previously, served as owner, operator, manager and/or consultant to skilled nursing care facilities in \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.
- \_\_\_\_\_ - Pending Vice President of Legal & Fiscal Compliance. \_\_\_\_\_ will be available to Management for financial analysis, including work with the credit lines, and provide in-house legal review of compliance and contractual issues. For \_\_\_\_\_ years, he has been in similar capacities for skilled care facilities.

## Individual Facility Summaries

Following are brief summaries of each of the eleven Facilities:

1. Facility A Rehabilitation and Nursing Center, \_\_\_\_\_ (\_\_\_ beds)

The facility is one of only two facilities in this small city, the center of a farming area approximately 30-35 miles north of \_\_\_\_\_. The facility has a state-of-the-art lockdown Dementia/Alzheimer's Unit. It is in excellent condition and has an outstanding reputation with many long-term employees, including the Administrator. The facility dominates its market with only one competitor in the immediate vicinity that has approximately one-third of the beds.

2. Facility B Living and Care Center, \_\_\_\_\_ (\_\_\_ beds)

The facility is one of three owned by ABC in \_\_\_\_\_, a city with two other facilities and two hospitals. It is located on a residential street and is in very good condition. It has a lockdown Dementia/Alzheimer's unit. Within the last one to two years, the facility has stabilized staff, positioning the facility to make improvements in payor mix.

3. Facility C Care Center, \_\_\_\_\_ (\_\_\_ beds)

The facility is located on a busy street in close proximity to the hospital. It has an excellent reputation and is in good condition. The Facility has many long-term employees, including virtually all Department Heads and the Administrator. These factors give it an advantage in the admission of Medicare and rehabilitation patients, as well as a solid private pay census for a small facility with a limited property.

4. Facility D Behavioral Center, \_\_\_\_\_ (\_\_\_ beds)

The facility is licensed as an acute psychiatric facility and a skilled nursing facility. It has contracts with \_\_\_ county agencies throughout the extended \_\_\_\_\_ Area and recently has added a managed care contract for HMOs. The Administrator and the majority of Department Heads are long-term employees of ten years or more. The facility is in very good condition with large secure outside common areas for its residents.

5. Facility E Nursing and Rehabilitation Center, \_\_\_\_\_ (\_\_\_ beds)

The facility is located in close proximity to a major hospital and is close to a major intersection on bus routes for employees. It has a \_\_\_-bed lockdown Dementia/Alzheimer's unit, the first unit constructed by ABC. Overall, the facility specializes in patients with limited psychiatric issues, resulting in a competitive advantage in this city of over 250,000 people and positive historical financial statements. The population it serves in a fairly competitive market for staff results in DHS surveys that are not nearly as positive as other ABC facilities and are below statewide averages.

6. Facility F Care Center, \_\_\_\_\_ (\_\_\_ beds)

The facility is located in a growing area with two newer facilities built in the last 5-6 years, with area occupancy rates stabilizing over the last several years at the facility. The facility continues to have a high occupancy and a positive local reputation. It has many long-term staff and is in good condition. Substantial improvements are planned for this facility with the expectation that payor mix can improve based on the facility's reputation and positive income demographics in the \_\_\_\_\_ area.

7. Facility G Nursing and Rehabilitation Center, \_\_\_\_\_ (\_\_\_ beds)

\_\_\_\_\_ is a small city located in the \_\_\_\_\_ within \_\_\_ minutes of \_\_\_\_\_, \_\_\_\_\_. The facility is in good condition with mostly wards. The previous operator had two lawsuits of substance which impacted insurance rates for this facility, thereby temporarily reducing profitability. It is the only facility in the city and an extended area and has historical high occupancy rates of 97-98%.

8. Facility H Nursing and Rehabilitation, \_\_\_\_\_ (\_\_\_ beds)

This facility is in a remote area of the \_\_\_\_\_, the only facility in an extended area. The facility is in good condition but has a poor to fair reputation that is being improved through a change in name and staffing. The new Administrator is experienced in an extended geographical area, which should enhance admissions and payor mix. However, Management expects a limited upside with this facility and will seek to assign its lease and/or option rights for this facility.

9. Facility I Care Center, \_\_\_\_\_ (\_\_\_ beds)

The facility is the only ABC facility located in the \_\_\_ Area and the only facility with a union, SEIU Local \_\_\_\_\_. It is also the only facility of the original seven with deferred maintenance of substance and that is at a disadvantage with its competitors in a services area with high-income demographics and reasonable demand. The facility has stabilized staffing in \_\_\_\_\_ and improved its financial position substantially from \_\_\_\_\_. Planned physical plant and marketing improvements by the Purchaser are expected to result in improved profitability. Based on geographical considerations relative to the entire ABC package and high wages in the \_\_\_ Area, Management will consider assigning its lease and/or option rights at this facility.

10. Facility J East and Facility K West, \_\_\_\_\_ (\_\_\_ & \_\_\_ beds)

These two facilities are adjoining with a flex license approved by DHS and pending \_\_\_\_\_ approvals to connect the facilities, thereby reducing certain expenses. The West facility has been dedicated to Dementia/Alzheimer's, with the East focused on Long Term Care and rehabilitation. A market study supports these plans and confirms that current improvements and those planned by the Purchasers will result in a profitable combined facility.

**ABC Facilities  
Bed and Bedroom Count (1)**

Facility	Private	2-Bedded	3-Bedded	4-Bedded	Total
Total Beds	4	162	199	27	1,036
A		43	30		176
B		7	19	2	79
C		1	22		68
D		34	7		96
E		6	29		99
F		21	14		84
G		8		20	96
H		7	13	4	57
I		(2) 20	15		85
J	4	(3) 8	23	1	93
K		9	27		99

- (1) Provided by Management and confirmed on site visits by Senior Consulting.
- (2) One 2-bedded room to be utilized for common area with licensed capacity of 87.
- (3) One 2-bedded room to be utilized for common area with licensed capacity of 95.
- (4) The four-bedded rooms in \_\_\_\_\_ and \_\_\_\_\_, the facilities in the \_\_\_\_\_, are totally captive markets.

**Last Historical Year Occupancy & Payor Mix**

<u>Beds</u>	<u>Private</u>	<u>Private %</u>	<u>Medicaid</u>	<u>Medi-Cal %</u>	<u>Medicare</u>	<u>Medicare %</u>
1,032	20,702	6.1%	254,833	75.1%	24,727	7.3%
<u>HMO/Other</u>	<u>HMO/Other %</u>	<u>Total Patient Days</u>	<u>Total Possible Days</u>	<u>Occupancy %</u>		
40,423	11.9%	339,293	377,712	89.8%		

**Forecasted Operator NOI (2006 Historical)**

<u>2006</u>	<u>207</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$823,676	\$781,973	\$1,348,077	\$2,611,391	\$2,779,484

## **Major Assumptions to Forecasts**

- Management Fee is 5%.
- It is assumed that \_\_\_\_\_ is approved by CMS and the Provider Tax equal to 3% of projected revenue for \_\_\_\_\_ and 3% (reduced from proposed 6%) for \_\_\_\_\_ and thereafter is implemented along with higher rate of \_\_\_\_\_ reimbursement based on facility-specific cost reports. Once \_\_\_\_\_ is approved, there will be a 5.67% increase retroactive to August 1, \_\_\_\_\_.
- It is anticipated that President Bush's proposed Medicare RUG rate reduction for \_\_\_\_\_ through \_\_\_\_\_ will result in a reduction system-wide of \$900,000 for each year. This amount has been deducted from Medicare Part A revenue for the 10 Facilities (all but Merced Behavioral) that receive Medicare reimbursement (based on each Facility's bed count). We expect increases in efficiency and Medicare Part B revenue to fully offset any new expenses for increased Therapy staffing and costs.
- The New Operator plans to self-insure for liability claims. The New Operator will deposit \$1,000,000 for the eleven Facilities on an annual basis into Liability Loss Reserve Accounts for each of the eleven Facilities on a pro rata basis, not including legal/consulting fees not to exceed \$60,000 per year until the Fund is sufficiently capitalized. An annual inflationary factor of 5% is utilized for the annual deposits. There will be an initial deposit of \$1,000,000 into the Liability Claims Loss Reserve.
- Assumes utilization of a Workers Compensation Risk Retention Program with Lessor to fund the costs to secure a Letter of Credit of \$2,000,000, with costs of 4% per annum payable on the principal of the Letter of Credit and margin to the Guarantor, or \$80,000, included as an ongoing expense.

## **Conclusion**

The overall very good conditions of the Facilities, the stability of middle level and senior management and diversity of market conditions for eleven Facilities are positives that more than offset several Facilities that have limited opportunity for improvement due to competitive markets and substantiate collective valuation.