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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: **FOUNTAIN VIEW, INC.**, a Delaware corporation, et al. Debtors.	Case No.: LA 01-39678 BB through LA 01-39697 BB And LA 01-45516 BB; LA 01-45520 BB; and LA 01-45525 BB (Jointly Administered under Case No. LA 01-39678 BB) Chapter 11 **NOTICE OF MOTION AND MOTION FOR ORDER AUTHORIZING SUBSTANTIVE CONSOLIDATION OF DEBTOR ENTITIES; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF WILLIAM C. SCOTT** **Hearing** **Date:** July 3, 2003 **Time:** 11:00 a.m. **Place:** Courtroom 1475 Roybal Federal Building 255 E. Temple Street Los Angeles, CA 90012

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TO THE HONORABLE SHERI BLUEBOND, UNITED STATES BANKRUPTCY JUDGE, AND ALL PARTIES ENTITLED TO NOTICE:

PLEASE TAKE NOTICE that on July 3, 2003 at 11:00 a.m., or as soon thereafter as the matter may be heard in the above-entitled court, before the Honorable Sheri Bluebond, United States Bankruptcy Judge, a hearing will be held on this *Notice Of Motion And Motion For Order Authorizing Substantive Consolidation of Debtor Entities* (the "Motion"), filed by Fountain View, Inc. and its 22 debtor affiliates, the debtors and debtors in possession in the above-captioned, jointly administered chapter 11 cases (collectively, the "Debtors").

PLEASE TAKE FURTHER NOTICE that by this Motion, the Debtors seek an order of this Court, pursuant to Bankruptcy Code section 105(a) and applicable decisional law, authorizing the substantive consolidation of Fountain View, Inc. with its 22 debtor affiliates. The *Debtors' Joint Plan of Reorganization* (the "Plan") provides for the substantive consolidation of all of the Debtors under the Plan. The Debtors will shortly submit their *Memorandum Of Points And Authorities Supporting Confirmation Of The Debtors' Plan Of Reorganization* (the "Memorandum"), which supports confirmation of the Plan and the substantive consolidation of the Debtors as an appropriate means of implementing the Plan. As set forth in the Memorandum, the Debtors believe substantive consolidation is appropriate under the Plan where, as here, each class of creditors and interest holders entitled to vote on the Plan voted in favor of the Plan and in favor of substantive consolidation of the Debtors, and, in fact, no creditor or interest holder voted to reject the Plan. Nevertheless, out of an abundance of caution and because of a recent decision of the United States Bankruptcy Court for the Northern District of California,[1] the Debtors submit this Motion seeking an order of the Court approving substantive consolidation separate and apart from the Plan.

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[1] See In re Central European Indus. Dev. Co., 288 B.R. 572 (Bankr. N.D. Cal. 2003) (finding substantive consolidation of related estates through plan provision—as opposed to a court's ordering substantive consolidation based on its general equitable powers under section 105(a)—requires the affirmative vote of each class of creditors of the related entities, counted before consolidation).

PLEASE TAKE FURTHER NOTICE that this Motion is based upon the Notice of Motion, the accompanying Memorandum of Points and Authorities and Declaration of William C. Scott (the "Scott Decl.") annexed hereto, the Declaration of William C. Scott filed in support of the Memorandum, the evidence submitted by the Debtors in connection with the confirmation of the Plan, the record in these cases, including the pleadings and documents filed on behalf of the parties, the arguments and representations of counsel, and any oral or documentary evidence presented at or prior to the time of the hearing on the Motion.

PLEASE TAKE FURTHER NOTICE that pursuant to Local Bankruptcy Rule 9013-1(a)(7), any opposition, joinder or response to the Motion must be in writing, must be accompanied by supporting evidence, must otherwise comply with Local Bankruptcy Rule 9013-1, and must be filed with the Court and served upon the undersigned counsel no later than fourteen (14) days prior to the hearing. Pursuant to Local Bankruptcy Rule 9013-1(a)(11), failure to file and serve a timely response may be deemed by the Court to constitute consent to the granting of the relief requested herein.

WHEREFORE, the Debtors respectfully request that the Court enter its order pursuant to Bankruptcy Code section 105(a) and applicable decisional law authorizing the substantive consolidation of the Debtors, which is conditioned upon confirmation of the Plan and consummation of the transactions contemplated thereunder.

DATED: June 9, 2003

BRENDT C. BUTLER, an Attorney with
KLEE, TUCHIN, BOGDANOFF & STERN LLP
Reorganization Counsel for
Debtors and Debtors in Possession

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MEMORANDUM OF POINTS AND AUTHORITIES

I.

STATEMENT OF FACTS

A. General Background.

On October 2, 2001 (the "Petition Date"), Fountain View, Inc. and nineteen of its subsidiaries filed voluntary petitions under chapter 11 of the Bankruptcy Code. On November 28, 2001, voluntary chapter 11 petitions were filed for three additional Fountain View, Inc. subsidiaries. Pursuant to Bankruptcy Code sections 1107(a) and 1108, all 23 entities are now operating their businesses and managing their affairs as debtors in possession.

The Debtors operate 48 long-term care facilities containing approximately 6,600 beds in California and Texas. They also distribute pharmaceuticals, and provide an array of ancillary skilled nursing services to over 5,400 patients in their facilities and to outside operators. The services the Debtors provide are intensive, provided on a daily basis, and are absolutely essential to the day-to-day health and well-being of the elderly, disabled and otherwise ill population they serve. The Debtors employ approximately 6,400 people and generate annual revenues substantially in excess of $340 million.

B. The Plan Provides for the Substantive Consolidation of the Debtors and the Estates.

Section IV.A of the Plan provides that, solely for purposes of the Plan, the assets, claims and affairs of the Debtors and their estates will be substantively consolidated pursuant to Bankruptcy Code section 105(a). The substantive consolidation has three major effects. First, it eliminates all the intercompany claims between and among the Debtors and their estates without entitlement to any distribution under the Plan. Second, it eliminates guaranties of one Debtor by another Debtor. Thus, any joint and several liability of any of the Debtors shall be deemed to be one obligation of the substantively consolidated Debtors. Finally, as a result of the substantive consolidation, on the effective date of the Plan (the "Effective Date"), all property, rights and claims of the Debtors and their estates, and all claims against the Debtors and their estates will be deemed pooled for purposes of allowance, treatment and distributions under the Plan and multiple proofs of claim on account of any claim upon which any of the Debtors are co-obligors or guarantors or otherwise may be contingently liable will without necessity of objection by any party be deemed to constitute a single proof of claim entitled to a single satisfaction from the substantively consolidated estates in accordance with the terms of the Plan; the duplicative claims being otherwise deemed disallowed.

Notably, the substantive consolidation will not affect the legal organizational structure of the reorganized Debtors contemplated under the Plan, guaranties or the grants of collateral in connection with the exit financing, or the issuance of new securities under the Plan, or distributions out of any insurance policies or proceeds of policies. The substantive consolidation will eliminate multiple and duplicative claims as well as joint and several liability claims, and will afford payment of allowed claims against each of the Debtors from a common fund.

As of the date of the submission of this Motion, it appears that all voting-eligible classes of claims and interests have accepted the Plan and its provisions, including the substantive consolidation of the Debtors and their estates. Moreover, it appears that every single eligible ballot cast was voted in favor of the Plan and its provisions. It is apparent that the substantive consolidation of the Debtors is in the best interests of the creditors, as shown by their unanimous support. Certainly, substantive consolidation will not hurt or impair any creditor, as the Plan provides for the payment in full of all classes except Class 16 (Existing Class B Common Stock) and Class 19 (Existing Management Incentives and Other Existing Interests), which represent junior equity interests if the parent that have no reorganization value. Substantive consolidation is an integral means of implementing the Plan, given the interwoven financial affairs of the Debtors. It will be less burdensome and less costly implementing the Plan by pooling the claims of all creditors rather than attempting to disentangle the financial affairs of the various Debtors.

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C. The Debtors' Creditors Relied on the Debtors as a Consolidated Company, and Not the Separate Identity of Each Debtor, in Extending Credit.

The Debtors' principal financial creditors, the agent and secured lenders (the "Agent and Lenders") under that certain Amended and Restated Agreement dated April 16, 1998 (the "Prepetition Credit Agreement") and the holders of the 11¼% Senior Subordinated Notes due 2008 (collectively holding over 95% of the total claims against the Debtors) dealt with the Debtors as a single economic unit and did not rely on the separate identities of the individual Debtor entities in extending credit. Specifically, almost all of the Debtors are co-obligors under the Prepetition Credit Agreement and the indenture governing the 11¼% Notes. In addition, almost all of the Debtors granted first priority security interests in substantially all their assets (including cash collateral) pursuant to pledge, guaranty, security agreements, and deeds of trust entered into as collateral support for the obligations under the Prepetition Credit Agreement.

Moreover, all financial information disseminated to the public by the Debtors, including to customers, suppliers, landlords, lenders, and credit agencies, is prepared and presented on a consolidated basis. While the individual Debtor entities have personnel that separately compile financial information, that information is upstreamed to the financial officers of Fountain View, Inc. who consolidate that information for presentation to creditors and other interested parties as needed. As a result, creditors cannot demonstrate that they relied upon the separate identity of one or more Debtors in extending credit. Having relied upon the creditworthiness of the Debtors as a consolidated company, creditors should be entitled to satisfaction of their claims from a single pool of assets.

D. The Debtors' Affairs Are Entangled.

The Debtors consist of Fountain View, Inc. and 22 of its direct and indirect subsidiaries. The Debtors' integrated healthcare networks provide inpatient, pharmacy, medical supply, and other healthcare services through skilled nursing facilities, assisted living facilities, therapy facilities, long-term care pharmacies and durable medical equipment

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supply distributions to the Debtors' facilities and unaffiliated facilities in both California and Texas. There is little correlation between the names of the facilities and the names of the legal entities that technically own such facilities, which the Debtors operate under fictitious names. Until the present, the Debtors have been operated as a consolidated business with highly integrated operations. The Debtors' operations have been organized around business segments and regions, and are operated pursuant to a centralized management organization that provides essential services such as day-to-day accounting, purchasing, human resources, legal, regulatory compliance, risk management, and other overhead functions. As a result, few, if any, of the Debtors currently are capable of operating as stand-alone entities. These facts alone will make it difficult for creditors to ascertain against which Debtors they have a claim.

In addition, the financial relationship of the Debtors further indicates their current interconnections. In fact, due to the organization of their books and records, the Debtors filed with the Bankruptcy Court their statement of financial affairs, schedules of assets and liabilities, schedules of executory contracts and unexpired leases on a partially consolidated basis. While most Debtor entities maintain their own books, the financial information is upstreamed to the Debtors central financial management team that creates consolidated books and records without which the financial affairs of the Debtors would appear incomplete and misleading.

The books and records of the Debtors also reflect a large amount of intercompany claims showing, among other things, advances from Fountain View, Inc. to fund and build operations, upstreamed funds from the other Debtors to enable Fountain View, Inc. to make payments to creditors, the allocation of corporate overhead, and the transfer of other property from one Debtor to another. In view of the complexity of such transactions and the adjustments that have been made over time, it would be difficult to reconcile intercompany claims without embarking on an enormous effort that would diminish return for all creditors and interest holders.

Finally, for the most part, the business units of the Debtors operate as

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integrated units, without all the formalities of separate corporate entities. As such, the Debtors participate in a unified cash management system (which includes non-Debtor subsidiaries), which would make it extremely difficult to confirm a plan of reorganization for the individual Debtors. The overwhelming majority of the Debtors' expenditures are also made from commingled, centralized accounts.

II.

LEGAL ARGUMENT

A. Although the Debtors' Plan Provides for Substantive Consolidation of the Debtors' Estates and Although All Voting-Eligible Creditors Have Approved the Plan, Applicable Case Law Authorizes the Substantive Consolidation Outside the Context of the Plan.

As of the date of the submission of this Motion, it appears that all voting-eligible classes of claims and interests have accepted the Plan and its provisions, including the substantive consolidation of the Debtors and their estates. Moreover, it appears that every single eligible ballot cast has been voted in favor of the Plan and its provisions. It is apparent that the substantive consolidation of the Debtors is in the best interests of creditors, as shown by their unanimous support. Certainly, substantive consolidation will not hurt or impair any creditor, as the Plan provides for the payment in full of all classes except the holders of junior interests in the parent corporation classified in Classes 16 and 19. Substantive consolidation is an integral means of implementing the Plan, given the interwoven financial affairs of the Debtors. It will be less burdensome and less costly implementing the Plan by pooling the claims of all creditors rather than attempting to disentangle the financial affairs of the various Debtors.

Even though the Plan, with the unanimous approval of voting-eligible creditors, contemplates the substantive consolidation of the Debtors and their estates as a means of implementing the Plan,[2] the Debtors believe that the Court may independently

[2] Courts in the Ninth Circuit have also found that substantive consolidation is appropriate where all voting classes voted in favor of the debtor's plan of reorganization and there were no objections to such consolidation. See, e.g., In re Standard Brands Paint Co., 154 B.R. 563, 565 (Bankr. C.D. Cal. 1993) (court granted substantive consolidation despite

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order substantive consolidation under its Bankruptcy Code section 105(a) equity power.[3]

Courts exercising jurisdiction in bankruptcy have long recognized substantive consolidation to be a part of their general equitable powers. See generally Sampsell v. Imperial Paper & Color Corp., 331 U.S. 215, 219 (1941); Alexander v. Compton (In re Bonham), 229 F.3d 750, 762 (9th Cir. 2000). As the Ninth Circuit noted in In re Bonham:

> Although substantive consolidation was not codified by the Bankruptcy Reform Acts of 1978 or 1994, see Pub.L. No. 95-598 1978) and Pub.L. No. 103-394, § 104(a) (1994), as were related provisions allowing for procedural consolidation or joint administration, courts, as well as the bankruptcy rules, recognize its validity and have ordered substantive consolidation subsequent to the enactment of the Bankruptcy Code.

229 F.3d at 763. "For many purposes, courts of bankruptcy are essentially courts of equity, and their proceedings inherently proceedings in equity." Pepper v. Litton, 308 U.S. 295, 304 (1939) (internal quotations and citations omitted). The bankruptcy court's power of substantive consolidation has been considered part of the bankruptcy court's general equitable powers since the passage of the Bankruptcy Act of 1898. See Reider v. Fed. Deposit Ins. Corp. (In re Reider), 31 F.3d 1102, 1105 (11th Cir. 1994). At present, consistent with its historical roots, the power of substantive consolidation derives from the bankruptcy court's general equity powers as expressed in Bankruptcy Code section 105(a). See Union Savings Bank v. Augie/Restivo Banking Co., Ltd., (In re Augie/Restivo Banking Co., Ltd.), 860 F.2d 515, 518 (2d Cir. 1988).

The Ninth Circuit has adopted the two-factor test set forth by the Second

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its deviation from typical consolidation where no party objected to the consolidation and there was a consensual plan for consolidation that could be confirmed without cramdown).

[3] Substantive consolidation may be ordered either upon separate motion pursuant to section 105(a) or upon confirmation of a plan of reorganization as authorized by section 1123(a)(5)(C) ("Notwithstanding any otherwise applicable nonbankruptcy law, a plan shall ... provide adequate means for the plan's implementation, such as ... merger or consolidation of the debtor with one or more persons."). In particular, courts in the Ninth Circuit have found that substantive consolidation under the terms of a reorganization plan is appropriately ordered on less rigorous standards where all voting classes voted in favor of the debtor's plan of reorganization and there were no objections to such consolidation. See, e.g., In re Standard Brands Paint Co., 154 B.R. at 565 (court granted substantive consolidation on less rigorous showing where no party objected to the consolidation and there was a consensual plan calling for consolidation). Accord In re Cent. European Indus. Dev. Co. LLC, 288 B.R. 572, 576 (Bankr. N.D. Cal. 2003) ("substantive consolidation via a plan would require the affirmative vote of each class of each of debtors' creditors, counted before consolidation").

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Circuit in In re Augie/Restivo, 860 F.2d 515 (2d Cir. 1988). See In re Bonham, 229 F.3d at 766 ("The Second Circuit's approach is more grounded in substantive consolidation and economic theory; it is also more easily applied. Thus, we adopt it and utilize it in our analysis of this case.") The two factors considered in this test are: (1) whether creditors dealt with the entities as a single economic unit and did not rely on their separate identity in extending credit; or (2) whether the affairs of the debtor are so entangled that consolidation will benefit all creditors. Id. at 766. The presence of either factor is a sufficient basis to order substantive consolidation. Id.

The propriety of substantive consolidation is grounded on a finding that the consolidation is fair to all creditors and will result in an equitable distribution and efficient administration of the bankruptcy estates. See In re Bonham, 229 F.3d at 767-69 & n.12. Typically, the consolidation of a solvent (or less insolvent) separate estate into an insolvent consolidated estate raises the possibility of prejudice to the creditors of the financially stronger estate. These concerns are not present in this case where the consolidated whole will be solvent and each creditor of every estate is realizing reorganization value in an amount equal to the allowed amount of its claims. Here the significant benefits of consolidation are not achieved on the backs of the creditors of any particular subsidiary. Consolidation is not only efficient here, it is fair to all.

The first Augie/Restivo factor, reliance on the separate credit of the entity, is based on the consideration that lenders "structure their loans according to their expectations regarding the borrower and do not anticipate either having the assets of a more sound company available in the case of insolvency or having the creditors of a less sound debtor compete for the borrower's assets." In re Augie/Restivo, 860 F.2d at 518-19. Consolidation under the second factor, entanglement of the debtor's affairs, is justified only where "the time and expense necessary even to attempt to unscramble them [is] so substantial as to threaten the realization of any net assets for all the creditors" or where no accurate identification and allocation of assets is possible. Id. at 519.

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B. Because The Debtors' Affairs Are Sufficiently Entangled and Because the Debtors' Creditors Did Not Rely on the Debtors as Separate Entities, the Debtors Should Be Substantively Consolidated.

With respect to the entanglement factor, the facts in this case demonstrate a substantial identity and an extensive interrelationship, interdependence, and entanglement between and among the Debtors. As described above, few if any, of the Debtors currently are capable of operating as stand-alone entities. In addition, the Debtors ultimately consolidate all of the financial records and information of the individual Debtors and maintain a unified set of books and records. Without these consolidated books and records, the financial information of the individual Debtors might appear misleading and incomplete. Moreover, the books and records of the Debtors also reflect a large amount of intercompany claims showing, among other things, advances from Fountain View, Inc. to fund and build operations, upstreamed funds from the other Debtors to enable Fountain View, Inc. to make payments to creditors, the allocation of corporate overhead, and the transfer of other property from one Debtor to another. In view of the complexity of such transactions and the adjustments that have been made over time, it would be difficult to reconcile intercompany claims without embarking on an enormous effort that would diminish return for all creditors. Finally, the Debtors participate in a unified cash-management system, which would make it extremely difficult to confirm a plan of reorganization for the individual Debtors.

With respect to the factor of whether creditors relied on the Debtors as a consolidated company, the Debtors' primary financial creditors dealt with the Debtors as a single economic unit and did not rely on the separate identities of the individual Debtor entities in extending credit. Specifically, almost all of the Debtors are co-obligors under the Prepetition Credit Agreement and the indenture governing the 11¼% Notes. See In re Genesis Health Ventures, Inc., 266 B.R. 591, 619 (Bankr. D. Del. 2001) ("In light of the

[4] The discussion of the highly interrelated and unitary operation of the Debtors' subsidiary operations described in this memorandum refers to the Debtors' historical practices only. Through their corporate restructuring plan, the Debtors intend to completely restructure their corporate structure. Thus, the historical grounds for substantive consolidation will be inapplicable with respect to the Debtors' post-confirmation operations, and nothing herein may be construed as an admission or waiver of rights with respect to the nature of the reorganized Debtors' corporate structure.

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indebtedness of nearly all of the . . . debtors to the Senior Lenders, the only way to provide any recovery to individual creditors of the subsidiaries is to treat all unsecured creditors on a consolidated basis."). These courses of dealing and the expectations of the holders of the 11¼% Notes and the Agent and Lenders justify consolidation of the Debtors. See, e.g., Bruce Energy Centre Ltd v. Orfa Corp. of Am. (In re Orfa Corp.), 129 B.R. 404, 415 (Bankr. E.D. Pa. 1991) ("the presence of inter-company guarantees . . . are indicative of an interrelationship of companies within a larger enterprise, and negate the claim of separate reliance on creditors"); In re Murray Indus., 119 B.R. 820, 827 (Bankr. M.D. Fla. 1990) (substantive consolidation ordered where it was impossible to determine the respective liabilities of the subsidiaries on certain loans, which liabilities were not only guaranteed by the subsidiaries, but whose assets were also pledged as security for such loans).

Because the Debtors' affairs are integrated, interrelated, and entangled from both a functional and an accounting perspective, substantive consolidation of the Debtors would be fair and equitable for all creditors. The factors demonstrating the Debtors' entanglement as well as demonstrating the treatment of the Debtors as a single economic unit are similar to factors identified by the Ninth Circuit as justifying substantive consolidation. See In re Bonham, 229 F.3d at 766 n. 10. Having relied upon the creditworthiness of the Debtors as a single economic unit, such creditors should be entitled to satisfaction of their claims from a single pool of assets. Absent substantive consolidation, the Debtors would be required to disentangle their respective operations and businesses. Because the operational and financial affairs of each of the Debtors are deeply entangled, disentanglement, although not impossible, would likely be so costly as to consume any benefits that would be derived.

Finally, it must be noted that because the Debtors have made a *prima facie* showing that substantive consolidation is warranted, the burden shifts to any dissatisfied creditor to demonstrate that it did not rely on the separate credit of one of the Debtors and that it will be prejudiced by substantive consolidation. Id. (quoting Drabkin v. Midland Ross Corp. (In re Auto-Train Corp.), 810 F.2d 270, 276 (D.C. Cir. 1987)). Thus, absent such a showing by a dissatisfied creditor, the Court should authorize the substantive consolidation

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of the Debtors.

C. The Debtors Seek Substantive Consolidation Solely as a Means of Implementing the Plan.

The substantive consolidation of the Debtors is solely for purposes related to the Plan, including for purposes of voting, confirmation and distribution. Following confirmation of the Plan, on the effective date the Debtors' corporate restructuring plan will be consummated. Other courts have approved similar consolidations. For example, in In re Standard Brands Paint Co., 154 B.R. 563, 567 (Bankr. C.D. Cal. 1993), a parent and four of its wholly-owned direct and indirect subsidiaries operated paint manufacturing, distribution, and retail businesses. One of the debtors owned or managed the retail store locations. The debtors requested that the court apply the doctrine of substantive consolidation to suppress the separateness of the five debtors to survive and continue as separate corporations subsequent to plan confirmation. The court granted the motion, noting that substantive consolidation was an equitable doctrine that could be tailored to fit the needs of a particular case. Id. at 570. Utilizing the Augie/Restivo test for substantive consolidation, the court concluded that there was " substantial identity" among the debtors, which operated as a consolidated entity with multiple intercompany guarantees and indebtedness. Id. at 573. See also In re Bonham, 229 F.3d at 769 ("However, the bankruptcy court has the power, in appropriate circumstances, to order less than complete substantive consolidation, or to place conditions on the substantive consolidation....")

Similarly, in the instant case, the deemed consolidation is necessary to distribute property efficiently, avoid the calculation, resolution, and classification of inter-Debtor claims, and reduce the administrative burden of soliciting and tabulating votes in respect of the 23 Debtors. A limited consolidation, for plan purposes only, is necessary to avoid adverse tax consequences that a permanent consolidation could entail. Lastly, consolidation of the Debtors will promote judicial economy and ease of administration and minimize the costs of administration of the Debtors' cases.

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III.

CONCLUSION

The Debtors respectfully request that the Court enter its order pursuant to Bankruptcy Code section 105(a) and applicable decisional law authorizing the substantive consolidation of the Debtors, which is conditioned upon confirmation of the Plan and consummation of the transactions contemplated thereunder.

DATED: June 9, 2003

BRENDT C. BUTLER, an Attorney with
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DECLARATION OF WILLIAM C. SCOTT

I, William C. Scott, declare as follows:

1. I submit this Declaration in support of the Motion For Order Authorizing Substantive Consolidation of Debtor Entities (the "Motion") filed by Fountain View, Inc., one of the debtors and debtors in possession in the above-captioned, jointly administered chapter 11 cases (the "Debtors"). I am over 18 years of age and I have personal knowledge of the facts set forth herein, or I have obtained such knowledge from business records and documents within my custody and control that are regularly maintained in the ordinary course of business by the Debtors.

2. I am the Chairman of the Board of Directors of Fountain View, Inc. In that capacity, I am familiar with the nature and scope of the Debtors' operations and financial affairs. I have held that position since the April, 1998 merger pursuant to which the Debtors adopted their present structure.

3. As part of their continuing efforts to restructure the operation of their businesses, the Debtors have decided to substantively consolidate for the limited purpose of implementing the Debtors' Joint Plan of Reorganization Dated April 22, 2003 (the "Plan"). Notably, the substantive consolidation will not affect the legal organizational structure of the reorganized Debtors contemplated under the Plan, guaranties or the grants of collateral in connection with the exit financing, or the issuance of new securities under the Plan, or distributions out of any insurance policies or proceeds of policies. The substantive consolidation will eliminate multiple and duplicative claims as well as joint and several liability claims, and will afford payment of allowed claims against each of the Debtors from a common fund. I believe it will be less burdensome and less costly implementing the Plan by pooling the claims of all creditors rather than attempting to disentangle the financial affairs of the various Debtors.

4. The Debtors consist of Fountain View, Inc. and 22 of its direct and indirect subsidiaries. The Debtors' integrated healthcare networks provide inpatient, pharmacy, medical supply, and other healthcare services through skilled nursing facilities,

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assisted living facilities, therapy facilities, long-term care pharmacies and durable medical equipment supply distributions to the Debtors' facilities and unaffiliated facilities in both California and Texas. There is little correlation between the names of the facilities and the names of the legal entities that technically own such facilities, which the Debtors generally operate under fictitious names. Until the present, the Debtors have been operated as a consolidated business with highly integrated operations. The Debtors' operations have been organized around business segments and regions, and are operated pursuant to a centralized management organization that provides essential services such as day-to-day accounting, purchasing, human resources, legal, regulatory compliance, risk management, and other overhead functions. As a result, few, if any, of the Debtors currently are capable of operating as stand-alone entities.

5. Due to the organization of their books and records, the Debtors filed with the Bankruptcy Court their statement of financial affairs, schedules of assets and liabilities, schedules of executory contracts and unexpired leases on a partially consolidated basis. While most Debtor entities maintain their own books, the financial information is upstreamed to the Debtors' central financial management team that creates consolidated books and records without which the financial affairs of the Debtors would appear incomplete and misleading.

6. The books and records of the Debtors also reflect a large amount of intercompany claims showing, among other things, advances from Fountain View, Inc. to fund and build operations, upstreamed funds from the other Debtors to enable Fountain View, Inc. to make payments to creditors, the allocation of corporate overhead, and the transfer of other property from one Debtor to another. In view of the complexity of such transactions and the adjustments that have been made over time, it would be difficult to reconcile intercompany claims.

7. For the most part, the business units of the Debtors operate as integrated units, without all the formalities of separate corporate entities. As such, the Debtors participate in a unified cash management system (which includes non-Debtor subsidiaries).

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The overwhelming majority of the Debtors' expenditures are also made from commingled, centralized accounts.

8. Almost all of the Debtors are co-obligors under that certain Amended and Restated Agreement dated April 16, 1998 (the "Prepetition Credit Agreement") between the Debtors and the Debtors' principal financial creditors, the agent and secured lenders (the "Agent and Lenders") and under the indenture governing the 11¼% Senior Subordinated Notes due 2008 (collectively holding over 95% of the total claims against the Debtors). In addition, almost all of the Debtors granted first priority security interests in substantially all their assets (including cash collateral) pursuant to pledge, guaranty, security agreements, and deeds of trust entered into as collateral support for the obligations under the Prepetition Credit Agreement.

9. All financial information disseminated to the public by the Debtors, including to customers, suppliers, landlords, lenders, and credit agencies, is prepared and presented on a consolidated basis. While the individual Debtor entities have personnel that separately compile financial information, that information is upstreamed to the financial officers of Fountain View, Inc. who consolidate that information for presentation to creditors and other interested parties as needed.

10. For all of the reasons stated above, I believe that their creditors, including and especially the Agents and Lenders and the holders of the 11¼% Notes, dealt with the Debtors as a single economic unit and did not rely on the separate identities of the individual Debtor entities in extending credit.

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed on this 9th day of June, 2003, at Burbank, California.

William C. Scott

WILLIAM C. SCOTT

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PROOF OF SERVICE

I am over eighteen years of age, and I am not a party to this action. I am employed by Klee, Tuchin, Bogdanoff & Stern LLP, and my business address is: Fox Plaza, 2121 Avenue of the Stars, Thirty-Third Floor, Los Angeles, CA 90067-5061. Klee, Tuchin, Bogdanoff & Stern LLP employs a member of the bar of the State of California at whose direction this service was made.

On June 9, 2003, I served the following pleading:

NOTICE OF MOTION AND MOTION FOR ORDER AUTHORIZING SUBSTANTIVE CONSOLIDATION OF DEBTOR ENTITIES;, MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF WILLIAM C. SCOTT FILED UNDER SEPARATE CAPTION PAGE

on the interested parties in this action by placing true and correct copies of the pleading with the United States Postal Service, enclosed in sealed envelopes, with postage fully paid, addressed as indicated on the attached list.

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

EXECUTED on June 9, 2003, at Los Angeles, California.

Yvonne Alamillo

Yvonne Alamillo, Declarant

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