

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

In re:	§	Case No. 09-37010 (SGJ)
	§	
ERICKSON RETIREMENT COMMUNITIES, LLC, et al.¹	§	Chapter 11
	§	
Debtors.	§	(Jointly Administered)
	§	

**FIRST AND FINAL APPLICATION OF ALVAREZ & MARSAL HEALTHCARE
INDUSTRY GROUP LLC AS CHIEF RESTRUCTURING OFFICER AND
EXECUTIVE VICE PRESIDENT OF RESTRUCTURING AND ADDITIONAL
PERSONNEL FOR THE DEBTORS FOR ALLOWANCE OF COMPENSATION
FOR PROFESSIONAL SERVICES RENDERED AND FOR REIMBURSEMENT
OF REASONABLE AND NECESSARY EXPENSES INCURRED FROM
OCTOBER 19, 2009 THROUGH APRIL 30, 2010**

By this first and final application (the “Application”), pursuant to sections 105(a) and 363(b) of title 11 of the United States Code (the “Bankruptcy Code”) and Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), Alvarez & Marsal Healthcare Industry Group LLC (“A&M” or “Applicant”), having been appointed as Chief Restructuring Officer and Executive Vice President and additional personnel for Erickson Retirement Communities, LLC (“ERC”) and its affiliated debtors (collectively, the “Debtors”), in the above-captioned Chapter 11 cases, makes this final application for allowance and payment of fees and reimbursement of expenses based on the following:

¹ The Debtors in these Chapter 11 cases are Erickson Retirement Communities, LLC, Ashburn Campus, LLC, Columbus Campus, LLC, Concord Campus GP, LLC, Concord Campus, LP, Dallas Campus GP, LLC, Dallas Campus, LP, Erickson Construction, LLC, Erickson Group, LLC, Houston Campus, LP, Kansas Campus, LLC, Littleton Campus, LLC, Novi Campus, LLC, Senior Campus Services, LLC, Warminster Campus GP, LLC, Warminster Campus, LP.

JURISDICTION AND VENUE

1. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

2. The statutory predicates for the relief requested herein are Bankruptcy Code sections 105(a) and 363(b) and Bankruptcy Rule 2016.

BACKGROUND

Filing of Chapter 11 Cases

3. On October 19, 2009, the Debtors each filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division.

4. Until April 30, 2010, the effective date of the Debtors' plan of reorganization, the Debtors continued to possess their properties and manage their businesses as debtors in possession pursuant to Bankruptcy Code sections 1107(a) and 1108.

5. On November 2, 2009, the official committee of unsecured creditors (the "Committee") was appointed by the United States Trustee. No trustee or examiner was appointed in these cases.

General Factual Background

6. Additional factual background regarding each of the Debtors, including their current and historical business operations and the events precipitating these Chapter 11 filings is set forth in detail in the Affidavit of Paul Rundell in Support of First Day Motions [Dkt. Nos. 15, 27], and is incorporated herein by reference.

A&M's Employment and Retention

7. On October 20, 2009, the Debtors filed an Application (the “Retention Application”) for an Order Pursuant to 11 U.S.C. §§ 105(a) and 363(b) Authorizing Employment and Retention of A&M as Chief Restructuring Officer, Executive Vice President and Additional Personnel to The Debtors Nunc Pro Tunc to the Petition Date [Dkt. No. 39] is attached as **Exhibit A**. The Court entered an order (the “Retention Order”) granting the relief requested in the Retention Application on November 24, 2009 [Dkt. No. 372]. A copy of the Order Pursuant To 11 U.S.C. §§ 105(a) and 363(b) Authorizing Employment and Retention of A&M as Chief Restructuring Officer, Executive Vice President and Additional Personnel to The Debtors *Nunc Pro Tunc* to the Petition Date is attached as **Exhibit B**.

8. A&M was retained, among other things, to provide assistance to the Debtors with respect to the management of the Chapter 11 restructuring process, including providing administrative support, developing business and financial analyses, and support and assistance with respect to developing the Debtors’ strategy for emerging from Chapter 11 bankruptcy protection.

9. In accordance with the engagement letter (the “Engagement Letter”), which is annexed to the Retention Application, A&M provided such restructuring support services as A&M and the Debtors deemed appropriate and feasible during the Debtors’ Chapter 11 cases, including, but not limited to:

- a. Development of restructuring plans or strategic alternatives for maximizing the enterprise value of the Debtors’ retirement communities and development of a sustainable capital structure for the Debtors;
- b. Serving as the principal point of contact for the Debtors’ creditors and other parties in interest with respect to the Debtors’ financial and operational matters;

- c. Management of the Debtors' liquidity, cash flows, modeling, budgets and financial planning; and
- d. Performance of such other services as requested or directed by the Debtors' governing body and Chief Executive Officer.

10. Pursuant to the Engagement Letter and Retention Order, A&M would be compensated on an hourly basis, and A&M would be reimbursed for reasonable and necessary expenses incurred during the engagement. Guy Sansone would be compensated at a fixed fee of \$65,000 monthly. In addition to the fees listed above, A&M is also eligible for an incentive fee of up to \$1.5 million, as further described in the Retention Application and Engagement Letter.

11. A&M has incurred fees and expenses for services performed from the Petition Date through April 30, 2010 (the "Application Period"). The total amount of professional fees and expenses related to services provided by A&M to the Debtors during the Application Period total \$4,869,727.65 (\$4,656,570.04 in professional fees, which includes a \$1.5 million incentive fee, \$213,157.61 in professional expenses and \$130,750.00 of voluntary fee reductions and \$2,547.43 in voluntary expense reductions). The \$130,750 voluntary fee reductions included reducing Sansone's monthly fees in half during the months of March and April (\$65,000.00 of voluntary reductions), reducing Rundell's hours by 20 in March and April (\$24,000.00 of voluntary reductions), and reducing Simon's hours by 98.5 in March and 68.5 in April (\$41,750 of voluntary reductions). The \$2,547.43 in voluntary expense reductions were for various reasons, including reducing meals which A&M felt were non-working meals and or meals that were deemed above reasonable limits. A&M has been paid pursuant to the terms of the Retention Order. A&M, therefore, respectfully submits this Application for final approval of all fees and expenses incurred by A&M during the Application Period.

ACHIEVEMENTS DURING APPLICATION PERIOD

12. The Debtors filed an emergency voluntary Chapter 11 petition more than seven months after A&M was originally retained. The Debtors' complex business, legal and capital structures unfortunately made an out-of-court restructuring too difficult to achieve in a short period of time. As of the Petition Date, the Debtors had more than \$2 billion in debt on their books. The pre-petition debt was almost entirely secured. Approximately fifty lenders, several sub-debt lenders, and hundreds of bond holders held claims against the Debtors for pre-petition debt. The continuing care retirement community industry is heavily regulated; therefore, more than ten state regulators (the "Regulators") were involved in post-petition restructuring efforts. In addition, A&M assisted the Debtors with negotiating with the Regulators, overseeing 23,000 residents (the "Residents") of the continuing care retirement community facilities and managing approximately 11,000 employees.

13. In short, A&M assisted the Debtors with the following during the Debtors' Chapter 11 bankruptcy proceedings:

- Protection of approximately \$4 billion of Resident's initial entrance deposits
- Reduction of expenses (over \$100 million annualized)
- Negotiation of insurance renewals which reduced costs by around \$1.2 million annually
- Liquidation of non-core assets which generated approximately \$8.0 million proceeds
- Streamline of operations, resulting in decreased operating expenses
- Control over the spending function and improved collections

- Production of reliable and accurate short term and long term cash flow projections
- Negotiation of cash collateral usage and post-petition financing packages, which provided the Debtors with the liquidity needed to successfully sell estate assets and emerge from Chapter 11 bankruptcy protection in an expedient fashion
- Serving as primary fact witness with respect to most of the Debtors' contested matters before the Court
- Providing leadership and guidance to Debtors' investment bankers in the 18-hour auction of substantially all of the Debtors' assets, resulting in significantly increased recoveries to all secured creditors
- Provision of key information to advisors potential buyers' advisors including approximately 10 unique weekly reports, 12 monthly reports and additional in-depth analyses requested by the various parties of interest
- Communication with various constituencies (including regulators, employees, not-for-profits entities, professionals, corporate and campus project lenders, sub-debt lenders, and bond trustees) on a regular basis to explain the process so that the Debtors had time to execute the strategy
- Assisting Debtors' investment banker in securing a purchaser with significant capital to finish building out the campuses
- Oversight of the claims estimation and reconciliation process, which included sorting through over 500 claims totaling over \$1 million
- Oversight of all aspects of the successful restructuring of the Debtors' assets and liabilities

- Negotiation with all creditors with respect to convincing them to accept the Debtors' restructuring strategy and tweaking of the strategy when necessary to develop a successful plan of reorganization that was ultimately accepted on by almost 99% of the Debtors' creditors
- Successful completion of all administrative requirements including monthly operating reports, statements and schedules for 16 individual Debtors
- Renegotiation of contracts and leases which reduced operating costs by approximately \$1.5 million annually
- Playing a critical role in transitioning the Debtors' assets to the purchaser to ensure the closing and transition went smoothly, including, among other things, handling communications, financial issues, operational issues, and regulatory questions

RELIEF REQUESTED

14. In connection with the Chapter 11 cases, the Applicant has performed the services set forth in the schedules attached hereto and incorporated herein by reference as **Exhibits C, D and E** (containing a summary of hours and fees performed in connection with Debtors by task code) for fees and expenses as therein set forth totaling \$4,869,727.65 (fees charged: \$4,656,570.04; expenses advanced: \$213,157.61) for the Application Period.

15. The fees and hours summaries are attached hereto as **Exhibits C and D** and include hours and fees charged by person and by task code for the Application Period. Time was kept by person and billed to each discrete category or activity, which was then

summarized by person, by hour, for each task code. The Applicant has used its best efforts to accurately describe each task category for which time was billed.

16. Expenses were also tracked and itemized in the monthly fee statements. A summary of the expenses by person and by expense category can be found on **Exhibit E**.

17. A&M was retained as Chief Restructuring Officer and Executive Vice President and additional personnel to the Debtors during these Chapter 11 cases. As a result of A&M's services, the Debtors have transitioned smoothly through the Chapter 11 bankruptcy process. Additionally, A&M has been instrumental in the successful reorganization of the Debtors. The Debtors have a complicated business and legal structure; they conduct business in a highly regulated industry, and face a challenging economic environment. In addition, these cases involved a large number of key constituencies and yet the Debtors exited Chapter 11 within seven months with a plan of reorganization that was accepted by almost 99% of all creditors.

18. The Retention Application and Retention Order are incorporated herein by reference. Moreover, the following annexed exhibits further support the relief requested in this Application:

Exhibit A: Application Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code for Authorization to Employ and Retain Alvarez & Marsal Healthcare Industry Group as Chief Restructuring Officer, Executive Vice President of Restructuring and Additional Personnel Nunc Pro Tunc to the Commencement Date [Docket No. 39].

Exhibit B: Order Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code for Authorization to Employ and Retain Alvarez & Marsal Healthcare Industry

Group as Chief Restructuring Officer, Executive Vice President of Restructuring and Additional Personnel Nunc Pro Tunc to the Commencement Date [Docket No. 372].

Exhibit C: Summary of Fees Charged by Task Code and by A&M Professional during the Application Period.

Exhibit D: Summary of Hours Charged by Task Code and by A&M Professional during the Application Period.

Exhibit E: Summary of Expenses Charged by Task Code and by A&M Professional during the Application Period.

SERVICES RENDERED AND TASKS PERFORMED

19. A&M kept detailed records of its hours and fees by person and by task code and a summary of this time can be found in **Exhibit C and Exhibit D**. A&M's professionals rendered a total of 6,926.7 hours of professional services to the Debtors (not including hours charged by Guy Sansone) totaling fees of \$4,656,570.04, which is net of voluntary write-offs and includes the incentive fee. The following is a summary of the services rendered (organized by task code) by A&M during the Application Period:

A. Accounting / Auditing

20. A&M worked on various accounting tasks, including assisting the campus auditors with data requests, working with the Debtors' independent auditors and accountants to help provide information and/or details so that they can perform the audits for the respect not-for-profit entities (each an "NFP"), working on collections of accounts receivable to improve cash flow and liquidity, calculating key accounting performance

measures, and creating accounting reports for management which allowed them to more accurately project financial performance.

21. During the Application Period, A&M spent a total of 92.3 hours on this task in this category for total fees of \$24,005.00.

B. Assessment Services

22. A&M conducted a Revenue Cycle Assessment including Community Business Office and Patient Access, Corporate Billing and Collections functions (Corporate AR Department). Work processes and work flows across all of the major functions of the revenue cycle were reviewed. In addition, A&M performed various data analyses related to patient access, billing and collections and denials from third-party payers. In addition A&M conducted a series of interviews with corporate and community key management and staff and reviewed all key procedures and prepared recommendations in four key categories to bring the Debtors' days in accounts receivable in line with industry standards, which improved liquidity by millions of dollars.

23. During the Application Period, A&M spent a total of 95.4 hours on this task in this category for total fees of \$29,090.00.

C. Asset Analysis and Recovery

24. A&M worked with the Debtors' financial and legal advisors, developing the recovery analysis associated with the plan of reorganization. Some of the tasks included the collection and analysis of data from each debtor; development of financial forecasts for certain recovery items; research and resolution of business and legal issues impacting the recovery; and the review and update of multiple drafts of the recovery analysis.

25. During the Application Period, A&M spent a total of 13.4 hours on this task in this category for total fees of \$5,970.00.

D. Asset Disposition

26. Work consisted of time spent on disposing of non-core assets, including the UMBC building and land loans totaling almost \$40 million of debt, auction of a condo owned by ERC and various other non-core assets. Significant amount of time was also spent on the sale of core assets. This time would be spent on supporting the Debtors' investment banker, providing details to the various bidders and providing details to advisors of various creditors with respect to the sale of the Debtors' core assets.

27. During the Application Period, A&M spent a total of 184.7 hours on this task in this category for total fees of \$101,992.50.

E. Business Analysis

28. A&M worked to analyze and understand the performance of the Company's business, develop methods to monitor and improve performance, and mitigate the impact of the bankruptcy. Significant time was spent analyzing and improving daily, weekly and monthly liquidity at the various Debtors and associated NFPs. Other tasks in this category included resolving vendor issues, meeting with management, analyzing employee compensation and benefit plans, and review and development of reporting tools for management.

29. During the Application Period, A&M spent a total of 397.7 hours on this task in this category for total fees of \$195,580.00.

F. Business Operations

30. A&M worked with the Debtors' management and employees to develop and implement strategies to resolve business process and operations issues associated with the restructuring. Tasks in this category included the development and implementation of new financial reporting, liquidity management, marketing, and insurance payment processes; collection and analysis of data; meetings with the Debtors' management and employees; cancellation of leases; and resolution of issues related to the treasury management system, vendor payments and other business issues.

31. During the Application Period, A&M spent a total of 326.6 hours on this task in this category for total fees of \$145,265.00.

G. CRO Governance

32. A&M worked on various Chief Restructuring Officer ("CRO") activities including supporting the CRO, the Debtors' management and performing other tasks necessary to the restructuring. Some of these tasks included attending meetings and/or participating in calls on monthly operating reports to the trustee's office, preparing for court hearings, ensuring all the proper legal documents were filed on a timely basis, and meeting with the Debtors' management with respect to how financial, communication, operation and other issues could impact the restructuring process. A significant amount of the time spent with the Debtors' executive management was charged to other codes including business operations and strategy.

33. During the Application Period, A&M spent a total of 10.1 hours on this task in this category for total fees of \$6,060.00.

H. Case Administration

34. A&M worked on various requests by the U.S. Trustee.

35. During the Application Period, A&M spent a total of 7.6 hours on this task in this category for total fees of \$4,260.00.

I. Cash Management

36. A&M managed the Debtors' daily, weekly, and monthly cash flow and liquidity related to the bankruptcy. Tasks related to this category included approving and reviewing all disbursements; the development of daily, weekly and monthly cash flow forecasts; improving and monitoring cash and initial entrance deposit collections; daily and weekly cash flow reporting and variance analyses; weekly calls with the NFPs' financial directors regarding funding needs; managing post-petition financing borrowings/repayments; resolving payments, collections and treasury issues; and analyzing the liquidity impact of bankruptcy issues (contract assumption) on liquidity. Due to the Debtors' complicated debt and legal structure and the amount of professionals involved in these cases, a significant amount of time was spent on Cash Management tasks to ensure all creditors had comfort that A&M was able to control and preserve liquidity and accurately project the Debtors' cash needs.

37. During the Application Period, A&M spent a total of 510.6 hours on this task in this category for total fees of \$240,545.00.

J. Claims Administration and Objections

38. A&M analyzed and reviewed all claims filed against the Debtors' estates. A&M compared filed claims to scheduled claims and created numerous schedules. Reviewed supporting documents attached to proofs of claim and reconciled with company data for bank claims, account payable claims, mechanics lien and other filed secured claims. Managed the balloting process and assisted attorneys and the claims agent with

resolving balloting issues and responding to requests by the numerous lenders. A&M also researched claims objections and assisted management and attorneys with reconciling key claims. Because of the Debtors' complicated debt structure and shortened time in chapter 11, A&M was heavily involved with both the balloting and claims process.

39. During the Application Period, A&M spent a total of 331.7 hours on this task in this category for total fees of \$131,860.00.

K. Communications

40. A&M worked with the Debtors' finance directors and management to develop talking points regarding taxes, accounts receivable and finance assessment projects and other various communications and reviewed various press releases and outside communications to manage the flow of public information.

41. During the Application Period, A&M spent a total of 23.5 hours on this task in this category for total fees of \$6,945.00.

L. Consulting

42. A&M conducted a Revenue Cycle Assessment including Community Business Office and Patient Access, Corporate Billing and Collections functions (Corporate AR Department). Work processes and work flows across all of the major functions of the revenue cycle were reviewed. In addition, we performed various data analyses related to patient access, billing and collections and denials from third-party payers. A&M also conducted a series of interviews with corporate and community key management and staff, reviewed all key procedures and prepared recommendations in four key categories to bring the Debtors' days in accounts receivable in line with industry standards.

43. A&M conducted a Finance / Accounting Assessment including FP&A, Accounting and Reporting, Payroll, Accounts Payable, Treasury, Escrow, Community Accounting, Risk Management, Procurement and Department Finance (IT, Marketing). These efforts resulted in liquidity savings of over \$1 million.

44. During the Application Period, A&M spent a total of 493.3 hours on this task in this category or total fees of \$214,592.50.

M. Contract / Lease Assume / Reject

45. A&M worked with the Debtors' management / employees and Redwood-ERC Senior Living Holdings, LLC, a Maryland limited liability company ("Redwood") to develop and finalize assumed contracts for the Debtors' plan of reorganization. Tasks performed with respect to this category included cataloguing and categorizing all of the Debtors' contracts; development and maintenance of a master contract tracking list; reconciliation of an executory contract list (Schedule G) to the contract list filed with the asset purchase agreement; research and review of contracts to determine whether to assume or reject the contracts; negotiations with vendors on cure payments; and preparation and review of contract amendments. There were approximately one thousand contracts in the asset purchase agreement and A&M cross referenced these contracts against claims filed against the Debtor estates and consulted with Redwood regarding whether to assume or reject the contracts.

46. During the Application Period, A&M spent a total of 189.7 hours on this task in this category for total fees of \$96,855.00.

N. Corporate Finance

47. A&M worked with potential buyers and various key constituencies with respect to matters related to the sale of the Debtors' assets. These matters included the valuation of the Debtors and the allocation of purchase price proceeds amongst the Debtor estates.

48. During the Application Period, A&M spent a total of 7.3 hours on this task in this category for total fees of \$3,832.50.

O. DIP Financing / Cash Collateral

49. Involved work relating to securing a post-petition credit facility and potentially using cash collateral for the bankruptcy period. The major tasks included analyzing potential cash needs during the bankruptcy period, determining the potential credit facility size per Debtor, development of a financing budget, weekly reporting on actual financing budget results, updating of financing budget on a weekly and monthly basis, calls with potential lenders, calls with creditor advisors regarding cash collateral, and review and negotiation of the post-petition credit facility documents.

50. During the Application Period, A&M spent a total of 319.5 hours on this task in this category for total fees of \$139,745.00.

P. Data Analysis

51. Involved reviewing and analyzing information generated by the Debtors to ensure data integrity, to develop improved reporting tools and generate analyses to understand business operations. The reporting tools and analyses were used to monitor the business and provide updates to the various constituencies in these cases. Key areas of focus for this analysis was treasury funds flows, vendor payments, pre-petition accounts payable balances, professional fees, employee severance costs and employee benefit costs.

These analyses were requested by the corporate lenders' advisors, campus construction advisors, NFP advisors, the Debtors' executive management and Redwood.

52. During the Application Period, A&M spent a total of 708.1 hours on this task in this category for total fees of \$238,837.50.

Q. Employee Benefits and Pensions

53. A&M worked on various benefits and vendor issues. A&M reviewed the wage motion and various affidavits, attended numerous meetings with finance and human resources staff on benefit payment issues, and determined total severance amounts.

54. During the Application Period, A&M spent a total of 32.5 hours on this task in this category for total fees of \$11,632.50.

R. Fee and Employments Applications

55. A&M tracked fees and expenses filed by professionals in the cases. Various tasks regarding the retention of professionals and their employment applications.

56. During the Application Period, A&M spent a total of 24.0 hours on this task in this category for total fees of \$6,000.00.

S. Financing

57. A&M worked with the Debtors to renew letters of credit with PNC Bank and performance bonds with various sureties during the bankruptcy period. A&M then worked with Redwood to ensure that these letters of credit and performance were appropriately assigned or renewed post closing.

58. During the Application Period, A&M spent a total of 3.8 hours on this task in this category for total fees of \$1,905.00.

T. Insurance

59. A&M worked with the Debtors' risk management staff, Debtors' bankruptcy counsel and Redwood on a range of issues related to the Debtors' insurance program. A&M assisted the Debtors' risk management staff in the renewal of its insurance programs and evaluating potential cost/capital saving programs and structures for the renewal. A&M also worked with Debtors' counsel in preparing and filing an insurance motion and assisted Redwood with ensuring that the insurance program was properly assigned to the buyer and improving the Debtors' D&O tail coverage.

60. During the Application Period, A&M spent a total of 39.4 hours on this task in this category for total fees of \$19,205.00.

U. Litigation Support

61. A&M supported the Debtors' counsel throughout the case with various information requested by various constituencies. Some of the tasks included working on a severance motion, working on the creditor matrix, preparing data for the utilities motion, working on discovery issues, supporting the Debtors' counsel regarding an examiner motion, and assisting with negotiations with respect to resolving various objections to the plan of reorganization.

62. During the Application Period, A&M spent a total of 43.0 hours on this task in this category for total fees of \$16,417.50.

V. Meeting of Creditors

63. Tasks in this code included preparing for the 341 hearing, meeting with advisors (corporate, project, creditors' committee), Debtors investment banker and sub-debt holders regarding allocation of sale proceeds, meeting with the bond trustee and advisors regarding debt restructurings.

64. During the Application Period, A&M spent a total of 11.8 hours on this task in this category for total fees of \$5,295.00.

W. Plan and Disclosure Statement

65. Time was spent on providing the Debtors' investment banker and counsel with details necessary to file the plan and disclosure statement and amendments to the same. Significant time was also spent on negotiating with the various creditors involved in these cases, including but not limited too, the unsecured creditors committee, the construction lender agents, the corporate lender agent, the three sub-debt lenders, the bond trustee and the agent with respect to the UMBC construction loan. A lot of this time was spent on providing various parties with details, analyzing various distributions and negotiating the proceeds from the purchase to reach a plan that was on average 99% accepted by all parties.

66. During the Application Period, A&M spent a total of 262.7 hours on this task in this category for total fees of \$144,875.00.

X. Plan Process

67. Work was spent on providing the analysis and detailed support to get a plan and disclosure statement approved. Most of this time was the strategy and analysis necessary to get the various constituencies aboard with a consensual plan.

68. During the Application Period, A&M spent a total of 27.0 hours on this task in this category for total fees of \$16,147.50.

Y. Post Confirmation

69. A&M worked with the Debtors, lenders' counsel, Redwood, taxing authorities, and other interested parties on preparing flow of funds documents, reviewing

distributions, verifying payoff amounts with taxing authorities, analyzing amounts needed by the title company for escrows. The closing involved almost \$1 billion of funds flowing in and out of the title company in less than one day and ensuring that the amounts collected and distributed were correct took a massive effort by dozens of people and it was the CRO's team's responsibility to coordinate this effort.

70. During the Application Period, A&M spent a total of 163.7 hours on this task in this category for total fees of \$87,865.00.

Z. Reclamation Claims and Preference Analysis

71. A&M worked with company management, attorneys and the claims agent to gather payment and invoice data for all Debtors in order to prepare a preference analysis. Tasks included gathering all payroll data, accounts payable data (including checks, wires and ACH payments) and data relating to insider payments. This project was completed so that A&M could inform the court of the potential amounts of preference claims that were possible and it also helped the unsecured creditors committee understand future potential sources of recovery.

72. During the Application Period, A&M spent a total of 57.8 hours on this task in this category for total fees of \$26,197.50.

AA. Schedules & Statements of Financial affairs

73. A&M created the schedules & statements of financial affairs for the 16 Debtors; filed these documents with the Court; and prepared and filed monthly operating reports. Tasks related to completing this task included retrieving, analyzing and reviewing the following data sets for all 16 debtors: one year of payment history, one year of insider payment history, pre-petition assets category, pre-petition liabilities by individual creditor,

historical financial information and executory contracts. Due to the amount of Debtors and the complicated business and capital structure, a significant amount of time was spent ensuring the various creditors had accurate information.

74. During the Application Period, A&M spent a total of 593.5 hours on this task in this category for total fees of \$245,930.00.

BB. Strategic Planning

75. Time spent with Debtors investment banker and counsel discussing various topics including, but not limited to, the plan and disclosure statement, maximizing the price in the auction process, NFP issues, project lender issues, corporate lender issues, sub-debt lender issues, getting 5-10 year management agreements from the NFPs and controlling the speed to get the Debtors out of Chapter 11. In addition, A&M spent significant time controlling communications with regulators and residents as well discussing operations, settlements, financial issues, legal issues and many other challenges the Debtors faced during the Chapter 11 process. This included having 2-3 calls with advisors and counsel every week, meetings with the Debtors' executive management at least twice a week and frequent Board meetings.

76. During the Application Period, A&M spent a total of 29.6 hours on this task in this category for total fees of \$11,695.00.

CC. Tax Issues

77. A&M worked with the Debtors and Debtors' bankruptcy counsel to manage potential real estate tax issues related to the bankruptcy. Tasks related to this category included developing a communication strategy for operations staff to handle enquiries from taxing authorities, supporting tax professionals and Debtors' counsel in

appealing tax valuations for various communities (Houston, Novi, Kansas), conducting calls with the various taxing authorities regarding payment of taxes, and working with the state of Maryland on a sales and use tax audit. As well as, various requests from lenders' counsel, the creditors' committee and NFP advisors.

78. During the Application Period, A&M spent a total of 47.8 hours on this task in this category for total fees of \$22,862.50.

DD. Testimony

79. Throughout this case, there has been significant testimony required from the CRO's team. Paul Rundell, a Managing Director at A&M and Executive Vice President at ERC, was the person selected to provide this testimony. In the beginning of the case, with over fifty lenders, almost \$2 billion of debt at risk and highly regulated industry required significant amounts of testimony and therefore preparation for these hearings. Finally, a significant amount of testimony was required by the complicated capital structure and the various creditor issues that developed before and during the case.

80. During the Application Period, A&M spent a total of 314.7 hours on this task in this category for total fees of \$180,450.00.

EE. Valuation

81. Tasks in this time code include working on litigation issues, calls with corporate lenders' advisors regarding a valuation fight and analysis and review of the proposed valuation of each of the campus properties.

82. During the Application Period, A&M spent a total of 8.3 hours on this task in this category for total fees of \$4,980.00.

FF. Various requests from Lenders, Committee and NFP advisors

83. A&M worked to provide requested data and analyses to the legal and financial advisors of the various constituencies in these cases – corporate lenders, construction lenders, unsecured creditors committee, NSC and potential buyers. The data and analyses requests included recurring weekly, monthly and quarterly data requests / analyses in addition to those that were ad hoc or one-time in nature. Recurring weekly, monthly and quarterly requests included items related to liquidity, cash flow, marketing spending, settlement activity, reservation activity, and financial performance. For the NSC advisors, A&M provided special detailed weekly cash flow reporting packages. One off analyses included providing the unsecured creditors committee with preference data and providing them with information on the size of the unsecured pool.

84. During the Application Period, A&M spent a total of 575.1 hours on this task in this category for total fees of \$262,920.00

GG. Travel

85. This category includes time spent by A&M in connection with necessary travel in this case. In accordance with the Court’s Local Guidelines, A&M billed the travel time of its professionals at one-half their normal and customary billing rates otherwise charged for services in this Case

86. During the Application Period, A&M spent a total of 980.5 hours on this task in this category for total fees of \$222,346.25 (does not include hours charged by Guy Sansone), which represents 100% of the time charged, but only one-half of the fees have been charged.

87. The following chart summarizes by Task Code the hours and fees rendered by A&M during the Application Period:

Fees Billed per Task Code:

Task Description	Hours Billed During the Application Period	Fees Billed During the Application Period
Accounting/auditing	92.3	\$ 24,005.00
Assessment services	95.4	29,090.00
Asset analysis and recovery	13.4	5,970.00
Asset disposition	184.7	101,992.50
Business analysis	397.7	195,580.00
Business operation	326.6	145,265.00
CRO governance	10.1	6,060.00
Case administration	7.6	4,260.00
Cash management	510.6	240,545.00
Claims admin and objections	331.7	131,860.00
Communications	23.5	6,945.00
Consulting	493.3	214,592.50
Contract/lease assume/reject	189.7	96,855.00
Corporate finance	7.3	3,832.50
DIP financing/cash collateral	319.5	139,745.00
Data analysis	708.1	238,837.50
Employee benefits/pensions	32.5	11,632.50
Fee/employment objections	24.0	6,000.00
Financing	3.8	1,905.00
Insurance	39.4	19,205.00
Litigation support	43.0	16,417.50
Meeting of creditors	11.8	5,295.00
Plan and disclosure statement	262.7	144,875.00
Plan process	27.0	16,147.50
Post confirmations	163.7	87,865.00
Reclamation claims	57.8	26,197.50
Schedules & statements of financial affairs	593.5	245,930.00
Strategic planning	29.6	11,695.00
Tax issues	47.8	22,862.50
Testimony	314.7	180,450.00
Travel time	980.5	222,346.25
Valuation	8.3	4,980.00
Various requests from Lenders, UCC and NFP advisors	575.1	262,920.00
Total	6,926.7	\$ 2,872,158.75

* Not including Guy Sansone

** Travel hours billed at 50% hourly rate

LEGAL STANDARD

88. The retention of interim corporate officers and other temporary employees is proper under section 363 of the Bankruptcy Code. Numerous courts have authorized retention of officers utilizing this provision of the Bankruptcy Code. See In re Mirant Corporation, et al., Case No. 03-46590 (DML) (Bankr. N.D. Tex. September 26, 2003); In re PRC, LLC, Case No. 08-10239 (MG) (Bankr. S.D.N.Y. February 27, 2008); In re Bally Total Fitness, Inc., Case No. 07-12395 (BRL) (Bankr. S.D.N.Y. August 1, 2007); In re Dana Corp., Case No. 06-10354 (BRL) (Bankr. S.D.N.Y. May 6, 2006); In re Cable & Wireless USA, Inc., Case No. 03-13711 (CGC) (Bankr. D.Del. Jan. 16, 2004); See also In re WorldCom Group, et al., (Case No. 02-13533) (AJG) (Bankr. S.D.N.Y. September 17, 2002); In re Parmalat USA Corp., Case No. 04-11139 (Bankr. S.D.N.Y. Sept. 2, 2004); In re RCN Corp., Case No. 04-13638 (Bankr. S.D.N.Y. July 30, 2004); In re Kmart Corporation, et al., Case No. 02-B02474 (SPS) (Bankr. N.D. Ill., E.D. May 22, 2002); In re Integrated Health Services, Inc., Case No. 00-389 (MFW) (Bankr. D.Del. 2000).

89. Application of the foregoing criteria more than justifies the compensation requested for the services described below provided by the Applicant.

CONCLUSION

WHEREFORE, Applicant requests that the Court, after notice and a hearing, allow the approval of professional fees and expenses in connection with work performed for Debtors for the Application Period in the amount of \$4,869,727.65 (reasonable fees in the amount of \$4,656,570.04 and actual and necessary disbursements in the amount of \$213,157.61), authorize Debtors to allow the Applicant the allowed fees and expenses, allow (on a final basis) fees and

expenses which have already been approved by this Court and paid to A&M, and grant such further and additional relief as to the Court may appear proper.

Dated: June 14, 2010
Dallas, Texas

Alvarez & Marsal Healthcare Industry
Group LLC

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EXECUTIVE VICE PRESIDENT AND
ADDITIONAL PERSONNEL FOR
DEBTORS AND DEBTOR-IN
POSSESSION