



North Carolina Department of Health and Human Services
Division of Health Service Regulation
Certificate of Need Section

2704 Mail Service Center • Raleigh, North Carolina 27699-2704
<http://www.ncdhhs.gov/dhsr/>

Drexdal Pratt, Director

Beverly Eaves Perdue, Governor
Albert A. Delia, Acting Secretary
March 5, 2012

Craig R. Smith, Section Chief
Phone: (919) 855-3873
Fax: (919) 733-8139

Patricia A. Markus
SMITH MOORE LEATHERWOOD LLP
Po Box 27525
Raleigh, NC 27601

RE: No Review/ Morningside of Gastonia / Transfer of title from Morningside Holdings of Gastonia, LLC to Morningside of Gastonia, LLC / Gaston County


Dear Ms. Markus:


The Certificate of Need (CON) Section received your letter of February 29, 2012 regarding the above referenced proposal. Based on the CON law **in effect on the date of this response to your request**, the proposal described in your correspondence is not governed by, and therefore, does not currently require a certificate of need. However, please note that if the CON law is subsequently amended such that the above referenced proposal would require a certificate of need, this determination does not authorize you to proceed to develop the above referenced proposal when the new law becomes effective.

It should be noted that this determination is binding only for the facts represented by you. Consequently, if changes are made in the project or in the facts provided in your correspondence referenced above, a new determination as to whether a certificate of need is required would need to be made by the Certificate of Need Section. Changes in a project include, but are not limited to: (1) increases in the capital cost; (2) acquisition of medical equipment not included in the original cost estimate; (3) modifications in the design of the project; (4) change in location; and (5) any increase in the number of square feet to be constructed.

In addition, you should contact the Adult Care Licensure Section to determine if they have any requirements for development of the proposed project. Please contact the CON Section if you have any questions

Sincerely,


Paula Quirin,
Project Analyst


Craig R. Smith, Chief
Certificate of Need Section

cc: Adult Care Licensure Section, DHSR

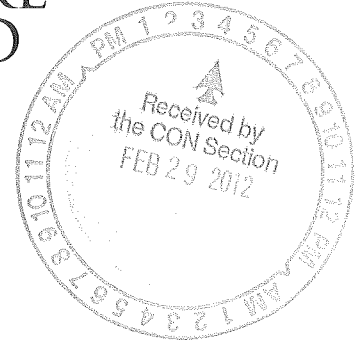




SMITH MOORE LEATHERWOOD

Paula

February 29, 2012



VIA HAND DELIVERY

Mr. Craig Smith, Chief
Certificate of Need Section
Division of Health Services Regulation
North Carolina Department of Health
and Human Services
809 Ruggles Drive
Raleigh, North Carolina 27603-2008

Re: Request for Notice of Exemption – Morningside of Gastonia

Dear Mr. Smith:

This letter constitutes prior written notice, pursuant to N.C. Gen. Stat. § 131E-184(a)(8), that Five Star Quality Care, Inc., a Maryland corporation (“Five Star”), intends to engage in a refinancing transaction involving an existing adult care home in Gastonia, North Carolina. Five Star is a New York Stock Exchange listed company that, *inter alia*, owns and operates senior living facilities in a number of states through its wholly-owned subsidiaries. Five Star is in the process of negotiating a refinancing to be secured by a number of its senior living facilities. In connection with the refinancing, Five Star will transfer title of the property located at 2755 Union Road, Gastonia, Gaston County, North Carolina 28054 (the “Facility”), which is currently held by its subsidiary Morningside Holdings of Gastonia, LLC, a Delaware limited liability company, to its subsidiary Morningside of Gastonia, LLC, a Delaware limited liability company. The title transfer will be effected by merger of Morningside Holdings of Gastonia, LLC into Morningside of Gastonia, LLC.

The Facility is currently leased and operated by Morningside of Gastonia, LLC, which conducts business under the assumed name of Morningside of Gastonia (the “Licensee”). The Facility is licensed by the North Carolina Department of Health and Human Services, Division of Health Service Regulation as a one hundred and five (105)-bed adult care home by license number HAL-036-019. See Exhibit A for a copy of the Facility’s current license. At the closing of the transaction, the Licensee will own and operate the Facility.

While we do not believe that the proposed transaction involves an “acquisition” for purposes of the Certificate of Need (“CON”) Act, the acquisition of an existing health service

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Mr. Craig Smith, Chief
February 29, 2012
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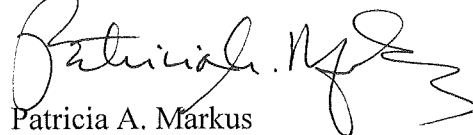
facility is, in any event, exempt from CON review pursuant to N.C. Gen. Stat. § 131E-184(a)(8). The definition of "health service facility" includes adult care homes. N.C. Gen. Stat. § 131E-176(9b). Based on these statutes, transfer of the Facility to the Licensee is exempt from CON review, and the parties need not obtain a CON in order to finalize their planned restructuring.

Because this transaction is scheduled to close on March 30, 2012, we would appreciate receiving your confirmation as soon as possible, but no later than March 12, 2012 that the transaction described above is exempt from CON review. We appreciate your consideration of and attention to this request.

Should you have any questions or need additional information about the foregoing, please call me at (919) 755-8850.

Very truly yours,

SMITH MOORE LEATHERWOOD LLP


Patricia A. Markus

PAM/cmm

Enclosure

RALEIGH 431548.1

State of North Carolina

Department of Health and Human Services
Division of Health Service Regulation

Effective January 1, 2012, this license is issued to

Morningside Of Gastonia, LLC

to operate an Adult Care Home known as

Morningside of Gastonia

*located at 2755 Union Road
Gastonia, NC, Gaston County.*

*This license is issued subject to the statutes of the State of North
Carolina, is not transferable and shall expire
December 31, 2012.*

License Number: HAL-036-019

**** This home serves only elderly persons. ****

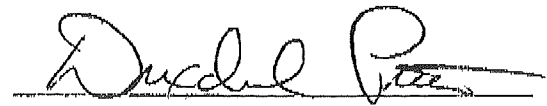
Capacity: 105

Special Care Units: X Yes No Type: Alzheimer's/Dementia 28

Authorized by:



Secretary, N.C. Department of Health and
Human Services



Director, Division of Health Service Regulation