

PROPERTY OF THE

ARIZONA DEPARTMENT OF HEALTH SERVICES



Avalon Care Center - Tucson, L.L.C., dba
Avalon Southwest Health & Rehab
2900 East Milber Street
Tucson, AZ 85714

This facility is licensed to operate as a NURSING CARE INSTITUTION

Total Capacity: 240

From: March 1, 2016

To: February 28, 2017

Issued: December 29, 2015

Recommended By: *Joel Bunis*
Bureau Chief

License: NCI-2643

Issued By: *Colby Bower*
Assistant Director

HEALTH AND WELLNESS FOR ALL ARIZONANS

PURSUANT TO A.R.S. §41-1092.11 (A), UPON SUBMITTAL OF A TIMELY AND SUFFICIENT APPLICATION
THIS LICENSE WILL REMAIN IN EFFECT UNTIL REISSUED OR REVOKED
TO BE FRAMED AND DISPLAYED IN A CONSPICUOUS PLACE



Public Health Licensing Services
Bureau of Long Term Care Licensing
150 North 18th Avenue, Suite 440
Phoenix, Arizona 85007-3242
(602) 364-2690 Office
(602) 324-0993 Fax

DOUGLAS A. DUCEY, GOVERNOR
CARA M. CHRIST, MD, DIRECTOR

December 29, 2015

Brian Balliet, Administrator
Avalon Southwest Health & Rehab
2900 East Milber Street
Tucson, AZ 85714

Dear Mr. Balliet:

Enclosed is Nursing Care Institution license number Nci-2643, which authorizes your facility to operate 240 beds. In accordance with A.R.S. § 36-407(C), this license is only valid for the location indicated on the license. Please note the expiration date on your license.

Please be advised that A.R.S. § 36-425(A) requires this license to be conspicuously posted in the reception area of your facility. In addition, A.R.S. § 36-422(D) requires the Department to be notified of a change of ownership at least thirty (30) days prior to the effective date.

The Department has also completed an administrative completeness review of the renewal application and documents you submitted and determined that the application and documents are administratively complete and in compliance with licensing requirements.

Should you have any questions or concerns, please contact the Bureau of Long Term Care at (602) 364-2690.

Sincerely,

Joel Bunis, MBA
Bureau Chief

JB\bh

Enclosure

3/1/14 2/28/17

LTC
53

BCD
240

APP
1981



RENEWAL LICENSE APPLICATION FOR A HEALTH CARE INSTITUTION

ARIZONA DEPARTMENT OF HEALTH SERVICES

PUBLIC HEALTH LICENSING SERVICES – BUREAU OF LONG TERM CARE FACILITIES LICENSING

In accordance with A.R.S. §41-1030

B. An agency shall not base a licensing decision in whole or in part on a licensing requirement or condition that is not specifically authorized by statute, rule or state tribal gaming compact. A general grant of authority in statute does not constitute a basis for imposing a licensing requirement or condition unless a rule is made pursuant to that general grant of authority that specifically authorizes the requirement or condition.

D. This section may be enforced in a private civil action and relief may be awarded against the state. The court may award reasonable attorney fees, damages and all fees associated with the license application to a party that prevails in an action against the state for a violation of this section.

E. A state employee may not intentionally or knowingly violate this section. A violation of this section is cause for disciplinary action or dismissal pursuant to the Agency's adopted personnel policy.

F. This section does not abrogate the immunity provided by section 12 820.01 or 12 820.02.

RECEIVED
NOV 20 2015

I. HEALTH CARE INSTITUTION INFORMATION

Name of Health Care Institution: <u>Avalon Southwest Health & Rehabilitation</u>		License No: <u>NCI-2643</u>
Mailing Address: <u>2900 E. Milber Street</u>		
City: <u>Tucson</u>	State: <u>Arizona</u>	Zip Code: <u>85714</u>
Phone No. <u>(520) 294-0005</u>	Fax No. <u>(520) 294-4417</u>	E-mail: _____

Class: <u>Nursing Care Institution</u>
What is the health care institution's scope of practice: <u>Skilled Nursing</u>
Health care institution's days and hours of operation: (24 hours/day, 7 days/week) Sun <input checked="" type="checkbox"/> Mon <input checked="" type="checkbox"/> Tues <input checked="" type="checkbox"/> Wed <input checked="" type="checkbox"/> Thurs <input checked="" type="checkbox"/> Fri <input checked="" type="checkbox"/> Sat <input checked="" type="checkbox"/>
Is health care institution accredited? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO Name of accrediting organization (must be from a nationally recognized organization): SUBMIT, if applicable, a copy of the full accreditation report and cover letter.
Is health care institution requesting certification under Title XIX of the Social Security Act? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO



RENEWAL LICENSE APPLICATION FOR A HEALTH CARE INSTITUTION

ARIZONA DEPARTMENT OF HEALTH SERVICES

PUBLIC HEALTH LICENSING SERVICES – BUREAU OF LONG TERM CARE FACILITIES LICENSING

RECEIVED

NOV 20 2015

II. OWNER INFORMATION

Owner's Name: Avalon Care Center - Tucson, LLC

Street Address: 206 North 2100 West

City: Salt Lake City State: Utah Zip Code: 84116

Phone No. (801) 594-8844 Fax No. (801) 596-9001

The owner is a (select one):

Sole proprietorship Corporation Partnership

Limited liability partnership Limited liability company Governmental agency

If the owner is a partnership or a limited liability partnership, the name of each partner;

If the owner is a limited liability company, the name of the designated manager or, if no manager is designated, the names of any two members of the limited liability company;

If the owner is a corporation, the name and title of each corporate officer; or

If the owner is a governmental agency, the name and title of the individual in charge of the governmental agency or the name of an individual in charge of the health care institution designated in writing by the individual in charge of the governmental agency:

Name: Avalon Care Center - Tucson, LLC Title: Sole Member and Manager

Name: Scott Carpenter Title: Senior Vice President

Name: Faye Lincoln Title: Senior Vice President

Has the owner or any person with 10% or more business interest in the health care institution had a license to operate a health care institution denied, revoked, or suspended since the previous license application was submitted?

YES NO

If yes, indicate:

The reason for denial, revocation, or suspension:

The date of the denial, revocation, or suspension: _____

The name and address of the licensing agency that denied, revoked, or suspended the license :



RENEWAL LICENSE APPLICATION FOR A HEALTH CARE INSTITUTION

ARIZONA DEPARTMENT OF HEALTH SERVICES

PUBLIC HEALTH LICENSING SERVICES – BUREAU OF LONG TERM CARE FACILITIES LICENSING

Has the owner or any person with 10% or more business interest in the health care institution had a health care professional license or certificate denied, revoked, or suspended since the previous license application was submitted?

YES NO

If yes, indicate:

The reason for denial, revocation, or suspension:

The date of the denial, revocation, or suspension: _____

The name and address of the licensing agency that denied, revoked, or suspended the license or certification:

Does the applicant agree to allow the Department to submit supplemental requests for information under A.A.C. R9-10-108(C)(2)? YES NO

SUBMIT applicable fees required by R9-10-106. All fees are non-refundable except as provided in A.R.S. § 41-1077.

III. STATUTORY AGENT OR INDIVIDUAL WHO ACCEPTS SERVICE OF PROCESS AND SUBPOENAS

Name: <u>Corporation Service Company</u>	Title: _____	
Street Address: <u>2338 W. Royal Palm Road, Suite J</u>		
City: <u>Phoenix</u>	State: <u>Arizona</u>	Zip Code: <u>85021</u>
Phone No. <u>(602) 234-9600</u>		

IV. GOVERNING AUTHORITY

Name: <u>Avalon Care Center - Tucson, LLC</u>		
Street Address: <u>206 North 2100 West</u>		
City: <u>Salt Lake City</u>	State: <u>Utah</u>	Zip Code: <u>84116</u>



RENEWAL LICENSE APPLICATION FOR A HEALTH CARE INSTITUTION
 ARIZONA DEPARTMENT OF HEALTH SERVICES
 PUBLIC HEALTH LICENSING SERVICES – BUREAU OF LONG TERM CARE FACILITIES LICENSING

V. CHIEF ADMINISTRATIVE OFFICER


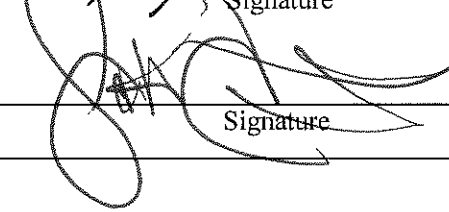
Name: Brian D. Balliet Title: Administrator

Highest Educational Degree: Bachelor of Arts Safety Management

Work experience related to the health care institution class or subclass related to licensing requested:
(Please see attached resume).

VI. SIGNATURES

1. If the applicant is an individual, the owner of the health care institution.
2. If the applicant is a partnership or corporation, two of the partnership's or corporation's officers.
3. If the applicant is a governmental agency, the head of the governmental agency.

 _____ Signature	<u>Senior Vice President Avalon Health Care, Inc.</u> Title
 _____ Signature	<u>Senior Vice President, Avalon Health Care, Inc.</u> Title

VII. ADDITIONAL DOCUMENTATION

If the health care institution is located in a leased facility, submit a copy of the lease showing the rights and responsibilities of the parties and exclusive rights of possession of the leased facility.

Does the licensee have an accreditation report from a nationally recognized accrediting organization? YES NO
 If yes, SUBMIT a copy of the health care institution's current accreditation report from a nationally recognized accrediting organization

**BOARD OF DIRECTORS of AVALON HOLDING, Inc.
On behalf of Avalon Care Center – Tucson, L.L.C.
& Avalon of Arizona, L.L.C.**

November, 2015

Charles R. Kirton	Owner/Chairman
David E. Dangerfield	Board Director
James O. Mason	Board Director
Brian C. Swinton	Board Director
Carl R. Tippets	Board Director
Charles H. Gonzales	Board Director
Lawrence Deans	Board Director
Anne H. Stuart	Board Director
Robert D. Woltil	Board Director
Harold D. Burton	Board Director

**OFFICERS of AVALON HOLDING, Inc.
On behalf of Avalon Care Center – Tucson, L.L.C.
& Avalon of Arizona, L.L.C.**

Charles R. Kirton	Chairman/CEO
Lawrence Deans	President/CEO-Skilled Nursing Division
Anne H. Stuart	Senior Vice President/Chief Financial Officer
Scott R. Carpenter	Senior Vice President/Secretary & Chief Legal Counsel
Faye Lincoln	Senior Vice President/Policy and Government Relations
Rita M. Hess	Senior Vice President/Clinical Services
Ken S. Knapton	Senior Vice President/Chief Information Officer
Christie L. Franklin	Executive Vice President

MANAGING INDIVIDUAL

Brian Balliet, Administrator

APPLICATION SUPPLEMENT

Long Term Care

NAME OF INSTITUTION: Avalon Southwest Health & Rehabilitation

I. Does this facility provide:


Yes A secured area for residents with Alzheimer's disease or other dementia?

Yes A secured behavioral health services area?

No An area for residents on ventilators?

II. Name and license classification of institution(s) operated in conjunction with the nursing care institution:

N/A



Signature of Administrator

11/16/2015

Signature Date

TUCSON FIRE DEPARTMENT
REPORT OF OCCUPANCY INSPECTION

Page 1 of 1

ADDRESS <u>2900 E. MILBER</u>	DATE <u>01/09/15</u>	
BUSINESS NAME <u>AVALON SOUTHWEST HEALTH & REHAB</u>	PHONE <u>294-0009</u>	
OCCUPANCY CLASS / BUSINESS TYPE <u>I-2</u>	PROPERTY REPRESENTATIVE <u>RUBEN HUERTA</u>	
BUSINESS OWNER	BUILDING OWNER	
FIRE CODE EDITION <u>IFC 2012</u>	<input checked="" type="checkbox"/> INSPECTION <u>Full</u>	<input type="checkbox"/> COMPLAINT NO. _____
INCIDENT NO. _____	TYPE _____	TYPE _____

MAKE EVERY WEEK FIRE PREVENTION WEEK

NO VIOLATIONS NOTED AT THIS TIME.

PROPERTY REP SIGNATURE

Ruben A. Huerta

INSPECTOR

Richard Spangle

MARSHAL 11

CAPTAIN SIGNATURE

INSPECTOR SIGNATURE

Rub

Your Fire Department will make a REINSPECTION of the above conditions on _____ 20____.

POSTED

REINSPECTED BY _____ APPROVED DISAPPROVED DATE _____ 20____.

Tucson Fire Department - Fire Prevention Center

300 S. Fire Central Place
Tucson, AZ 85701
(520) 791-4502
Fax: (520) 791-5346

State of Arizona
Board of Examiners of Nursing Care Institution Administrators and
Assisted Living Facility Managers

This is to certify

Brian D Balliet


Has been granted license number 01818 as a

Licensed Nursing Care Institution Administrator

*Having qualified under A.R.S. Title 36, Chapter 4, Article 6, for certification as a licensed nursing care institution administrator,
and is entitled to practice nursing care institution administration in the State of Arizona as of April 9, 2015*

This license expires on

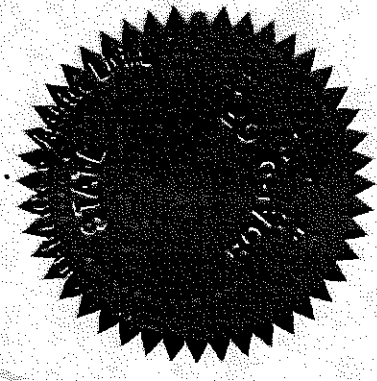
June 30, 2016



President



Member



AMENDED AND RESTATED LEASE AGREEMENT

BETWEEN

**LA COLINA INVESTORS, LLC,
An Arizona Limited Liability Company**

AND

**AVALON CARE CENTER—TUCSON, L.L.C.,
A Utah Limited Liability Company**

September 1, 2005

ARTICLE 5: INDEMNITY.....	30
5.1 Tenant's Indemnification.....	30
5.2 Notice of Claim.....	31
5.3 Survival of Covenants.....	31
5.4 Reimbursement of Expenses.....	31
5.5 Environmental Indemnity; Audits.....	31
5.6 Limitation of Landlord's Liability.....	32
ARTICLE 6: USE AND ACCEPTANCE OF PREMISES.....	32
6.1 Use of Leased Property.....	32
6.2 Acceptance of Leased Property.....	32
6.3 Conditions of Use and Occupancy.....	33
ARTICLE 7: MAINTENANCE AND MECHANICS' LIENS.....	33
7.1 Maintenance.....	33
7.2 Landlord's Construction Consultant.....	34
7.3 Required Alterations.....	34
7.4 Mechanic's Liens.....	35
7.5 Replacements of Fixtures and Landlord's Personal Property.....	35
ARTICLE 8: DEFAULTS AND REMEDIES.....	36
8.1 Events of Default.....	36
8.2 Remedies.....	39
8.3 Right of Setoff.....	42
8.4 Performance of Tenant's Covenants.....	42
8.5 Default Rent.....	42
8.6 Attorneys' Fees.....	43
8.7 Escrows and Application of Payments.....	43
8.8 Remedies Cumulative.....	43
8.9 Waivers.....	43
8.10 Obligations Under the Bankruptcy Code.....	43
ARTICLE 9: DAMAGE AND DESTRUCTION.....	44
9.1 Notice of Casualty.....	44
9.2 Substantial Destruction.....	44
9.3 Partial Destruction.....	45
9.4 Restoration.....	45
9.5 Insufficient Proceeds.....	47
9.6 Not Trust Funds.....	47
9.7 Landlord's Inspection.....	47
9.8 Landlord's Costs.....	47
9.9 No Rent Abatement.....	47

14.9 Bed Operating Rights.....62

14.10 Cash Due From Tenant to Landlord Prior to the Commencement Date.....62

14.11 Capital Expenditures.....63

14.12 Cooperation with Lender Requirements.....63

14.13 The Facility's Lease Coverage Ratio ("LCR").....64

14.14 The Minimum Net Worth.....65

14.15 Current Ratio.....65

14.16 New Intercreditor Agreement.....65

14.17 Landlord's Health Care Consultant.....65

ARTICLE 15: ALTERATIONS, CAPITAL IMPROVEMENTS, AND SIGNS.....65

15.1 Prohibition on Alterations and Improvements.....65

15.2 Approval of Alterations.....66

15.3 Permitted Alterations.....66

15.4 Requirements for Permitted Alterations.....66

15.5 Ownership and Removal of Permitted Alterations.....67

15.6 Minimum Qualified Capital Expenditures.....67

15.7 Signs.....68

ARTICLE 16: ASSIGNMENT AND SALE OF LEASED PROPERTY.....68

16.1 Prohibition on Assignment and Subletting.....68

16.2 Requests for Landlord's Consent to Assignment, Sublease or Management Agreement.....68

16.3 Agreements with Residents.....69

16.4 Sale of Leased Property.....70

16.5 Assignment by Landlord.....70

ARTICLE 17: HOLDOVER AND SURRENDER.....70

17.1 Holding Over.....70

17.2 Surrender.....70

17.3 Indemnity.....71

ARTICLE 18: SECURITY DEPOSIT; LETTER OF CREDIT.....71

18.1 Security Deposit.....71

18.2 Terms of Letter of Credit.....71

18.3 Replacement Letter of Credit.....71

18.4 Draws.....72

18.5 Partial Draws.....72

18.6 Substitute Letter of Credit.....73

18.7 Retention of Letter of Credit.....73

18.8 Landlord's and Landlord's Lender's Security Interest in the Letter of Credit.....73

18.9 Return or Refund of Security Deposit.....73

22.3 Collateral81

22.4 Additional Documents82

22.5 Notice of Sale83

22.6 Recharacterization83

22.7 Subordination83

ARTICLE 23: MISCELLANEOUS83

23.1 Notices83

23.2 Advertisement of Leased Property84

23.3 Entire Agreement85

23.4 Severability85

23.5 Captions and Headings85

23.6 Governing Law85

23.7 Lease to Be Recorded85

23.8 Waiver85

23.9 Binding Effect85

23.10 No Offer85

23.11 Modification86

23.12 Landlord's Modification86

23.13 No Merger86

23.14 Laches86

23.15 Limitation on Tenant's Recourse86

23.16 Construction of Lease86

23.17 Counterparts87

23.18 Lease Guaranty87

23.19 Custody of Escrow Funds87

23.20 Exhibits87

23.21 Dispute Resolution87

23.22 Consent to Service of Process87

23.23 Attorney's Fees and Expenses88

23.24 Survival88

23.25 Time88

23.26 Landlord Not in Control88

23.27 Incorporation of Recitals88

SCHEDULE 1: INITIAL RENT SCHEDULE

EXHIBIT A: LEGAL DESCRIPTION

EXHIBIT B: PERMITTED EXCEPTIONS

EXHIBIT C: LANDLORD'S PERSONAL PROPERTY

EXHIBIT D: FORM OF CERTIFICATE FOR FINANCIAL REPORTS

EXHIBIT E: LIST OF LEASES AND CONTRACTS

EXHIBIT F: LIST OF TENANT PROPERTY

HIPDB..... 6

HUD..... 6

HUD Loan..... 7

HUD Mandated Repairs..... 7

Impositions..... 7

Impound Amounts..... 8

Impound Rent..... 20

Improvements..... 8

Imputed EBITDARM..... 14

Individual Guarantor..... 8

Initial Base Rent..... 14

Initial Base Rent During HUD Loan..... 19

Initial Impound Deposit..... 8

Initial Tenant Deposit..... 8

Initial Term..... 2

Intercreditor Agreement..... 8

Investment Base..... 8

Issuer..... 8

JAMS..... 8

Landlord..... 87

Landlord Affiliate..... 8

Landlord's Manager..... 9

Landlord's Overhead..... 9

LC Proceeds..... 9, 72

LCR..... 64

Lease..... 9

Lease Coverage Ratio..... 14

Lease Documents..... 9

Lease Year..... 9

Leased Property..... 9

Legal Requirements..... 9

Lender..... 9

Letter of Credit..... 9

License..... 55

Master Lease..... 1

Material Obligation..... 10

MIP..... 10

Monthly Deposit Date..... 15

Monthly Payments for Impound Amounts..... 15

Mortgage..... 1

Mortgage Loan..... 1

Mortgagee..... 1

Net Worth..... 15

Notices..... 83

AMENDED AND RESTATED LEASE AGREEMENT

This Agreement has been amended and restated as of September 1, 2005. The original Lease Agreement ("Lease") entered into as of January 5, 2005, was made effective as of Closing (the "Commencement Date") of January 13, 2005, when the Landlord completed the purchase of La Colina Health Care, 2900 East Milber Way, Tucson, AZ 85714 between **La Colina Investors, LLC**, a limited liability company organized and existing under the laws of the State of Arizona, (hereinafter "**Landlord**") and Avalon Care Center - Tucson, L.L.C., a Utah limited liability company, dba La Colina Health Care Center ("**Tenant**"). Landlord hereby leases the Leased Property to Tenant.

RECITALS

- A. Tenant previously Leased the Property from TOG II LLC, a Delaware limited liability company and the previous owner of record Leased the Property pursuant to that certain Master Lease between TOG II LLC, as Landlord, and Avalon Health Care Centers, L.L.C., as tenant, dated December 1, 2003 (the "Master Lease") and that certain Sublease between Avalon Health Care Centers, L.L.C., as Sublessor, and Avalon Care Center - Tucson, L.L.C., as Sublessee, dated as of December 1, 2003 (the "Sublease");
- B. Whereas, Landlord has purchased the property from TOG II LLC;
- C. Whereas, as of the closing of the Landlord's purchase of the Leased Property, on January 13, 2005, said property was severed from the Master Lease and no longer subject to the Master Lease, and the Sublease also terminated;
- D. Whereas, as of the Commencement Date (defined herein) Landlord was the owner of the Leased Property;
- E. Whereas, Avalon Health Care Inc., a Utah corporation, has paid to Landlord in the form of cash and letters of credit the sum of four hundred and forty thousand dollars, as further set forth herein;
- F. Whereas, Landlord desires to lease the Leased Property to Tenant and Tenant desires to lease the Leased Property from Landlord upon the terms set forth in this Lease.
- G. Tenant acknowledges that Landlord has obtained a loan from Capital Lending and Mortgage Group, LLC. ("Mortgagee") in the sum of approximately \$11,921,600 (hereinafter, the "Mortgage Loan"), secured by a Mortgage/Deed of Trust and Security Agreement (hereinafter together with the mortgage referenced below to be insured by HUD called the "Mortgage") covering the Leased Property. The Mortgagee intends to refinance the Mortgage Loan with a new Mortgage Loan from its affiliate, Capital Funding Group, Inc. (also, the "Mortgagee") to be insured by the U.S.

1.3.1 Renewal Options. Tenant has the option to renew ("Renewal Option") this Lease for one 4 year renewal term ("Renewal Term"). Tenant can exercise the Renewal Option only upon satisfaction of the following conditions:

There shall be no uncured Event of Default, or any event which with the passage of time or giving of notice would constitute an Event of Default, at the time Tenant exercises its Renewal Option nor on the date the Renewal Term is to commence.

1.3.1.3 Tenant shall give Landlord irrevocable written Notice of renewal no later than the date which is 180 days prior to the expiration date of the then current Term.

1.3.1.5 The following terms and conditions will be applicable if Tenant renews the Lease:

(1) The effective date of any Renewal Term will be the first day after the expiration date of the then current Term.

(2) Rent Adjustment. The Rent, after exercise of the Option to Renew, shall be computed in accordance with Article 2 of this Lease, and shall include the annual escalations referenced in Section 2.2 hereof.

(3) All other terms and conditions of the Lease will remain the same for the Renewal Term.

1.4 Definitions. Except as otherwise expressly provided, [i] the terms defined in this section have the meanings assigned to them in this section and include the plural as well as the singular; [ii] all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles as of the time applicable; and [iii] the words "herein," "hereof" and "hereunder" and similar words refer to this Lease as a whole and not to any particular section.

1.4.1 General Definitions (Excluding Financial Term definitions and Accounting definitions) "ADA" means the federal statute entitled Americans with Disabilities Act, 42 U.S.C. §12101, et seq.

"Additional Rent": See Financial Terms below.

"Affiliate" means any person, corporation, partnership, tenancy-in-common group, limited liability company, trust, or other legal entity that, directly or indirectly, controls, or is controlled by, or is under common control with a party to this Lease or with any Corporate Guarantor of this Lease. "Control" (and the correlative meanings of the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the

enacting rules, regulations, required Regulatory Agreements and similar requirements for Section 232 HUD loans, and/or for such other federally-insured loan programs available for nursing care institutions that may be in effect during the term of this Lease.

"Corporate Guarantor" means Avalon Health Care, Inc.

"Default Rent" means Additional Rent which Tenant shall pay at any time when Tenant has committed an Event of Default as defined in Article 8.

"EBITDARM": See Financial Term definitions below.

"Commencement Date": See Time Definitions below.

"Environmental Laws" means all federal, state, and local laws, ordinances and policies the purpose of which is to protect human health and the environment, as amended from time to time, including, but not limited to, [i] CERCLA; [ii] the Resource Conservation and Recovery Act; [iii] the Hazardous Materials Transportation Act; [iv] the Clean Air Act; [v] Clean Water Act; [vi] the Toxic Substances Control Act; [vii] the Occupational Safety and Health Act; [viii] the Safe Drinking Water Act; and [ix] analogous state laws and regulations.

"Event of Default" has the meaning set forth in Section 8.1.

"Expiration Date": See Time Definitions below.

"Facility" means the nursing home on the Leased Property, known as La Colina Health Care, 2900 East Milber St., Tucson, Arizona 85714.

"Facility State" means the State of Arizona.

"Facility Uses" means the uses relating to the operation of the Facility as a nursing care institution with a capacity for 240 licensed beds as the same may be modified from time to time, subject to the limitations set forth in Article 13 hereof.

"Financial Statements": See Financial Terms below.

"Fixtures" means all permanently affixed equipment, machinery, fixtures and other items of real and/or personal property (excluding Landlord's Personal Property and Tenant's computers, software, printers and time clocks), including all components thereof, now and hereafter located in, on or used in connection with, and permanently affixed to or incorporated into the Improvements, including, without limitation, all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus, sprinkler systems and fire and theft protection equipment, built-in oxygen and vacuum systems, towers and

"Impound Amounts," also known as "Impound Rent": See Financial Terms definitions below.

"Improvements" means all buildings, structures, Fixtures and other improvements of every kind on any portion of the Land, including, but not limited to, alleys, sidewalks, utility pipes, conduits and lines (on-site and off-site), parking areas and roadways appurtenant to such buildings and structures, now or hereafter situated upon any portion of the Land.

"Individual Guarantor" means all shareholders owning more than five percent of the shares in Avalon Health Care, Inc., individually and collectively, except that John Morris, who is such a shareholder, shall not be an Individual Guarantor. The Individual Guarantors consist of the Individual Shareholder Guarantors, who are Charles R. Kirton and Lewis E. Garrett, and of the Individual Employee Guarantors, who, at the date of signing of this Lease, is Corey G. Bell. In addition, although not a shareholder, Robert W. Pommerville shall be a guarantor by virtue of his employment as President and Chief Executive Officer of Avalon Health Care, Inc., and his guaranty shall terminate in the event that his employment with Avalon Health Care, Inc. terminates.

"Initial Impound Deposit": See Financial Terms definitions below.

"Initial Tenant Deposit": See Financial Terms definitions below.

"Intercreditor Agreement" means that contract between CapitalSource Finance LLC, Capital Lending and Mortgage Group, individually and as agent for General Electric Capital Corporation and Avalon Health Care Centers, L.L.C., dated December 10, 2003.

"Investment Base": See Financial Terms definitions below.

"Issuer" means a financial institution satisfactory to Landlord issuing the Letter of Credit and such Issuer's successors and assigns. "Land" means the real property on which the Facility is built.

"Landlord" has the meaning set forth in the Recitals, and includes successors and assigns of Landlord and of its individual owners.

"Landlord Affiliate" means any person, corporation, tenancy in common group, partnership, limited liability company, trust, or other legal entity that, directly or indirectly, controls, or is controlled by, or is under common control with Landlord. "Control" (and the correlative meanings of the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity.

"Landlord's Manager" means the individual or entity authorized to act on behalf of Landlord and identified by Landlord as its Manager on the Commencement

[i] indebtedness of Tenant secured by a security interest in or a lien on any of the Leased Property (or any part thereof, including any Personal Property) that has an outstanding principal balance in the aggregate of \$50,000 or more and any agreement relating thereto;

[ii] any obligation or agreement of Tenant that is material to the construction or operation of the Facility or that is material to Tenant's business or financial condition and where a breach thereunder, if not cured within any applicable cure period, would have a material adverse affect on the financial condition of Tenant or the results of operations at the Facility;

[iii] any indebtedness or capital lease of Tenant that has an aggregate outstanding principal balance or obligation of \$50,000.00 or more and any agreement relating thereto;

[iv] any indebtedness or lease of Guarantor or of any other party that has been guaranteed by Guarantor that has an aggregate outstanding principal balance or obligation of at least \$250,000.00; and

[v] any obligation to or agreement with the Issuer relating to the Letter of Credit.

"MIP" means the Landlord's payments for Mortgage Insurance Premiums.

"Monthly Payments for Impound Amounts": See Financial Term definitions below.

"Net Worth" has the meaning set forth in the definitions of Financial Terms below.

"Option Price" has the meaning set forth in Section 12.2 concerning Tenant's Purchase Option.

"Option to Purchase" has the meaning set forth in Section 12.1 concerning Tenant's Option to Purchase.

"Organization State" means the State in which an entity is organized.

"Organizational Documents" means [i] for a corporation, its Articles of Incorporation certified by the Secretary of State of the Organization State, as amended to date, and its Bylaws certified by such entity, as amended to date; [ii] for a partnership, its Partnership Agreement certified by such entity, as amended to date, and the Partnership Certificate, if any, certified by the appropriate authority, as amended to date; [iii] for a limited liability company, its Articles of Organization certified by the Secretary of State of the Organization State, as amended to date, and

"Renewal Option" means the Tenant's right to obtain one additional four-year extension of the Lease Term by following the procedures described in Section 1.2.2 hereof.

"Renewal Term" means the additional four years that may be added to the Lease Term described in Section 1.2 if the Tenant follows the procedures described in Section 1.2.2 hereof.

"Rent": See Financial Terms below.

"Rent Schedule" means the schedule issued by Landlord to Tenant showing the Base Rent to be paid by Tenant pursuant to the terms of this Lease, as such schedule is amended from time to time by Landlord. The Bridge Loan will be an adjustable loan; therefore, Landlord will provide Tenant or will cause the Lender to provide the Tenant with written Notice of the amount of rent due on each month during which the Leased Property is encumbered with the Bridge Loan. Landlord anticipates that the HUD Loan will be a fixed rate loan. A new Rent Schedule for Initial Base Rent During HUD Loan will be prepared to show the new Base Rent to be paid by Tenant upon the closing of the HUD Loan.

"Replacement Operator" has the meaning set forth in Section 14.8.1.

"Secured Party" has the meaning set forth in Section 22.3.

"Seller" means each person or entity that conveyed title to the Facility to Landlord.

"Tenant" has the meaning set forth in the introductory paragraph of this Lease and its permitted successors and assigns, if any.

"Tenant's Affiliate" is Avalon Health Care, Inc., a Utah corporation and its subsidiary companies, partnerships and limited liability companies.

"Tenant's Assignor" is Avalon Health Care, Inc., a Utah corporation.
"Tenant's Property" has the meaning set forth in §11.1 on Tenant's Property.

Financial Terms used in Article 2 to calculate Base Rent and in Article 14 on Affirmative Covenants to define the requirements of such Financial Covenants are set forth as follows:

"Additional Rent" means all consideration paid by Tenant to Landlord in excess of Base Rent, all as more particularly set forth in Article Two hereof. Additional Rent includes, but is not limited to, Impound Amounts, late charges and Default Rent.

"Annual Company Budget" means Avalon Health Care Inc.'s projection of its financial statement for the next fiscal year (or the 12-month rolling forward period,

fairly and consistently allocated among all properties to which the expense category applies.

"Impound Amounts," also known as "Impound Rent," has the meaning set forth in Article 2.3 below.

"Imputed EBITDAR" means the Facility's EBITDAR adjusted as set forth in Article 14 hereof by imputing a capital replacement reserve of \$300.00 per bed per year, and by imputing management fees as follows: Three Percent (3%) of gross revenues for 2004 and 2005; Four Percent (4%) of gross revenues in 2006, and Five Percent (5%) of gross revenues commencing January 1, 2007 and thereafter. See Section 1.4 below for an example of the calculation of Imputed EBITDAR

2.1.2. "Initial Base Rent During HUD Loan" has the meaning set forth in Section

"Initial Tenant Deposit" has the meaning set forth in the Recitals.

"Investment Base" means the difference between Total Costs invested by Landlord and funds provided by lenders. Investment Base is on line 9 on in the Example Calcs included in Section 1.4 below. Another way to calculate Investment Base is the difference between Total Costs, line 7 on Example Calcs included in Section 1.4 below and Funds provided by Lenders on Line 12 of Example Calcs included in Section 1.4 below.

Examples of items to be included in the Investment Base include, but are not limited to, the down payment, all costs incurred in acquiring the Leased Premises, the "Assignment Fee," all finders' fees, real estate commissions, inspection reports, appraisals, title, escrow and legal fees; taxes paid by the Landlord at Closing, repairs, capital improvements made by Landlord, and all expenses incurred for obtaining, paying the interest rate "lock" deposit if the deposit is not refunded to Landlord by the lender, and, if necessary, for extending the Bridge Loan and all expenses incurred for obtaining a HUD Loan or other long-term loan to replace the Bridge Loan, including any interest rate "lock" fee if the fee is not refunded to Landlord.

"Landlord's Overhead" means Three Percent (3%) of the sum of all the monthly Initial Base Rent During Bridge Loan or Initial Base Rent During HUD Loan, as the case may be.

"Lease Coverage Ratio" means the ratio of [i] Imputed EBITDARM divided by Base Rent during Bridge Loan or Base Rent during HUD Loan, as the case may be. The Imputed EBITDARM is the Facility's EBITDARM with adjustments for imputed management fee set forth in Article 14 below and for imputed replacement reserve of \$300 per year per bed; A sample showing the calculation of Lease Coverage Ratio is shown in the Example included in Section 1.4 below; the calculation is made by dividing the number at line 32 by the number at line 16.

1.5 Sample Calculations for Base Rent and For Financial Covenants. Following are sample calculations to be used to calculate the Base Rent, as more particularly described in Article 2 below: This is an example only, since the actual numbers will not be known until the Closing. Landlord will provide the Tenant with the final calculation of the Base Rent During Bridge Loan period at or about the Closing.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

ARTICLE 2: RENT.

2.1 Base Rent. Upon the Commencement Date, and until the Closing of the HUD Loan, the monthly Base Rent will be calculated according to Section 2.1.1. Upon recordation of the mortgage or deed of trust securing the HUD Loan, the Base Rent will be calculated in accordance with Section 2.2. The Bridge Loan payment will fluctuate depending on the interest rate and the number of days in a given month. The purpose of the Base Rent during the first year beginning with the Commencement Date is to provide for Landlord an initial twelve percent return on its Investment Base as defined herein and to provide funds to meet the Landlord's Principal and Interest Payments, MIP and Landlord's Operating Expenses.

The Base Rent shall also be adjusted each year in accordance with Paragraph 2.2 below. The terms used in this paragraph are defined in Article 1, the Definitions Section of this Lease. Sample calculations of Base Rent are shown in Article 1.4, "Sample Calculations" above. To find Initial Base Rent, See Schedule 1 attached.

2.1.1 Base Rent and Impound Rent During Bridge Loan. The Initial Base Rent at the time the "Bridge Loan" is in place shall be calculated as follows: Initial Base Rent due from the Tenant will be calculated to provide the Landlord with an initial 12.07965 Percent (12.07965%) cash on cash return on the Landlord's Investment Base. In addition to the return to be paid on the Landlord's Investment Base, the Base Rent shall also include Landlord's entire monthly loan payment owed for the Bridge Loan. If all or any part of the Bridge Loan is adjustable, the Tenant shall pay the full amount of the monthly payment for the Bridge Loan as it may be adjusted from time to time. In addition, the Initial Base Rent shall include reimbursement of the Landlord's Overhead. If the Bridge Loan becomes due before the HUD Loan is funded then any refinance or extension fees or costs for the Bridge Loan or a new replacement Bridge Loan will be paid for by the Tenant. See Article 1.4 above for sample calculations.

All calculations of Base Rent During Bridge Loan are based upon a thirty day month and then adjusted for the number of days in a given month at the time of any interest rate adjustment.

On each Anniversary Date of the Lease, during the term of this Lease when the Leased Property is encumbered by the Bridge Loan, the monthly Base Rent will be compounded by Two and a Half Percent (2.5%), based on a 30 day month. The new Base Rent will then be adjusted to reflect the costs of any changes in the interest rate and the number of days in the month.

If the Leased Property is encumbered by the Bridge Loan for more than one Lease Year, then the Base Rent due upon recordation of the HUD Loan shall be

2.3 Payment of Impound Rent. Tenant shall pay Landlord or Lender all amounts necessary to create Impound accounts to timely pay all amounts for which impounds are required by the Lender, including but not limited to impounds for real and personal property taxes, public utility assessments, Monthly Payments for Impound Amounts for replacement reserves for capital improvements, and insurance premiums required to be paid by Tenant hereunder. Said payments are hereinafter collectively referred to as "Impound Amounts" or as "Impound Rent." Impound Amounts shall constitute Additional Rent hereunder.

Impound Rent is due on the first day of each calendar month, and on such other dates as shall be established by written Notice to the Tenant, each of which dates is referred to herein as the Monthly Deposit Date. Payments for Impound Amounts shall be made according to the schedule established by the Landlord, Lender or by HUD. If the Impound Amount is insufficient to timely pay all of said expenses, payable by Tenant, Tenant shall immediately pay the deficiency to Landlord, or to Landlord's Lender if requested by the Lender.

Landlord shall also have the option of declaring any such failure to pay Impound Amounts within ten (10) days of the due date of any such Impound Amount to be a default in Tenant's obligations hereunder, giving Landlord all rights to which it is entitled in the event of a default, as further described in Article 8 hereof.

The Landlord, the Lender, or HUD may require both an Initial Deposit for such Impound Amounts, and Monthly Payments for Impound Amounts. Tenant must pay any deficiency in any Impound Amount within ten days of written notice from the Landlord or Lender demanding such payment.

2.3.1 Use of Impound Amounts. Impound Amounts held by Landlord, or Landlord's Lender, shall be used for payment of the real and personal property taxes, assessments, and tax and insurance premiums payable by Tenant under this Lease. If Tenant has committed an Event of Default under Article 8 of this Lease, such Impound Amounts may, in Landlord's sole discretion and if permitted by the Lender and, during the time the HUD Loan is in effect, by HUD, also be used by Landlord as an offset against the default.

2.3.2 Return of Impound Amounts. At the Expiration Date of the Lease, if the Tenant is not then in default, Tenant shall be entitled to refund of all unused funds in the Impound Accounts with any interest earned thereon, and Landlord shall be entitled to return of all money paid for MIP and for initial replacement reserves, together with interest earned thereon. If Tenant is in default under this Lease on the Expiration Date, Landlord may apply any sums that would otherwise be due to Tenant hereunder to curing the default, to the extent allowed by the Lender and by HUD.

2.4 Payment of Rent. All Rent shall be paid monthly in advance on the first day of each and every calendar month during the term hereof. The Rent for

3.2 Due Date for Payment of Impositions. Tenant shall pay all Impositions in full before any fine, penalty, interest, or cost is incurred. If the State of Arizona allows real property taxes to be paid in arrears, Tenant shall nevertheless pay the property taxes by the end of the period for which they are assessed, even though no lien would attach to the Leased Property for such taxes until a later date. Tenant shall pay for all personal property taxes within 30 days after receipt of billings accompanied by copies of a bill therefore and payments thereof which identify the personal property with respect to which such payments are made.

3.3 Prorations During Year of Lease Expiration. Impositions imposed in respect to the tax fiscal period during which the Term terminates shall be adjusted and prorated between Landlord and Tenant, whether or not such Imposition is imposed before or after such termination, and Tenant's obligation to pay its prorated share thereof shall survive such termination.

3.4 Invoices and Evidence of Payment to be Delivered to Landlord. With respect to any Imposition for which no impound account is established and used, Tenant shall pay the applicable invoice directly to the taxing authority and thereafter, Tenant shall promptly deliver to Landlord [i] not more than five days after the due date of each Imposition, as defined herein, copies of the invoice for such Imposition and the check delivered for payment thereof; and [ii] not more than 30 days after the due date of each Imposition, as defined herein, a copy of the official receipt evidencing such payment or other proof of payment satisfactory to Landlord.

3.5 Tenant to Prepare and File All Tax Returns for Impositions. Tenant, at its expense, shall prepare and file all tax returns and reports in respect of any Imposition as may be required by governmental authorities. Landlord and Tenant shall, upon request of the other, provide such data as is maintained by the party to whom the request is made with respect to the Leased Property, including any appurtenant fixtures or personal property as may be necessary to prepare any required returns and reports. In the event Landlord, Tenant or any governmental authority classifies any property covered by this Lease as personal property, Tenant shall file all personal property tax returns in such jurisdiction.

3.6 Entitlement to Tax Refunds. Tenant shall be entitled to any refund due from any taxing authority if no Event of Default shall have occurred hereunder and be continuing and if Tenant shall have paid all Impositions due and payable as of the date of the refund. Landlord shall be entitled to any refund from any taxing authority if an Event of Default has occurred and is continuing. Any refunds retained by Landlord due to an Event of Default shall be applied as provided in §8.8 on Events of Default.

3.7 Tenant's Right to Protest. Tenant may, upon notice to Landlord, at Tenant's option and at Tenant's sole cost and expense, protest, appeal, or institute such other proceedings as Tenant may deem appropriate to effect a reduction

Landlord, at Tenant's expense, shall execute and deliver to Tenant such authorizations and other documents as may be reasonably required in any such contest, and, if reasonably requested by Tenant or if Landlord so desires, Landlord shall join as a party therein.

Tenant hereby agrees to indemnify and save Landlord harmless from and against any liability, cost or expense of any kind that may be imposed upon Landlord in connection with any such contest and any loss resulting therefrom.

3.8 Utilities. From and after the Commencement Date, Tenant shall pay all taxes, assessments, charges, deposits, and bills for utilities, including, without limitation, charges for water, gas, oil, sanitary and storm sewer, electricity, telephone service, and trash collection, which may be charged against the occupant of the Improvements during the Term. Tenant shall comply with any Lender requirements concerning payment for utilities. Tenant shall, on demand, pay to Landlord any additional amount needed to pay such utilities. Landlord's receipt of such payments shall only be an accommodation to Tenant and the utility companies and shall not constitute rent or income to Landlord. Tenant may, upon notice to Landlord, at Tenant's option and at Tenant's sole cost and expense, protest, appeal, or institute such other proceedings as Tenant may deem appropriate to contest a utility bill, provided, however, that Tenant shall be solely responsible for any financial penalties or other adverse consequences of such contest. If any utility bill is unpaid and becomes a lien on the Leased Property, the utility bill and associated lien shall become Additional Rent.

3.9 Discontinuance of Utilities. Landlord will not be liable for damages to person or property or for injury to, or interruption of, business for any discontinuance of utilities nor will such discontinuance in any way be construed as an eviction of Tenant or cause an abatement of rent or operate to release Tenant from any of Tenant's obligations under this Lease.**Business Expenses.** Tenant shall promptly pay all expenses and costs incurred in connection with the operation of the Facility on the Leased Property, including, without limitation, employee benefits, employee vacation and sick pay, consulting fees, and expenses for inventory and supplies.

ARTICLE 4: INSURANCE

Throughout the term of the Lease, Tenant shall maintain with respect to the Leased Property the insurance described in this Article. On or before the Commencement Date, Tenant shall pay any insurance premiums required by the Bridge Lender. On or before the date the Leased Property is encumbered by the HUD loan, the Tenant shall pay any insurance premiums or impounds required by the Lender or by HUD. In addition, as set forth in section 2.3, Tenant shall pay all Impound Amounts for insurance that may be required by Landlord, the Lender, or HUD.

4.1 Property Insurance. At Tenant's expense, Tenant shall maintain in full force and effect a property insurance policy or policies meeting all applicable

4.2.1.1 Claims for personal injury or property damage commonly covered by comprehensive general liability insurance with endorsements for incidental malpractice, contractual, personal injury, owner's protective liability, voluntary medical payments, products and completed operations, broad form property damage, and extended bodily injury, with commercially reasonable amounts for bodily injury, property damage, and voluntary medical payments acceptable to Landlord, but with a combined single limit of not less than \$1,000,000.00 per occurrence and \$3,000,000 annual aggregate.

4.2.1.2 Claims for personal injury and property damage commonly covered by comprehensive automobile liability insurance, covering all owned and non owned automobiles, with commercially reasonable amounts for bodily injury, property damage, and for automobile medical payments acceptable to Landlord, but with a combined single limit of not less than \$1,000,000.00 per occurrence and \$3,000,000 annual aggregate.

4.2.1.3 Claims for personal injury commonly covered by medical malpractice and professional liability insurance with a combined single limit of not less than \$1,000,000 per occurrence and \$3,000,000 annual aggregate.

4.2.1.4 Claims commonly covered by workers' compensation insurance for all persons employed by Tenant on the Leased Property. Such workers' compensation insurance shall be in accordance with the requirements of all applicable local, state, and federal law.

4.3 Builder's Risk Insurance. In connection with any construction, Tenant shall maintain in full force and effect a builder's completed value risk policy ("Builder's Risk Policy") of insurance in a nonreporting form insuring against all "Special Form" risk of physical loss or damage to the Improvements, including, but not limited to, risk of loss from fire and other hazards, collapse, transit coverage, vandalism, malicious mischief, theft, earthquake, and sinkholes (if usually recommended in the area of the Leased Property). The Builder's Risk Policy shall include endorsements providing coverage for building materials and supplies and temporary premises. The Builder's Risk Policy shall be in the amount of the full replacement value of the Improvements and shall contain a deductible amount acceptable to Landlord. Landlord shall be named as an additional insured. The Builder's Risk Policy shall include an endorsement permitting initial occupancy.

4.4 Business Interruption Insurance. Business Interruption Insurance in an amount equal to six (6) months advance Base Rent and Additional Rent, including Impound Amounts, due under this Lease, covering Tenant's operation of its business at the Leased Property. Landlord shall be a named beneficiary of such insurance in an amount equal to six (6) months advance Base Rent and Additional Rent, including Impound Amounts, due under this Lease.

based coverage is unavailable to Tenant, or is unavailable at a commercially reasonable price. If the Landlord permits the Tenant to purchase Claims Made coverage, the Tenant shall be obligated to do all of the following:

4.7.8.1 Purchase a policy of "prior acts" coverage with an inception date coincidental with the last date on which "occurrence" coverage was in force;

4.7.8.2 If the general liability insurance referenced herein is in "claims made" form on the expiration of the Lease, purchase a "tail" policy with the coverage amount and in the form required hereunder which will provide liability coverage for a period equal to the statute of limitations in the Facility State for the filing of any claim for bodily injury or property damage caused during the term of this Lease, which shall take effect upon the termination date of the Lease, with the same insurer who issued the expiring policy; no gap in coverage may be permitted to exist by Tenant.

4.7.8.3 If required by Landlord, Tenant shall pay for any report, investigation, or recommendation which may be issued by a risk management consultant selected by Landlord for the purpose of evaluating Tenant's proposed risk management and insurance coverage program;

4.7.8.4 If requested by Landlord, Tenant must implement, at Tenant's sole cost and expense, any reasonable recommendations made by Landlord's risk management consultant; Landlord shall determine which of these recommendations is reasonable, in Landlord's sole discretion;

4.7.8.5 The Tenant must provide evidence that its insurance advisor or broker carries errors and omissions insurance with a coverage amount of at least \$1,000,000, issued by an insurer acceptable to Landlord, and must provide Landlord with a letter from the Tenant's insurance advisor or broker to Landlord, affirmatively representing that the Tenant's coverage meets the requirements of this Lease.

4.7.8.6 Coverage must be uninterrupted from the inception date of each policy, and the Tenant shall place the correct inception date on any renewal policies.

4.8 Replacement Value. The term "full replacement value" means the actual replacement cost thereof from time to time, including increased cost of construction endorsement, with no reductions or deductions. Tenant shall, in connection with each annual policy renewal, deliver to Landlord a redetermination of the full replacement value by the insurer or an endorsement indicating that the Leased Property is insured for its full replacement value. If Tenant makes any Permitted Alterations (as hereinafter defined in Article 15 on Alterations and Capital

premiums in accordance with Landlord's requirements after receipt of Notice thereof from Landlord.

4.14 Tenant to Strictly Comply With Reporting Requirements in Policies. The Tenant shall strictly comply with all reporting requirements in each of its insurance policies. Failure to do so shall be a breach of the Lease for which Landlord shall have the remedies spelled out in Article 8 hereof.

ARTICLE 5: INDEMNITY

5.1 Tenant's Indemnification. Tenant hereby indemnifies and agrees to hold harmless Landlord, any successors or assigns of Landlord, and Landlord's and such successor's and assign's directors, officers, managing members, employees and agents from and against any and all demands, claims, causes of action, fines, penalties, damages (including consequential damages), losses, liabilities (including strict liability), judgments, and expenses (including, without limitation, reasonable attorneys' fees, court costs, and the costs set forth in §8.7) incurred in connection with or arising from: [i] the use or occupancy of the Leased Property by Tenant under this Lease or under any Lease or Sublease to which Tenant was a party that was in effect prior to the Commencement Date or any persons claiming under Tenant; [ii] any activity, work, or thing done, or permitted or suffered by Tenant in or about the Leased Property; [iii] any acts, omissions, or negligence of Tenant or any person claiming under Tenant, or the contractors, agents, employees, invitees, or visitors of Tenant or any such person; [iv] any breach, violation, or nonperformance by Tenant or any person claiming under Tenant or the employees, agents, contractors, invitees, or visitors of Tenant or of any such person, of any term, covenant, or provision of this Lease or any law, ordinance, or governmental requirement of any kind, including, without limitation, any failure to comply with any applicable requirements under the ADA; [v] any injury or damage to the person, property or business of Tenant, its employees, agents, contractors, invitees, visitors, or any other person entering upon the Leased Property; [vi] any construction, alterations, changes or demolition of the Facility performed by or contracted for by Tenant or its employees, agents or contractors; and [vii] any obligations, costs or expenses arising under any Permitted Exceptions. If any action or proceeding is brought against Landlord, its employees, or agents by reason of any such claim, Tenant, upon Notice from Landlord, will defend the claim at Tenant's expense with counsel reasonably satisfactory to Landlord. All amounts payable to Landlord under this section shall be payable on written demand and any such amounts which are not paid within 10 days after demand therefor by Landlord shall bear interest at Twelve Percent Per Annum. In case any action, suit or proceeding is brought against Tenant by reason of any such occurrence, Tenant shall use its best efforts to defend such action, suit or proceeding. Notwithstanding the foregoing, Tenant shall have no indemnity obligation with respect to matters, liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses caused by the gross negligence or willful misconduct of Landlord or Landlord's representatives, agents, employees or contractors or their successors or assigns.

reimburse Landlord for all reasonable costs and expenses incurred in reviewing any environmental audit, including, without limitation, reasonable attorneys' fees and costs.

5.6 Limitation of Landlord's Liability. Landlord, its agents, and employees, will not be liable for any loss, injury, death, or damage (including consequential damages) to persons, property, or Tenant's business occasioned by theft, act of God, public enemy, injunction, riot, strike, insurrection, war, court order, requisition, order of governmental body or authority, fire, explosion, falling objects, steam, water, rain or snow, leak or flow of water (including water from any elevator or sprinkler system), rain or snow from the Leased Property or into the Leased Property or from the roof, street, subsurface or from any other place, or by dampness or from the breakage, leakage, obstruction, or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, or lighting fixtures of the Leased Property, or from construction, repair, or alteration of the Leased Property or from any acts or omissions of any other occupant or visitor of the Leased Property, or from any other cause beyond Landlord's control. Landlord will not be liable to Tenant for any consequential damages suffered by Tenant, whatever the cause.

ARTICLE 6: USE AND ACCEPTANCE OF PREMISES

6.1 Use of Leased Property. Tenant shall use and occupy the Leased Property exclusively for the Facility Use as a nursing care institution and for all lawful and licensed ancillary uses, and for no other purpose without the prior written consent of Landlord. Tenant shall obtain and maintain all approvals, licenses, and consents needed to use and operate the Leased Property as herein permitted. Tenant shall deliver to Landlord complete copies of surveys, examinations, certification and licensure inspections, compliance certificates, and other similar reports issued to Tenant by any governmental agency within ten (10) days after Tenant's receipt of each item.

6.2 Acceptance of Leased Property. Tenant acknowledges that [i] Tenant is the operator of the Leased Property as of the execution of this Lease and was in possession of the Leased Property well before the Commencement Date and Tenant and its agents have had an opportunity to inspect the Leased Property; [ii] Tenant has found the Leased Property fit for Tenant's use; [iii] At the Commencement Date, Tenant will remain in possession of the Leased Property and Tenant has accepted the Leased Property in its "as is" condition; [iv] Landlord is not obligated to make any improvements or repairs to the Leased Property; provided, however, that Landlord shall fund the initial deposits to replacement reserves required by any Bridge Lender or by the HUD Lender. Tenant, at its sole expense, shall make any repairs identified in Landlord's physical condition reports and any additional repairs required by Landlord. Tenant waives any claim or action against Landlord with respect to the condition of the Leased Property. LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IN RESPECT OF THE LEASED PROPERTY OR ANY PART THEREOF, EITHER AS TO ITS FITNESS FOR USE, DESIGN OR CONDITION FOR ANY PARTICULAR USE OR PURPOSE OR OTHERWISE, OR AS TO QUALITY OF THE MATERIAL OR WORKMANSHIP

reasonable detail, Tenant shall deliver to Landlord a plan of correction within 10 Business Days after receipt of the notice. Tenant shall diligently pursue correction of all problem areas within the time frame required by Landlord, the Lender or HUD. Tenant shall promptly deliver evidence of completion to Landlord or an interim report evidencing Tenant's diligent progress towards completion. Upon completion, Landlord shall have the right to re inspect the Facility and Tenant shall pay a re inspection fee of \$750.00 plus Landlord's reasonable out of pocket expenses within 30 days after receipt of Landlord's invoice. At each inspection of the Leased Property by Landlord, the Facility employee in charge of maintenance shall be available to tour the Facility with Landlord and answer questions.

7.2 Landlord's Construction Consultant. At all times during the term of the Lease, Landlord shall have the right to employ a construction consultant to examine and analyze Tenant's repair and maintenance program for the Leased Property and to make recommendations to the Landlord concerning such program. Landlord's consultant shall have the right to inspect and observe the Tenant's construction program, to obtain written and verbal information from the Tenant's employees and independent contractors with respect to the program, and to represent the Landlord in any dealings with the building department, planning department, and other governmental agencies. Tenant shall direct Tenant's employees and consultants to reasonably cooperate with Landlord's consultant. The cost of Landlord's consultant(s) shall be paid either (i) from Replacement Reserves if approved by the Lender and, if applicable, by HUD, or if not so approved (ii) by the Tenant as Additional Rent.

7.3 Required Alterations. Tenant shall, at Tenant's sole cost and expense, make any additions, changes, improvements or alterations to the Leased Property, including structural alterations, which may be required by HUD, by the Lender, or by any governmental authorities, including those required for the Landlord to obtain a HUD-guaranteed loan to refinance the Bridge Loan and any additions, changes, improvements or alterations of the Leased Property that are required to maintain licensure or certification under the Medicare and Medicaid programs, whether such changes are required by Tenant's use, changes in the law, ordinances, or governmental regulations, defects existing as of the date of this Lease, or any other cause whatsoever. All such additions, changes, improvements or alterations shall be deemed to be Permitted Alterations and shall comply with all laws requiring such alterations and with the provisions of Section 15.4 on Alterations and Capital Improvements.

Tenant shall pay for all critical and non-critical repairs identified in the Property Condition Reports prepared in connection with Landlord's application for the Bridge Loan and for the HUD Loan.

Tenant shall pay for any repairs identified in any pest control report obtained by Landlord. Tenant shall pay for any repairs necessitated by any encroachment involving the Leased Property.

Landlord's Personal Property and replacements therefor. Tenant may finance replacements for the Fixtures and Landlord's Personal Property in an aggregate amount of up to Twenty Thousand Dollars (\$20,000) by equipment lease or by a security agreement and financing statement if [i] Landlord has consented in writing to the terms and conditions of the equipment lease or security agreement; [ii] the equipment lessor or lender has entered into a nondisturbance agreement with Landlord upon terms and conditions reasonably acceptable to Landlord, including, without limitation, the following: [a] Landlord shall have the right (but not the obligation) to assume such security agreement or equipment lease upon the occurrence of an Event of Default under this Lease; [b] the equipment lessor or lender shall notify Landlord of any default by Tenant under the equipment lease or security agreement and give Landlord a reasonable opportunity to cure such default; and [c] Landlord shall have the right to assign its rights under the equipment lease, security agreement, or nondisturbance agreement; [d] any such financing shall comply with all requirements of the Intercreditor Agreement. Tenant shall, within 30 days after receipt of an invoice from Landlord, reimburse Landlord for all costs and expenses incurred in reviewing and approving the equipment lease, security agreement, and nondisturbance agreement, including, without limitation, reasonable attorneys' fees and costs.

ARTICLE 8: DEFAULTS AND REMEDIES

8.1 Events of Default. The occurrence of any one or more of the following shall be an event of default ("Event of Default") hereunder without any advance notice to Tenant unless specified herein:

8.1.1 Tenant fails to pay in full any installment of Base Rent, any Impound Amounts, any Additional Rent or any other monetary obligation payable by Tenant under this Lease (including the Option Price), within 10 days after such payment is due.

8.1.2 Tenant or any Guarantor (where applicable) fails to comply with any covenant set forth in Article 13 on Negative Covenants, Article 14 on Affirmative Covenants, Article 15.6 on Minimum Required Capital Expenditures or Article 18 on the Security Deposit or Letter of Credit of this Lease or with any term, covenant or condition of the Tenant Regulatory Agreement which violation is not cured within thirty (30) days of written notice to Tenant.

8.1.3 Tenant fails to observe and perform any other covenant, condition or agreement under this Lease to be performed by Tenant and [i] such failure continues for a period of thirty (30) days after written Notice thereof is given to Tenant by Landlord; or [ii] if, by reason of the nature of such default it cannot be remedied within thirty (30) days, Tenant fails to proceed with diligence reasonably satisfactory to Landlord after receipt of the notice to cure the default or, in any event, fails to cure such default within sixty (60) days after receipt of the notice. The foregoing notice and

any guaranty of or other security for this Lease, or any report, certificate, application, financial statement or other instrument prepared by or at the direction of, and furnished by Tenant or by any Guarantor pursuant hereto shall prove to be false, misleading or incorrect in any material respect as of the date made or, in the case of Financial Statements prepared by Seller, Tenant or Guarantor knew that the same were false, misleading or incorrect.

8.1.8 Tenant, any Corporate Guarantor, or any Affiliate defaults on any indebtedness or obligation to Landlord, including, without limitation, any lease with Landlord or any successor or assign of Landlord, or the occurrence of a default under any Material Obligation, including, but not limited to any default in Tenant's obligations to CapitalSource Finance LLC, any other accounts receivable lender or any other party under the Intercreditor Agreement to which Tenant is a party, and any applicable grace or cure period with respect to default under such indebtedness or obligation expires without such default having been cured. This provision applies to all such indebtedness, obligations and agreements as they may be amended, modified, extended, or renewed from time to time. It shall be an Event of Default for Tenant to exceed the amount of its CapitalSource Finance LLC line of credit, which has been approved by CapitalSource Finance LLC.

8.1.9 The Corporate Guarantor dissolves or terminates.

8.1.10 The Corporate Guarantor files a petition in bankruptcy or is adjudicated insolvent.

8.1.11 The Tenant or any Guarantor fails to comply with any covenant in the Lease or in the Guaranty Agreement.

8.1.12 The license for the Facility or any other Government Authorization is canceled, suspended, reduced to provisional or temporary, or otherwise invalidated, or license revocation or decertification proceedings are commenced against Tenant and Tenant fails to diligently contest such proceeding, or any reduction occurs in the number of licensed beds or units at the Facility (except for a voluntary reduction permitted under §13.11), or an admissions ban is issued for the Facility.

8.1.13 Any malpractice judgment or award is entered against Tenant exceeding by \$50,000 or more any applicable General and Professional Liability insurance policy issued to Tenant and Tenant fails to satisfy the judgment or post an appeal bond and file an appeal within the time allowed by applicable law, and such malpractice judgment shall, in the opinion of Landlord, have a material adverse effect on the ability of Tenant to operate the Facility ;

8.1.14 Any malpractice judgment or award referenced above is appealed by Tenant and the Tenant loses the appeal and fails to satisfy the judgment within sixty days of the issuance of the court opinion holding that the

8.2.3 Landlord may re enter the Leased Property and have, repossess and enjoy the Leased Property as if this Lease had not been made, and in such event, Tenant and its successors and assigns shall remain liable for any contingent or unliquidated obligations or sums owing at the time of such repossession.

8.2.4 Landlord may have access to and inspect, examine and make copies of the books and records, including records that are electronically stored, and including all computer hardware and software, and any and all accounts, data and income tax and other returns of Tenant insofar as they pertain to the Leased Property.

8.2.5 Landlord may accelerate all of the unpaid Rent hereunder based on the then current Rent Schedule so that the aggregate Rent for the unexpired term of this Lease becomes immediately due and payable.

8.2.6 Landlord may take whatever action at law or in equity as may appear necessary or desirable to collect the Rent and other amounts payable under this Lease then due and thereafter to become due, or to enforce performance and observance of any obligations, agreements or covenants of Tenant under this Lease.

8.2.7 With respect to the Collateral, including but not limited to inventory and supplies, or any portion thereof and Landlord's security interest therein, Landlord may exercise all of its rights as secured party under Article 9 of the Uniform Commercial Code. Landlord Party may sell the Collateral by public or private sale upon giving notice to Tenant as required by law. Tenant agrees that a commercially reasonable manner of disposition of the Collateral shall include, without limitation and at the option of Landlord, a sale of the Collateral, in whole or in part, concurrently with the sale of the Leased Property. Subject to requirements in this Lease, Landlord may seize the collateral, including the vehicles, and use it for the continued operation of the Facility.

8.2.8 Landlord may obtain control over and collect the Receivables and apply the proceeds of the collections to satisfaction of the Tenant's obligations to the Landlord. Landlord shall have all the rights and remedies of a secured party under the laws of the state where the receivables are located, subject to the Intercreditor Agreement as it now exists or to any Novation thereof that may be executed by all the parties to the existing Intercreditor Agreement.

8.2.9 Landlord may require Tenant to provide Landlord, according to a timetable selected by Landlord, with such additional Financial Reports as are specified in Article 14.3 hereof, and with any other reports or information that Landlord deems reasonable to protect Landlord's interests under the applicable circumstances, subject to the Intercreditor Agreement as it now exists or to any Novation thereof that may be executed by all the parties to the existing Intercreditor Agreement.

during the pendency of the receivership and all other powers which may be necessary or are usual in such cases for the protection, possession, control, management and operation of the Leased Property during the whole of said proceeding. All sums of money received by the Receiver from such rents and income, after deducting therefrom the reasonable charges and expenses paid or incurred in connection with the collection and disbursement thereof, shall be applied to the costs of operating the Facility and to payment of the Base Rent, Additional Rent including Impound Amounts, or any other monetary obligation of Tenant under this Lease, including, without limitation, any losses or damages incurred by Landlord under this Lease. Tenant, if requested to do so, will consent to the appointment of any such Receiver as aforesaid.

8.2.13 With appropriate approvals from regulatory authorities, Landlord may terminate any management agreement with respect to any of the Leased Property and shall have the right to retain one or more managers for the Leased Property at the expense of Tenant, such manager(s) to serve for such term and at such compensation as Landlord reasonably determines is necessary under the circumstances.

8.3 Right of Setoff. Landlord may, and is hereby authorized by Tenant to, at any time and from time to time without advance notice to Tenant (any such notice being expressly waived by Tenant), setoff or recoup and apply any and all sums held by Landlord, any indebtedness of Landlord to Tenant, and any claims by Tenant against Landlord, against any obligations of Tenant hereunder and against any claims by Landlord against Tenant, whether or not such obligations or claims of Tenant are matured and whether or not Landlord has exercised any other remedies hereunder. The rights of Landlord under this section are in addition to any other rights and remedies Landlord may have against Tenant.

8.4 Performance of Tenant's Covenants. Landlord may perform any obligation of Tenant which Tenant has failed to perform within five (5) days after Landlord has sent a written notice to Tenant informing it of its specific failure. In the event of an emergency threatening the safety of persons or property, the five (5) day period is waived and Landlord may act within such period of time as is reasonable under the circumstances. Tenant shall reimburse Landlord on demand, as Additional Rent, for any expenditures thus incurred by Landlord and shall pay interest thereon at Landlord's twelve percent per year rate of return.

8.5 Default Rent. At Landlord's option at any time after the occurrence of an Event of Default and while such Event of Default remains uncured, the Base Rent payable under this Lease shall be increased to include Default Rent. The first default shall cause the Base Rent to be increased by One Percent (1%); the second default shall cause the Base Rent to be increased by Two Percent (2%), the third subsequent default shall cause the Base Rent to be increased by Three Percent, and any subsequent default shall cause the Base Rent to be increased by Four Percent (4%) ("Default Rent"); provided, however, that if a court of competent jurisdiction

Wow

Property, an amount equal to all Rent due pursuant to this Lease. Included within and in addition to any other conditions or obligations imposed upon Tenant or its successor in the event of the assumption and/or assignment of this Lease are the following: [i] the cure of any monetary defaults and reimbursement of pecuniary loss within not more than five (5) Business Days of assumption and/or assignment; [ii] the deposit of an additional amount equal to not less than three months' Base Rent, which amount is agreed to be a necessary and appropriate deposit to adequately assure the future performance under this Lease of the Tenant or its assignee; and [iii] the continued use of the Leased Property for the Facility Use. Nothing herein shall be construed as an agreement by Landlord to any assignment of this Lease or a waiver of Landlord's right to seek adequate assurance of future performance in addition to that set forth hereinabove in connection with any proposed assumption and/or assignment of this Lease.

ARTICLE 9: DAMAGE AND DESTRUCTION

9.1 Notice of Casualty. If the Leased Property shall be destroyed, in whole or in part, or damaged by fire, flood, windstorm or other casualty in excess of \$50,000.00 (a "Casualty"), Tenant shall give written notice thereof to Landlord within two (2) Business Days after the occurrence of the Casualty. Within fifteen (15) days after the occurrence of the Casualty or as soon thereafter as such information is reasonably available to Tenant, Tenant shall provide the following information to Landlord: [i] the date of the Casualty; [ii] the nature of the Casualty; [iii] a description of the damage or destruction caused by the Casualty, including the type of Leased Property damaged and the area of the Improvements damaged; [iv] a preliminary estimate of the cost to repair, rebuild, restore or replace the Leased Property; [v] a preliminary estimate of the schedule to complete the repair, rebuilding, restoration or replacement of the Leased Property; [vi] a description of the anticipated property insurance claim, including the name of the insurer, the insurance coverage limits, the deductible amount, the expected settlement amount, and the expected settlement date; and [vii] a description of the business interruption claim, including the name of the insurer, the insurance coverage limits, the deductible amount, the expected settlement amount, and the expected settlement date. Within five (5) days after request from Landlord, Tenant will provide Landlord with copies of all correspondence to the insurer and any other information reasonably requested by Landlord.

9.2 Substantial Destruction.

9.2.1 If the Facility's Improvements are substantially destroyed at any time other than during the final eighteen (18) months of the Initial Term or any Renewal Term, Tenant shall promptly rebuild and restore such Improvements in accordance with Section 9.4 and Landlord shall make the insurance proceeds available to Tenant for such restoration. The term "substantially destroyed" means any casualty resulting in the loss of use of 50% or more of the licensed beds at the Facility or that renders the Facility unsuitable for the purposes of this Lease.

specifications meeting the requirements of §15.2 on Alterations and Capital Improvements for such repairs or rebuilding.

Promptly after receiving Landlord's approval of the plans and specifications and receiving the proceeds of insurance, Tenant will begin such repairs or rebuilding and will prosecute the repairs and rebuilding to completion with diligence, subject, however, to strikes, lockouts, acts of God, embargoes, governmental restrictions, and other causes beyond Tenant's reasonable control.

Landlord will make available to Tenant the net proceeds of any fire or other casualty insurance paid to Landlord for such repair or rebuilding as the same progresses, after deduction of any costs of collection, including reasonable attorneys' fees. Payments will be made against properly certified vouchers of a competent architect in charge of the work and approved by Landlord. Payments for deposits for the repairing or rebuilding or delivery of materials to the Facility will be made upon Landlord's receipt of evidence satisfactory to Landlord that such payments are required in advance.

Prior to commencing the repairing or rebuilding, Tenant shall deliver to Landlord for Landlord's approval a schedule setting forth the estimated monthly draws for such work. Landlord will contribute to such payments out of the insurance proceeds an amount equal to the proportion that the total net amount received by Landlord from insurers bears to the total estimated cost of the rebuilding or repairing, multiplied by the payment by Tenant on account of such work.

Landlord may, however, withhold 10% from each payment until the work is completed and proof has been furnished to Landlord that no lien or liability has attached or will attach to the Leased Property or to Landlord in connection with such repairing or rebuilding. Tenant shall not issue any progress payment to any contractor without first obtaining a conditional lien waiver for any payment that has not cleared the bank, and an unconditional lien waiver for any payment that has cleared. Upon the completion of rebuilding and the furnishing of such proof, the balance of the net proceeds of such insurance payable to Tenant on account of such repairing or rebuilding will be paid to Tenant.

Tenant will obtain and deliver to Landlord a temporary or final certificate of occupancy and any other permit required by any governmental entity in charge of nursing care institutions in the jurisdiction where the Leased Property is located, before the damaged Leased Property is reoccupied for any purpose.

Tenant shall complete such repairs or rebuilding free and clear of mechanic's or other liens, and in accordance with the building codes and all applicable laws, ordinances, regulations, or orders of any state, municipal, or other public authority affecting the repairs or rebuilding, and also in accordance with all

ARTICLE 10: CONDEMNATION

10.1 Total Taking. If, by exercise of the right of eminent domain or by conveyance made in response to the threat of the exercise of such right ("Taking"), the Leased Property is taken, or so much of the Leased Property is taken that the Leased Property cannot be used by Tenant for the purposes for which it was used immediately before the Taking, then this Lease will terminate with respect to the Leased Property only on the earlier of the vesting of title to the Leased Property in the condemning authority or the taking of possession of the Leased Property by the condemning authority. All damages awarded for such Taking under the power of eminent domain shall be the property of Landlord, whether such damages shall be awarded as compensation for diminution in value of the leasehold or the fee of the Leased Property.

10.1.1 If the Leased Property is taken during the final 18 months of the Term, Landlord shall have the option to terminate this Lease with respect to the Leased Property. If Landlord elects to terminate this Lease with respect to the Leased Property, Tenant shall have the option to purchase the Leased Property. Tenant shall give Landlord notice of Tenant's election to purchase within thirty (30) days after delivery of the notice of Landlord's intent to terminate. If Tenant elects to purchase all of the Leased Property, the Option Price will be determined in accordance with Article 12. All other terms of the option to purchase shall be in accordance with Article 12.

10.2 Partial Taking. If, after a Taking, so much of the Leased Property remains that the Leased Property can be used for substantially the same purposes for which it was used immediately before the Taking, then [i] this Lease will terminate as to the part taken on the earlier of the vesting of title to such Leased Property in the condemning authority or the taking of possession of such Leased Property by the condemning authority and the Rent will be adjusted accordingly; [ii] at its cost, Tenant shall restore so much of the Leased Property as remains to a sound architectural unit substantially suitable for the purposes for which it was used immediately before the Taking, using good workmanship and new, first class materials; [iii] upon completion of the restoration, Landlord will pay Tenant the lesser of the net award made to Landlord on the account of the Taking (after deducting from the total award, attorneys', appraisers', and other fees and costs incurred in connection with the obtaining of the award and amounts paid to the holders of mortgages secured by the Leased Property), or Tenant's actual out of pocket costs of restoring the Leased Property; and [iv] Landlord shall be entitled to the balance of the net award. The restoration shall be completed in accordance with Sections 9.4, 9.5, 9.7, 9.8 and 9.9 with such provisions deemed to apply to condemnation instead of casualty.

10.3 Condemnation Proceeds Not Trust Funds. Notwithstanding anything in this Lease or at law or equity to the contrary, none of the condemnation award paid to Landlord shall be deemed trust funds, and Landlord shall be entitled to dispose of such proceeds as provided in this Article 10. Tenant expressly assumes all

occurred and is continuing, Tenant may remove Tenant's Property from the Leased Property from time to time provided that [i] the Items removed are not required to operate the Leased Property for the Facility Use (unless such items are being replaced by Tenant); and [ii] Tenant repairs any damage to the Leased Property resulting from the removal of Tenant's Property.

11.2.6 Tenant shall not, during the term of the Lease, without the prior written consent of Landlord or as otherwise provided in this Lease, remove any Tenant's Property or Leased Property. Tenant shall, at Landlord's option, remove Tenant's Property consisting of computers and time clocks upon the termination or expiration of this Lease and shall repair any damage to the Leased Property resulting from the removal of Tenant's Property. If upon expiration or earlier termination of this Lease, Tenant fails to remove Tenant's Property consisting of computers and time clocks within thirty (30) days after request by Landlord, then Tenant shall be deemed to have abandoned such Tenant's Property, such Tenant's Property shall become the property of Landlord, and Landlord may remove, store and dispose of Tenant's Property. In such event, Tenant shall have no claim or right against Landlord for such property or the value thereof regardless of the disposition thereof by Landlord. Tenant shall pay Landlord, upon demand, all expenses incurred by Landlord in removing, storing, and disposing of Tenant's Property and repairing any damage caused by such removal. Tenant's obligations hereunder shall survive the termination or expiration of this Lease.

11.2.7 Tenant shall perform its obligations under any equipment lease or security agreement for Tenant's Property. For equipment loans or leases for equipment having an original cost, in the aggregate, in excess of \$20,000.00, Tenant shall comply with Section 7.5 of this Lease, as such Section applies to nondisturbance agreements.

ARTICLE 12: OPTION TO PURCHASE

12.1 Option to Purchase. Landlord hereby grants to Tenant an option to purchase ("Option to Purchase") all of the Leased Property (but not any part thereof) from Landlord and Landlord's successors and assigns in accordance with the terms and conditions of this Article 12. Tenant may exercise its Option to Purchase only by giving an irrevocable Notice of Tenant's election to purchase the Leased Property to Landlord at its address for Notice as set forth in Article 22 or at the revised Notice Address subsequently provided in writing by Landlord or by Landlord's successor in Interest, if any ("Purchase Notice") in accordance with the following:

12.1.1 If Tenant elects to purchase the Leased Property, then Tenant must give a written Purchase Notice no earlier than the date which is Ten (10) Years, and no later than the date which is Fourteen (14) years six (6) months after the Commencement Date of this Lease. The Purchase Notice must be sent by certified mail, return receipt requested.

the Regulatory Agreements then encumbering the Leased Property which Tenant has signed; (4) those liens and encumbrances which were in effect on the Commencement Date or caused by Tenant after the Commencement Date; and (5) such other matters as Tenant's title insurer shall be willing to omit as exceptions to coverage or to except with insurance against collection out of or enforcement against the Leased Property.

12.4 Closing. If Tenant exercises the Option to Purchase, the closing of the purchase shall occur on a date agreed to by Landlord and Tenant which shall be not less than One Hundred Eighty (180) days after Landlord's receipt of the Purchase Notice. At the closing, Tenant shall pay the Option Price and all closing costs in immediately available funds and Landlord shall convey title to the Leased Property to Tenant by a transferable and recordable limited warranty deed and limited warranty bill of sale. Notwithstanding anything in this Article 11 to the contrary, any transfer of the Leased Property involving assumption of the HUD Loan shall be subject to HUD's approval under the Transfer of Physical Assets process required by HUD.

12.5 Failure to Close Option. If Tenant for any reason fails to purchase the Leased Property after Tenant has given the Purchase Notice, then Tenant shall pay Landlord all costs and expenses incurred by Landlord as a result of the failure to close, including costs of unwinding swap transactions, 1031 exchanges, or other interest rate or tax avoidance devices and preparing for the closing. Tenant shall continue to be obligated as lessee hereunder for the remainder of the Term.

12.6 Assignability of Purchase Option; Failure to Exercise Option to Purchase and Renewal Option. Tenant may assign this Purchase Option to Avalon Health Care, Inc. or to any wholly owned subsidiary of Tenant or of Avalon Health Care, Inc. No other assignments of the Purchase Option shall be permitted. If Tenant for any reason does not exercise its Option to Purchase in accordance with the terms and conditions of this Lease before the expiration of the then current Term, Tenant shall be deemed to have forfeited all of Tenant's rights to exercise the Option to Purchase and Renewal Option.

ARTICLE 13: NEGATIVE COVENANTS

Tenant and Guarantors covenant and agree that Tenant (and Guarantor where the term "Guarantor" appears below) shall not do any of the following without the prior written consent of Landlord:

13.1 No Debt. Tenant shall not create, incur, assume, or permit to exist any indebtedness other than (i) trade debt incurred in the ordinary course of business; (ii) indebtedness relating to the Letter of Credit; (iii) indebtedness that is secured by any Permitted Lien and (iv) indebtedness to CapitalSource Finance LLC or (v) indebtedness otherwise authorized under this Lease or consented to by Landlord.

13.9 Subordination of Payments to Affiliates. After the occurrence of an Event of Default and until such Event of Default is cured, Tenant either directly or through any agent, such as its management company, is prohibited from making any payments or distributions to employees or to Tenant's Affiliates or to Guarantors except for those in the ordinary course of business. Prohibited distributions include, but are not limited to, bonuses, optional preferred return payments, dividends, liquidating distributions, or cash flow distributions for other than regular salary and management fees.

13.10 Change of Location or Name. Tenant shall not change any of the following without 30 days' prior written notice to (as compared to the prior consent of) Landlord: [i] the location of the principal place of business or chief executive office of Tenant, or any office where any of Tenant's books and records are maintained; [ii] the name under which Tenant conducts any of its business or operations; or [iii] reorganize or otherwise change its respective Organization State.

13.11 Change in Number/Type of Beds and Units. Tenant shall not permit [i] the number of licensed beds in the Facility to be less than 240; or (ii) any change in the licensure category of Nursing Care Institution. Tenant shall not reduce or expand, allow to be reduced or expanded, or cause the expansion or reduction of the bed capacity of the Facility from the capacity set forth in this Section without the prior written consent of Landlord and of the Commissioner. Tenant shall indemnify and defend Landlord from any loss of value of the Leased Property which may occur by reason of any default in this covenant.

13.12 Management Contract Subject to Termination if Tenant Defaults on HUD Regulatory Agreement. Tenant shall not enter into any management contract involving the Facility, unless such contract shall contain a provision that, in the event of default under the Regulatory Agreement entered into between Landlord and the Commissioner, the management agreement shall be subject to termination without penalty upon request of the Commissioner. Upon such request, Tenant shall immediately arrange to terminate the contract within a period of not more than thirty (30) days and shall make arrangements satisfactory to the Commissioner for continuing proper management of the Facility.

13.13 No Default on Obligations Under CapitalSource Finance LLC Agreement. Tenant shall, at all times, comply fully and completely with all of its obligations under its agreements with CapitalSource Finance LLC. Any increase in the amount of Tenant's line of credit set forth in the agreements with CapitalSource Finance LLC must be approved in writing by Landlord, and such consent may be given or withheld in Landlord's sole discretion. Tenant may not obtain any other financing secured by Tenant's Property, including tangible and intangible personal property, without Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion, as described in Section 7.5 hereof.

One Hundred Twenty (120) days after Fiscal Year End. Audited financial statements of Tenant will be provided if and as required by lender.

14.3.1.4 Unaudited financial statements of Tenant and Corporate Guarantor are due within Forty-Five (45) days of the end of each quarter.

14.3.1.5 Monthly unaudited financial reports for the Facility are due within thirty (30) days after Month End.

14.3.1.6 Annual Facility budget and annual Tenant budget are due not later than thirty (30) days prior to Fiscal Year End.

14.3.1.7 A monthly and quarterly variance report for the Facility is due within forty-five (45) days after the end of the quarter.

14.3.1.8 To the extent that Tenant updates its budgets on a monthly or quarterly basis, a monthly and quarterly update to the Tenant's budget is due within forty-five (45) days after the quarter end.

14.3.1.9 Additional annual and quarterly financial reports required by Landlord and/or Lender are due according to the schedule to be adopted by Landlord or Lender.

14.3.1.10 Copies of federal and state tax returns of Tenant and Avalon Health Care Inc., must be provided to Landlord within fifteen days of filing. During any time when an Event of Default has occurred under this Lease, the Individual Guarantors must also provide Landlord with federal and state tax returns within fifteen days of filing.

14.3.1.11 With each delivery of Annual Financial Statements and Periodic Financial Statements (other than the monthly Facility Financial Statement) to Landlord, Tenant shall also deliver to Landlord a certificate signed by the Chief Financial Officer, general partner or managing member (as applicable) of Tenant. Whenever possible, the reports enumerated in Exhibit E shall be delivered to Landlord electronically. In the event that Landlord requests in writing that Tenant provide financial information, including Financial Statements, in a format not substantially different from that shown in Exhibit E, then Tenant shall provide the information in the altered format reasonably requested by the Landlord.

14.3.1.12 Tenant shall, on a monthly basis, provide Landlord with written information concerning its requests to borrow any funds from CapitalSource Finance LLC or from any other lender and the proposed uses of such borrowed funds.

schedule and copies of any equipment leases and financings, including vendor, equipment descriptions, monthly payment, rate and maturity, with a monthly update of any changes and the required nondisturbance agreement if the original cost of the equipment exceeds \$20,000.00; [iv] a schedule of all utility providers and utility deposits; [v] a list of all rent concessions, including, but not limited to, free rent, rent reduction, community fee waivers, rate locks, rate guaranties and waivers of security deposits; [vi] a copy of each private pay resident's occupancy agreement and each Facility's form of agreement; [vii] a schedule of all employee vacation and sick days; and [viii] employee policies and procedures handbook, including employee benefits – current and annually updated reports, schedules and copies to be delivered on or before March 31 of each year.

14.3.4 Material Communications. Tenant shall transmit to Landlord, within five (5) Business Days after receipt thereof, any material communication affecting the Facility, this Lease, the Legal Requirements or the Government Authorizations, and Tenant will promptly respond to Landlord's inquiry with respect to such information. Tenant shall notify Landlord in writing within five (5) Business Days after Tenant has knowledge of any potential, threatened or existing litigation or proceeding against, or investigation of, Tenant, Guarantor, or the Facility that would reasonably be expected to adversely affect the right to operate the Facility or Landlord's title to the Facility or Tenant's interest therein.

14.3.5 Requirements for Financial Statements. Tenant shall meet the following requirements in connection with the preparation of the financial statements: [i] all audited financial statements shall be prepared in accordance with general accepted accounting principles consistently applied; [ii] all unaudited financial statements shall be prepared in a manner substantially consistent with prior audited and unaudited financial statements submitted to Landlord; [iii] all financial statements shall fairly present the financial condition and performance for the relevant period in all material respects; [iv] the audited financial statements shall include all notes to the financial statements and a complete schedule of contingent liabilities and transactions with Affiliates; and [v] the audited financial statements shall contain an unqualified opinion. Any expenses paid by Avalon Health Care, Inc. or any other Affiliate of Tenant shall be fairly and consistently allocated among the properties for which the expense was incurred.

14.4 Compliance With Laws. Tenant shall comply with all Legal Requirements applicable to it and keep all Government Authorizations required to be maintained by Tenant in full force and effect. Subject to the right to contest the same in accordance with the terms hereof, Tenant shall pay when due all taxes and governmental charges of every kind and nature that are assessed or imposed upon Tenant at any time during the term of the Lease, including, without limitation, all income, franchise, capital stock, property, sales and use, business, intangible, employee withholding, and all taxes and charges relating to Tenant's business and operations. Tenant shall be solely responsible for compliance with all Legal Requirements, including

of [a] the date required by the regulatory authority, or [b] 30 days after receipt of such notice and shall deliver evidence of same to Landlord.

14.8 Transfer of License and Facility Operations. If this Lease is terminated due to expiration of the Term, pursuant to an Event of Default or for any reason other than Tenant's purchase of the Leased Property, or if Tenant vacates the Leased Property (or any part thereof) without termination of this Lease other than during any period of repair or reconstruction after damage to or destruction or condemnation of the Leased Property or any portion thereof, the following provisions shall be immediately effective:

14.8.1 Licensure. Tenant shall execute, deliver and file all documents and statements requested by Landlord to effect the transfer of the Facility license and Government Authorizations held by Tenant to a replacement operator designated by Landlord ("Replacement Operator"), to the extent such license and Government Authorizations are assignable under applicable law, subject to any required approval of governmental regulatory authorities, and Tenant shall provide to Landlord all information and records required by Landlord in connection with the transfer of the license and Government Authorizations.

14.8.2 Facility Operations. In order to facilitate a responsible and efficient transfer of the operations of the Facility, Tenant shall, if and to the extent requested by Landlord, [i] deliver to Landlord the most recent updated reports, notices, schedules and documents listed in Article 14.3; [ii] continue and maintain the operation of the Facility in the ordinary course of business, including retention of all residents at the Facility to the fullest extent practicable and consistent with applicable laws and regulations, until transfer of the Facility operations to the Replacement Operator is completed; [iii] enter into such management agreements, operations transfer agreements and other similar agreements that may be reasonably requested by Landlord or the Replacement Operator. Landlord or Replacement Operator can use Tenant's Provider Agreements until provider numbers are transferred provided, however, in no event shall Tenant be required to permit the Replacement Operator to operate the Leased Property under Tenant's license or Provider Agreements unless it receives confirmation that doing so will not violate any applicable Legal Requirements and it gets appropriate indemnities from the Replacement Operator or Landlord in form and substance reasonably acceptable to Tenant; and [iv] provide reasonable access for Landlord and its agents to show the Facility to potential replacement operators. Tenant consents to the distribution by Landlord to potential replacement operators of Facility financial statements, licensure reports, financial and property due diligence materials and other documents, materials and information relating to the Facility. The provisions of this section do not create or establish any rights in Tenant or any third party and Landlord reserves all rights and remedies relating to termination of this Lease.

Upon the expiration or earlier termination of this Lease for any reason whatsoever (such date being referred to as the "Closing Date"), this Lease shall become

provided in the Commercial code of the Facility State. If Tenant is not in default under this Lease, then Landlord's Replacement Operator shall pay the Tenant the fair market value of the inventory and personal property and the Tenant shall give the Replacement Operator a bill of sale for it.

14.8.2.11 all other assignable intangible property not enumerated above that is now or in the future used in connection with the operation of a SNF and/or assisted living facility at the Facility;

14.8.2.12 Tenant shall sign and deliver to Landlord, or its designee, any documents that may be reasonably necessary to transfer the foregoing to Landlord. If necessary for Landlord to operate the Facility, for the period commencing on the Closing Date and ending on the date that Landlord or its designee obtains all appropriate licenses and certifications required to operate the Facility as a Medicaid and Medicare certified SNF, Landlord shall operate the Facility under a management agreement with Tenant, with Landlord responsible for all costs of such operation (e.g., taxes, insurance, and maintenance).

In furtherance of Tenant's obligations herein, and notwithstanding anything in this Lease to the contrary, Landlord and Tenant acknowledge and agree that in the event of expiration or termination of this Lease, there shall be a full and complete accounting between Tenant and Landlord and Landlord's Replacement Operator, if any, of inventory, supplies, equipment, goods, Tenant Property, Collateral, services or other items owned, maintained or provided by Tenant prior to termination or expiration of the Lease, such that (i) Tenant shall receive a credit for any such items or services owned, maintained or provided by Tenant prior to the date Tenant relinquishes possession of the Leased Property pursuant to termination or expiration of the Lease and (ii) Landlord or Landlord's Replacement Operator shall take any such items subject to obligations under any of Tenant's leases or other financing arrangements.

14.9 Bed Operating Rights. Tenant acknowledges and agrees that the rights to operate the beds/units located at the Facility under the law of the State of Arizona, to relocate such bed operating rights to another location or locations, and to transfer such bed operating rights to third parties, are property of the Landlord and are an integral part of the real and personal property that constitutes the Leased Property. Tenant has only the right to use of such rights during the term of this Lease, which rights are subject to its terms and conditions. Subject to applicable law, all operating rights shall automatically revert to Landlord or Landlord's designee upon the expiration or termination of this Lease for any reason whatsoever (other than Tenant's purchase of the Leased Property) without any requirement of a transfer or the payment of additional consideration.

14.10 Cash Due From Tenant to Landlord Prior to the Commencement Date. At Closing, Tenant shall deliver the following funds to Landlord to be deposited in an escrow account under the control of Landlord at a bank

14.14 The Minimum Net Worth. The Minimum Net Worth for Avalon Health Care, Inc., computed according to generally accepted accounting principles, shall not fall below Five Hundred Thousand Dollars (\$500,000) at the Commencement Date; One Million Dollars (\$1,000,000) by June 30, 2005; Two Million Dollars (\$2,000,000) by December 31, 2005; and Three Million Dollars (\$3,000,000) by December 31, 2006. Avalon Health Care's method of calculating its net Worth shall be consistent with its financial statements and shall be acceptable to Landlord. Landlord agrees to waive from the calculation of Net Worth the equity value of Canyon Hills Health Care Center, Inc. and Zions Mountain View Home & Associates, LTD. This covenant shall be measured quarterly.

14.15 Current Ratio. During the Lease Term, Avalon Health Care, Inc. shall maintain a Current Ratio, as defined in Article 1 hereof, as follows: .8 as of or better as of the Commencement Date, 1.0 or better as of June 30, 2005, 1.15 or better as of December 31, 2005 and 1.20 or better as of December 31, 2006. This covenant shall be measured quarterly.

14.16 New Intercreditor Agreement. Tenant shall use its best efforts to cause its accounts receivable lender to enter into an intercreditor agreement with Landlord and its (Bridge Lender) Mortgagee then its (HUD Lender) Mortgagee, giving Landlord's Lender(s) a first priority position in the licenses, Certificates of Need and Provider Agreements for the Facility. Said intercreditor agreement shall be substantially similar to that Intercreditor Agreement as defined in Section 1.3 hereof.

14.17 Landlord's Health Care Consultant. At all times during the term of the Lease, Landlord shall have the right to employ a health care consultant to examine and analyze Tenant's operation of the Leased Premises. Landlord's consultant shall have the right to inspect and observe the operation of the Leased Premises, to examine any of Tenant's books and records relating to the operation of the Leased Premises, and to talk to Tenant's employees, consultants and accountants. Tenant shall direct Tenant's employees, consultants and accountants to reasonably cooperate with Landlord's consultant. The cost of Landlord's consultant shall be paid by Landlord at no additional cost or expense to Tenant unless Tenant is in default under this Lease beyond any applicable grace or cure period, during which time the Landlord's consultant costs shall be paid by Tenant.

ARTICLE 15: ALTERATIONS, CAPITAL IMPROVEMENTS, AND SIGNS

15.1 Prohibition on Alterations and Improvements. Except for Permitted Alterations (as hereinafter defined), Tenant shall not make any structural or nonstructural changes, alterations, additions and/or improvements (hereinafter collectively referred to as "Alterations") to the Leased Property.

15.4.4 For any Permitted Alterations having a total cost of \$100,000.00 or more, Tenant shall deliver to Landlord a payment and performance bond, with a surety acceptable to Landlord, in an amount equal to the estimated cost of the Permitted Alterations, guaranteeing the completion of the work free and clear of liens and in accordance with the approved Plans and Specifications, and naming Landlord and Lender as joint obligees on such bond.

15.4.5 Tenant shall, at Tenant's expense, obtain a builder's completed value risk policy of insurance insuring against all risks of physical loss, including collapse and transit coverage, in a non-reporting form, covering the total value of the work performed, and equipment, supplies, and materials, and insuring initial occupancy. Landlord and the Lender shall be additional insured's of such policy. Landlord shall have the right to approve the form and substance of such policy.

15.4.6 Tenant shall pay the premiums required to increase the amount of the insurance coverage's required by Article 4 to reflect the increased value of the Improvements resulting from installation of the Permitted Alterations, and shall deliver to Landlord a certificate evidencing the increase in coverage.

15.4.7 Tenant shall, not later than 60 days after completion of the Permitted Alterations, deliver to Landlord a revised "as built" survey of the respective Facility if the Permitted Alterations altered the Land or "footprint" of the Improvements and an "as built" set of Plans and Specifications for the Permitted Alterations in form and substance satisfactory to Landlord.

15.4.8 Notwithstanding any language to the contrary contained in this Lease, Tenant shall, not later than 30 days after Landlord sends an invoice, reimburse Landlord for any reasonable costs and expenses, including attorneys' fees and architects' and engineers' fees, incurred in connection with reviewing and approving the Permitted Alterations and ensuring Tenant's compliance with the requirements of this section. The daily fee for Landlord's consulting engineer is \$750.00.

15.5 Ownership and Removal of Permitted Alterations. The Permitted Alterations shall become a part of the Leased Property, owned by Landlord, and leased to Tenant subject to the terms and conditions of this Lease. Tenant shall not be required or permitted to remove any Permitted Alterations.

15.6 Minimum Qualified Capital Expenditures. During each calendar year, Tenant shall expend at least \$300.00 per licensed bed for Qualified Capital Expenditures to improve the Facility. At least annually, at the request of Landlord, Landlord and Tenant shall review capital expenditures budgets and agree on modifications, if any, required by changed circumstances and the changed conditions of the Leased Property.

applicable provisions of this Lease; [b] such assignment, sublease or management agreement may not be modified without the prior written consent of Landlord not to be unreasonably withheld or delayed; [c] if this Lease shall terminate before the expiration of such assignment, sublease or management agreement, the assignee, subtenant or manager thereunder will, solely at Landlord's option and only upon the express written notice of attornment from Landlord, attorn to Landlord and waive any right the assignee, subtenant or manager may have to terminate the assignment, sublease or management agreement or surrender possession thereunder as a result of the termination of this Lease; and [d] if the assignee, subtenant or manager receives a written notice from Landlord stating that Tenant is in default under this Lease beyond any applicable cure period provided for herein, the assignee, subtenant or manager shall thereafter pay all rentals or payments under the assignment, sublease or management agreement directly to Landlord until such default has been cured. Any attempt or offer by an assignee, subtenant or manager to attorn to Landlord shall not be binding or effective without the express written consent of Landlord. Tenant hereby collaterally assigns to Landlord, as security for the performance of its obligations hereunder, all of Tenant's right, title, and interest in and to any assignment, sublease or management agreement now or hereafter existing for all or part of the Leased Property. Tenant shall, at the request of Landlord, execute such other instruments or documents as Landlord may request to evidence this collateral assignment. If Landlord, in its sole and absolute discretion, consents to such assignment, sublease, or management agreement, such consent shall not be effective until [i] a fully executed copy of the instrument of assignment, sublease or management agreement has been delivered to Landlord; [ii] in the case of an assignment, Landlord has received a written instrument in which the assignee has assumed and agreed to perform all of Tenant's obligations under the Lease; and [iii] Tenant has paid to Landlord a fee in the amount of \$2,500.00 (applies only to consent requests after the Closing); and [iv] Landlord has received reimbursement from Tenant or the assignee for all reasonable attorneys' fees and expenses and all other reasonable out of pocket expenses incurred in connection with determining whether to give its consent, giving its consent and all matters relating to the assignment (applies only to consent requests after the Closing). Notwithstanding the foregoing, Landlord acknowledges that Tenant currently employs the services of its Affiliate to provide management services pursuant to a management agreement with Tenant's Affiliate and Landlord has approved such management agreement.

16.3 Agreements with Residents. Notwithstanding the foregoing, Tenant may enter into an occupancy agreement with residents of the Leased Property without the prior written consent of Landlord provided that [i] the agreement does not provide for lifecare services; [ii] the agreement does not contain any type of rate lock provision or rate guaranty for more than one calendar year; [iii] the agreement does not provide for any rent reduction or waiver other than for an introductory period not to exceed six months; [iv] Tenant may not collect rent for more than one month in advance; and [v] all residents of the Leased Property are accurately shown in accounting records for the Facility.

17.3 Indemnity. If Tenant fails to surrender the entire Leased Property or any part thereof upon the expiration or termination of this Lease in a timely manner and in accordance with the provisions of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall defend, indemnify and hold Landlord, its principals, officers, directors, agents, and employees harmless from loss or liability resulting from such failure, including, without limiting the generality of the foregoing, loss of rental with respect to any new lease in which the rental payable thereunder exceeds the Rent collected by Landlord pursuant to this Lease during Tenant's holdover and any claims by any proposed new tenant founded on Tenant's failure to surrender the Leased Property. The provisions of this Article 17 shall survive the expiration or termination of this Lease.

ARTICLE 18: SECURITY DEPOSIT; LETTER OF CREDIT

18.1 Security Deposit. As additional security for the performance of Tenant's obligations under this Lease, Tenant shall provide Landlord with a security deposit ("Security Deposit"). The Security Deposit shall be delivered to Landlord as follows: (a) Landlord received the Thirty Thousand Dollar (\$30,000 Initial Tenant Deposit prior to the Commencement Date. The balance, in the amount of Four Hundred Ten Thousand Dollars (\$410,000) in the form of cash or a letter of credit or some combination thereof at the Commencement Date. At least half of the Security Deposit shall be paid in cash. Tenant acknowledges that Landlord's Lender shall have a security interest in the letter of credit as additional collateral for the Bridge Loan and later for the HUD Loan and that Landlord is therefore assigning the letter of credit to its Lender.

18.2 Terms of Letter of Credit. Any Letter of Credit shall be maintained by Tenant until termination or expiration of the Lease. The Letter of Credit shall permit partial and full draws and shall permit drawing upon presentation of a draft drawn on the Issuer and a certificate signed by Landlord representing and warranting that an Event of Default has occurred and is continuing under this Lease. The Letter of Credit shall be for an initial term of one year and shall be automatically renewed annually for successive terms of at least one year unless Landlord receives notice from the Issuer, by certified mail, at least sixty (60) days prior to the expiry date then in effect that the Letter of Credit will not be extended for an additional one year period. The Letter of Credit shall be an irrevocable, unconditional, transferable, clean sight draft letter of credit in favor of Landlord in form and content reasonably satisfactory to Landlord and entitling Landlord to draw thereon without the payment of any fees or charges in New York, New York, issued by a domestic banking institution or the U.S. agency or branch of a foreign banking institution, provided that such banking institution has a long term senior unsecured debt obligation rating of at least "C+" by Lacey Financial Corporation rating.

18.3 Replacement Letter of Credit. Tenant shall provide a replacement Letter of Credit which satisfies the requirements of Section 18.2 from an

Security Deposit or on the Letter of Credit in an amount not to exceed the amount of Tenant's monetary obligations under this Lease then past due. If Landlord then applies the proceeds from such partial draw on the Letter of Credit to payment of all or any portion of Tenant's monetary obligations then past due, Tenant shall, within ten (10) days after notice from Landlord of such partial draw and payment, cause the amount of the Letter of Credit to be reinstated to the amount in effect prior to such partial draw. Tenant's failure to comply with the requirements of this section shall be an immediate Event of Default under the Lease Documents without any notice (other than as provided for in this section), cure or grace period. Landlord's rights under this Section 18.5 are in addition to, and not in limitation of, Landlord's rights under Section 18.4.

18.6 Substitute Letter of Credit. Tenant may, from time to time, deliver to Landlord a substitute Letter of Credit meeting the requirements of this Lease and issued by an Issuer acceptable to Landlord. Upon Landlord's approval of the substitute Letter of Credit, Landlord shall release the previous Letter of Credit to Tenant.

18.7 Retention of Letter of Credit. Upon termination of this Lease due to expiration of the Term, pursuant to an Event of Default or for any reason other than Tenant's purchase of the Leased Property, Landlord shall be entitled to hold the Letter of Credit until the Tenant's obligations are performed in full or are released by Landlord.

18.8 Landlord's and Landlord's Lender's Security Interest in the Letter of Credit. Tenant shall grant Landlord and Landlord's Lender a security interest in the letter of credit escrow account pursuant to a Cash Collateral Security Agreement of even date.

18.9 Return or Refund of Security Deposit. Landlord shall return or refund to Tenant any unused portion of the Security Deposit at the earlier to occur of the Tenant's purchase of the Leased Property or upon expiration or termination of the Lease. In the event that Landlord fails to purchase the Leased Property or for some other reason the Lease does not commence, any unused portion of the Initial Tenant Deposit shall be refunded to Tenant.

ARTICLE 19: QUIET ENJOYMENT, SUBORDINATION, ATTORNMENT AND ESTOPPEL CERTIFICATES

19.1 Quiet Enjoyment. So long as no Event of Default exists, Landlord represents, warrants and covenants to Tenant that Tenant's possession of the Leased Property will not be disturbed by Landlord or any party claiming by, through or under Landlord.

19.2 Subordination. Subject to the terms and conditions of this section, this Lease and Tenant's rights under this Lease are subordinate to any ground

succeeded to Landlord's interest; or [iv] any claim or offset of Rent against Landlord. Upon request by Landlord or such successor in interest and without cost to Landlord or such successor in interest, Tenant will execute, acknowledge and deliver an instrument or instruments confirming the attornment.

19.4 Estoppel Certificates. Either Party to this Lease, at the request of the other Party, or of any mortgagee or purchaser of the Leased Property, shall execute, acknowledge, and deliver an estoppel certificate, in recordable form, in favor of Landlord or Tenant or any mortgagee or purchaser of the Leased Property certifying the following: [i] that the Lease is unmodified and in full force and effect, or if there have been modifications that the same is in full force and effect as modified and stating the modifications; [ii] the date to which Rent and other charges have been paid; [iii] whether Tenant or Landlord is in default or whether there is any fact or condition which, with notice or lapse of time, or both, would constitute a default, and specifying any existing default, if any; [iv] that Tenant has accepted and occupies the Leased Property; [v] that Tenant has no defenses, setoffs, deductions, credits, or counterclaims against Landlord, if that be the case, or specifying such that exist; and [vi] such other information as may reasonably be requested by Landlord or any mortgagee or purchaser. Any purchaser or Lender may rely on this estoppel certificate. If Tenant fails to deliver the estoppel certificates to Landlord within ten (10) days after the request of Landlord, then Tenant shall be deemed to have certified that [a] the Lease is in full force and effect and has not been modified, or that the Lease has been modified as set forth in the certificate delivered to Tenant; [b] Tenant has not prepaid any Rent or other charges except for the current month; [c] Tenant has accepted and occupies the Leased Property; [d] neither Tenant nor Landlord is in default nor is there any fact or condition which, with notice or lapse of time, or both, would constitute a default; and [e] Tenant has no defenses, setoffs, deductions, credits, or counterclaims against Landlord.

ARTICLE 20: TENANT'S REPRESENTATIONS AND WARRANTIES

Tenant hereby makes the following representations and warranties to Landlord and acknowledges that Landlord is executing the Lease in reliance upon such representations and warranties. Tenant's representations and warranties shall survive the Closing and, except to the extent made as of a specific date, shall continue in full force and effect until all of the Tenant's obligations under the Lease have been fully performed and the Lease has terminated.

20.1 Organization and Good Standing. Tenant is a limited liability company, duly organized, validly existing and in good standing under the laws of its Organization State. Tenant is qualified to do business in and is in good standing under the laws of the State of Arizona.

20.2 Power and Authority. Tenant has the power and authority to execute, deliver and perform this Lease. Tenant has taken all requisite action

20.7 No Litigation. Except as disclosed in writing to the Landlord, [i] there are no actions or suits, or any proceedings or investigations by any governmental agency or regulatory body pending against Tenant, Guarantor or the Facility; [ii] no HIPDB adverse action reports have been issued to Tenant, Guarantor or the Facility; [iii] Tenant has not received notice of any threatened actions, suits, proceedings or investigations against Tenant, Guarantor or the Facility at law or in equity, or before any governmental board, agency or authority which, if determined adversely to Tenant or Guarantor, would materially and adversely affect the Facility or title to the Facility (or any part thereof), the right to operate the Facility as presently operated, or the financial condition of Tenant or any Guarantor; [iv] there are no unsatisfied or outstanding judgments against Tenant, any Guarantor or the Facility; [v] there is no labor dispute, grievances, strikes or boycotts or litigation or administrative procedures materially and adversely affecting the employees, operation or business conducted by Tenant, Guarantor, or the Facility; [vi] Tenant does not have knowledge of any facts or circumstances which might reasonably form the basis for any such action, suit, or proceeding; and [vii] Tenant has no knowledge of any contractor, subcontractor, supplier or laborer who has provided work, labor or materials to the Leased Property and who has not executed a lien release or lien waiver to evidence payment in full for any work, labor or materials provided to the Leased Property at any time prior to the Commencement Date.

20.8 Consents. The execution, delivery and performance of this Lease will not require any consent, approval, authorization, order, or declaration of, or any filing or registration with, any court, any federal, state, or local governmental or regulatory authority, or any other person or entity, the absence of which would materially impair the ability of Tenant to operate the Facility for the Facility Uses.

20.9 No Violation. The execution, delivery and performance of this Lease [i] do not and will not conflict with, and do not and will not result in a breach of Tenant's Organizational Documents; [ii] do not and will not conflict with, and do not and will not result in a breach of, and do not and will not constitute a default under (or an event which, with or without notice or lapse of time, or both, would constitute a default under), any of the terms, conditions or provisions of any agreement or other instrument or obligation to which Tenant is a party or by which its assets are bound; and [iii] do not and will not violate any order, writ, injunction, decree, statute, rule or regulation applicable to Tenant or the Facility.

20.10 Reports and Statements. All reports, statements, certificates and other data furnished by or on behalf of Tenant or Guarantor to Landlord in connection with this Lease, and all representations and warranties made herein or in any certificate or other instrument delivered in connection herewith and therewith, are true and correct in all material respects and do not omit to state any material fact or circumstance necessary to make the statements contained herein or therein, in light of the circumstances under which they are made, not misleading as of the date of such report, statement, certificate or other data. The copies of all agreements and

applicable zoning laws, including, but not limited to, dimensional, parking, setback, screening, landscaping, sign and curb cut requirements.

20.17 Pro Forma Statement. Tenant has delivered to Landlord a true, correct and complete copy of the Pro Forma Statement. The Pro Forma Statement shows Tenant's reasonable expectation of the most likely results of Facility operations for the next three-year period.

20.18 Environmental Matters. During the period of Tenant's possession of the Leased Property and, to the best of Tenant's knowledge after diligent inquiry, for the period prior to Tenant's possession of the Leased Property, [i] the Leased Property is in compliance with all Environmental Laws; [ii] there were no releases or threatened releases of Hazardous Materials on, from, or under the Leased Property, except in compliance with all Environmental Laws; [iii] no Hazardous Materials have been, are or will be used, generated, stored, or disposed of at the Leased Property, except in compliance with all Environmental Laws; [iv] asbestos has not been and will not be used in the construction of any Improvements; [v] no permit is or has been required from the Environmental Protection Agency or any similar agency or department of any state or local government for the use or maintenance of any Improvements; [vi] underground storage tanks on or under the Land, if any, have been and currently are being operated in compliance with all applicable Environmental Laws; [vii] any closure, abandonment in place or removal of an underground storage tank on or from the Land was performed in compliance with applicable Environmental Laws and any such tank had no release contaminating the Leased Property or, if there had been a release, the release was remediated in compliance with applicable Environmental Laws to the satisfaction of regulatory authorities; [viii] no summons, citation or inquiry has been made by any such environmental unit, body or agency or a third party demanding any right of recovery for payment or reimbursement for costs incurred under CERCLA or any other Environmental Laws and the Land is not subject to the lien of any such agency; and [ix] to the best of Tenant's knowledge, the environmental assessment of the Facility (and all follow up reports, supplements and amendments) that was delivered to Landlord in connection with the closing of this Lease is true, complete and accurate. "Disposal" and "release" shall have the meanings set forth in CERCLA.

20.19 Leases and Contracts. As of the Commencement Date and except as disclosed on Exhibit E, there are no leases or contracts (including, but not limited to, insurance contracts, maintenance contracts, construction contracts, employee benefit plans, employment contracts, equipment leases, security agreements, architect agreements, and management contracts) to which Tenant or any Guarantor is a party relating to any part of the ownership, operation, possession, construction, management or administration of the Land or the Facility.

20.20 No Default. As of the Commencement Date, [i] there is no existing Event of Default under this Lease; and [ii] no event has occurred which, with

Landlord does not have knowledge of any facts or circumstances which might reasonably form the basis for any such action, suit or proceeding.

21.6 Consents. As of the Commencement Date, Landlord will have obtained all consents required of it by any regulatory agency.

21.7 No Violation. The execution, delivery and performance of this Lease (i) do not and will not conflict with, and do not and will not result in a breach of the Organizational Documents of any entity holding a limited liability company interest in the Leased Property after the Commencement Date; (ii) do not and will not conflict with and do not and will not result in a breach of or constitute a default under any of the terms, conditions or provisions of any agreement or other instrument or obligation to which Landlord is a party or by which its assets are bound; and (iii) do not and will not violate any order, writ, injunction, decree, statute, rule or regulation applicable to Landlord or to the Leased Property.

21.8 Acquisition of Leased Property. In its agreement with TOG II LLC for the acquisition of the Leased Property, Landlord will require the Leased Property to be severed from the Master Lease.

ARTICLE 22: SECURITY INTEREST

22.1 Assignment of Intercreditor Agreement with Capital Source. At closing, Landlord, Tenant, Landlord's Lender and Tenant's accounts receivable lender will enter into a new intercreditor agreement in form and substance acceptable to the Landlord, Lender and Tenant.

22.2 Lien on Receivables and Execution of a New Intercreditor Agreement At Funding of HUD Loan. Upon the closing of the HUD Loan, Tenant will execute a new UCC-1 providing Landlord with a third lien on all receivables and Landlord and Tenant will execute a new version of the Intercreditor Agreement acceptable to Landlord, the Lender and the other parties to the Intercreditor Agreement or else assume the existing Intercreditor Agreement. If a new Intercreditor Agreement is executed, the existing Intercreditor Agreement will thereafter be of no further force and effect with respect to the Leased Property.

22.3 Collateral. Tenant hereby grants to Landlord ("Secured Party") a security interest in the following described property, whether now owned or hereafter acquired by Tenant (the "Collateral"), subject to the requirements of the new Intercreditor Agreement to be signed concurrent with the Closing, to secure the payment and performance of Tenant's obligations under this Lease.

22.3.1 All machinery, furniture, equipment, trade fixtures, appliances, inventory and all other goods (as "equipment," "inventory" and "goods" are defined for purposes of Article 9 ("Article 9") of the Uniform Commercial Code as adopted in Arizona) and any leasehold interest of Tenant or any Subtenant in any of the

22.5 Notice of Sale. With respect to any sale or other disposition of any of the Collateral after the occurrence of an Event of Default, Tenant agrees that the giving of five days' notice by Landlord, sent by overnight delivery, postage prepaid, to Tenant's notice address designating the time and place of any public sale or the time after which any private sale or other intended disposition of such Collateral is to be made, shall be deemed to be reasonable notice thereof and Tenant waives any other notice with respect thereto.

22.6 Recharacterization. Landlord and Tenant intend this Lease to be a true lease. However, if despite the parties' intent, it is determined or adjudged by a court for any reason that this Lease is not a true lease or if this Lease is recharacterized as a financing arrangement, then this Lease shall be considered a secured financing agreement and Landlord's title to the Leased Property shall constitute a perfected first priority lien in Landlord's favor on the Leased Property to secure the payment and performance of Tenant's obligations under this Lease.

22.7 Subordination. The Tenant's right to any management fee shall be subordinated to Landlord's rights under this Lease. At the time Landlord applies for the HUD Loan, Tenant shall execute such documents as may be required by HUD or by the HUD Lender to subordinate this Lease and Tenant's rights to any management fees to the HUD Regulatory Agreement(s) required by HUD in connection with the HUD Loan.

ARTICLE 23: MISCELLANEOUS

23.1 Notices. Landlord and Tenant hereby agree that all notices, demands, requests, and consents (hereinafter "Notices") required to be given pursuant to the terms of this Lease shall be in writing, shall be addressed to the addresses set forth in this section, and shall be served by [i] personal delivery; [ii] certified mail, return receipt requested, postage prepaid; or [iii] nationally recognized overnight courier. All Notices shall be deemed to be given upon the earlier of actual receipt or three (3) days after certified mailing, or one Business Day after deposit with the overnight courier. Any Notices meeting the requirements of this section shall be effective regardless of whether or not actually received. Landlord or Tenant may change its Notice address at any time by giving the other party notice of such change.

NOTICES TO LANDLORD:

LA COLINA INVESTORS, LLC

c/o William P. Mohr, Manager
820 Paramount Rd.
Oakland, CA 94610
(510) 645-1420

23.3 Entire Agreement. This Lease contains the entire agreement between Landlord and Tenant with respect to the subject matter hereof. No representations, warranties, and agreements have been made by Landlord except as set forth in this Lease. No oral agreements or understandings between Landlord and Tenant shall survive execution of this Lease.

23.4 Severability. If any term or provision of this Lease is held or deemed by Landlord to be invalid or unenforceable, such holding shall not affect the remainder of this Lease and the same shall remain in full force and effect, so long as the intent of the Parties under this Lease can still be effected.

23.5 Captions and Headings. The captions and headings are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of this Lease or the intent of any provision hereof.

23.6 Governing Law. This Lease shall be governed by and construed in accordance with the laws of the State of California, except as to matters pertaining to the demise of the Leased Property and remedies of eviction, ejectment and other matters required to be governed by the laws of the state where the Leased Property is located, and in those cases, the laws of the State of Arizona shall govern without regard to principles of conflict of laws.

23.7 Lease to Be Recorded. This Lease shall be recorded as an exhibit to the Tenant Regulatory Agreement.

23.8 Waiver. No waiver by either Party of any condition or covenant herein contained, or of any breach of any such condition or covenant, shall be held or taken to be a waiver of any subsequent breach of such covenant or condition, or to permit or excuse its continuance or any future breach thereof or of any condition or covenant, nor shall the acceptance of Rent by Landlord at any time when Tenant is in default in the performance or observance of any condition or covenant herein be construed as a waiver of such default, or of Landlord's right to terminate this Lease or exercise any other remedy granted herein on account of such existing default.

23.9 Binding Effect. This Lease will be binding upon and inure to the benefit of the heirs, successors, personal representatives, and permitted assigns of Landlord and Tenant.

23.10 No Offer. Landlord's submission of this Lease to Tenant is not an offer to lease the Leased Property, or an agreement by Landlord to reserve the Leased Property for Tenant. Landlord will not be bound to Tenant until Tenant has duly executed and delivered duplicate original leases to Landlord, and Landlord has duly executed and delivered one of these duplicate original leases to Tenant. Landlord shall be under no obligation to enter into this Lease until Landlord has performed its due

advisors. Landlord, Tenant, and their advisors believe that this Lease is the product of all their efforts, that it expresses their agreement, and agree that it shall not be interpreted in favor of either Landlord or Tenant or against either Landlord or Tenant merely because of their efforts in preparing it.

23.17 Counterparts. This Lease may be executed in multiple counterparts, each of which shall be deemed an original hereof.

23.18 Lease Guaranty. The payment of Rent and the performance by Tenant arising under this Lease are guaranteed by Guarantors pursuant to the Guaranty.

23.19 Custody of Escrow Funds. Any funds paid to Landlord in escrow hereunder may be held by Landlord or by Landlord's legal counsel or, at Landlord's election, by a financial institution, the deposits or accounts of which are insured or guaranteed by a federal or state agency. The funds shall not be deemed to be held in trust, may be commingled with the general funds of Landlord or such other institution, and shall not bear interest.

23.20 Exhibits. All of the exhibits referenced in this Lease are attached hereto and incorporated herein.

23.21 Dispute Resolution.

23.21.1 Unlawful Detainer for Failure to Pay Money. In the event of a dispute over Tenant's failure or alleged failure to pay Base Rent, Impound Rent, or Additional Rent, when due, Tenant hereby waives the right to trial by jury, and agrees to submit to the unlawful detainer proceedings set forth under Arizona law. Said dispute shall be resolved by Court trial in Tucson.

23.21.2 Alternative Dispute Resolution of Disputes Other Than Over Tenant's Payment. In the event of any dispute that does not involve Tenant's failure to pay Base Rent, Impound Rent or Additional Rent when due, and with respect to which the Landlord agrees in writing that the dispute does not involve a request by Landlord to obtain possession of the Leased Premises, Landlord and Tenant, and any Guarantor, shall first attempt to mediate the dispute under the auspices of the Judicial Arbitration and Mediation Service ("JAMS") or other mutually-agreeable dispute resolution service. Mediation shall take place in San Francisco, CA. In the event the dispute shall not be resolved by mediation, then the dispute shall be resolved by binding arbitration before the Judicial Arbitration and Mediation Service ("JAMS") in San Francisco, CA.

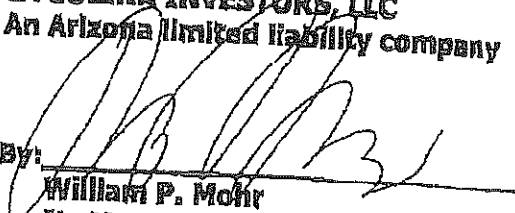
23.22 Consent to Service of Process. TENANT HEREBY CONSENTS TO SERVICE OF PROCESS BY LANDLORD IN ANY MANNER AND IN ANY JURISDICTION PERMITTED BY LAW. NOTHING HEREIN SHALL AFFECT OR IMPAIR LANDLORD'S RIGHT TO SERVE LEGAL PROCESS IN ANY MANNER PERMITTED BY LAW, OR

IN WITNESS WHEREOF, the parties hereto have executed this Lease or caused the same to be executed by their respective duly authorized officers as of the date first set forth above.

Landlord:

LA COLINA INVESTORS, LLC
An Arizona limited liability company


Date: 9-2-2005

By: 
William P. Mohr
Its Managing Member

Tenant:

AVALON CARE CENTER - TUCSON, L.L.C.
A Utah limited liability company

Date: _____

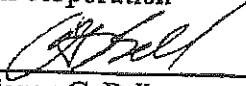
By: 
Corey G. Bell
Vice President and Chief
Financial Officer

Signatures continue on next page!

Corporate Guarantor:

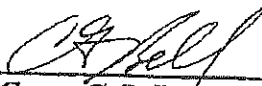
AVALON HEALTH CARE, INC.
a Utah corporation

Date: 1-5-2005

By: 
Corey G. Bell
Vice President and Chief Financial
Officer

As Individual Guarantor

Date: 1-5-2005


Corey G. Bell

Date: 1-5-2005


Richard T. Denning

Date: 5 Jan 05


Lewis E. Garrett

Date: 1-5-2005


Charles R. Kirton

Date: 5 January 2005


Robert W. Pommerville

**EXHIBIT A: LEGAL DESCRIPTION
COLLATERAL**

All machinery, furniture, equipment, trade fixtures, appliances, inventory and all other goods (as "equipment," "inventory" and "goods" are defined for purposes of Article 9 ("Article 9") of the Uniform Commercial Code as adopted in Arizona) and any leasehold interest of Tenant or any Subtenant in any of the foregoing, including, without limitation, those items which are to become fixtures or which are building supplies and materials to be incorporated into any improvement or fixture.

All accounts, contract rights, general intangibles, instruments, documents, and chattel paper [as "accounts," "contract rights," "general intangibles," "instruments," "documents" and "chattel paper" are defined for purposes of Article 9] now or hereafter arising.

All franchises, permits, licenses, operating rights, certifications, approvals, consents, authorizations and other general intangibles, including, without limitation, certificates of need, state health care facility licenses, and Medicare and Medicaid provider agreements, to the extent permitted by law.

Unless expressly prohibited by the terms thereof, all contracts, agreements, contract rights and materials relating to the design, construction, operation or management of any improvements, including, but not limited to, plans, specifications, drawings, blueprints, models, mock ups, brochures, flyers, advertising and promotional materials and mailing lists.

All subleases, occupancy agreements, license agreements and concession agreements, written or unwritten, of any nature, now or hereafter entered into, and all right, title and interest of Tenant thereunder, by and between Tenant, as Sublandlord, and any Subtenant, as Subtenant; and including, without limitation, Tenant's right, if any, to cash or securities deposited thereunder whether or not the same was deposited to secure performance by the subtenants, occupants, licensees and concessionaires of their obligations thereunder, including the right to receive and collect the rents, revenues, and other charges thereunder.

All ledger sheets, files, records, computer programs, tapes, other electronic data processing materials, and other documentation.

The products and proceeds of the preceding listed property, including, without limitation, cash and non cash proceeds, proceeds of proceeds, and insurance proceeds.

Cash and cash equivalents on hand or relating to the Facility;

Insurance maintained by Tenant, including without limitation, all prepayments of insurance related to the Facility and Facility operations;

Leased oxygen concentrators; and
Any and all leased or owned equipment not specifically enumerated on Exhibit C
Landlord's Personal Property.

EXHIBIT C: LANDLORD'S PERSONAL PROPERTY

MAJOR MOVABLE EQUIPMENT SPREADSHEET

Date: September 22 2003
 PSI Project No: 896-SE184-03
 Project Name: La Colina Healthcare Center
 Street Address: 2800 East Ajo Way
 City, State: Tucson, Arizona

Age: 19 years
 No. of Beds: 240
 Reserve Term: 10 years
 Number of Square Feet: 60,804 Square Feet
 Inflated Reserve/Bed: \$4,681 (inflated)
 Uninflated Reserve/Bed: \$4,148 (uninflated)

BUILDING COMPONENT	AVG EUL (YR)	EFF AGE (YR)	QTY	UNIT	UNIT COST	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	TOTAL COST	
Resident Beds	15	Varies	230	EA	\$1,025	\$23,575	\$23,050	\$22,525	\$22,000	\$21,475	\$20,950	\$20,425	\$19,900	\$19,375	\$18,850	\$18,325	\$212,000
Resident Mattresses	15	Varies	230	EA	\$275	\$63,250	\$61,325	\$59,400	\$57,475	\$55,550	\$53,625	\$51,700	\$49,775	\$47,850	\$45,925	\$44,000	\$523,000
Resident Chairs	15	Varies	120	EA	\$140	\$16,800	\$16,380	\$15,960	\$15,540	\$15,120	\$14,700	\$14,280	\$13,860	\$13,440	\$13,020	\$12,600	\$158,320
Resident Tables	15	Varies	233	EA	\$190	\$44,270	\$43,230	\$42,190	\$41,150	\$40,110	\$39,070	\$38,030	\$36,990	\$35,950	\$34,910	\$33,870	\$407,000
Diaper Tables	15	Varies	130	EA	\$325	\$42,250	\$41,000	\$39,750	\$38,500	\$37,250	\$36,000	\$34,750	\$33,500	\$32,250	\$31,000	\$29,750	\$350,000
Diapers	15	Varies	46	EA	\$450	\$20,700	\$20,070	\$19,440	\$18,810	\$18,180	\$17,550	\$16,920	\$16,290	\$15,660	\$15,030	\$14,400	\$170,000
Diaper - Storage	15	Varies	49	EA	\$500	\$24,500	\$23,775	\$23,050	\$22,325	\$21,600	\$20,875	\$20,150	\$19,425	\$18,700	\$17,975	\$17,250	\$210,000
Diaper - Dispense	15	Varies	87	EA	\$1,500	\$130,500	\$127,050	\$123,600	\$120,150	\$116,700	\$113,250	\$109,800	\$106,350	\$102,900	\$99,450	\$96,000	\$1,140,000
Changing Room - Tables	15	Varies	28	EA	\$375	\$10,500	\$10,125	\$9,750	\$9,375	\$9,000	\$8,625	\$8,250	\$7,875	\$7,500	\$7,125	\$6,750	\$80,000
Changing Room - Chairs	15	Varies	64	EA	\$210	\$13,440	\$13,064	\$12,688	\$12,312	\$11,936	\$11,560	\$11,184	\$10,808	\$10,432	\$10,056	\$9,680	\$116,000
Refrigerators	10	Varies	10	EA	\$300	\$3,000	\$2,910	\$2,820	\$2,730	\$2,640	\$2,550	\$2,460	\$2,370	\$2,280	\$2,190	\$2,100	\$25,000
Office Desks	15	Varies	12	EA	\$225	\$2,700	\$2,610	\$2,520	\$2,430	\$2,340	\$2,250	\$2,160	\$2,070	\$1,980	\$1,890	\$1,800	\$22,000
Files	15	Varies	42	EA	\$1,200	\$50,400	\$48,840	\$47,280	\$45,720	\$44,160	\$42,600	\$41,040	\$39,480	\$37,920	\$36,360	\$34,800	\$410,000
Office Chairs	15	Varies	30	EA	\$450	\$13,500	\$13,050	\$12,600	\$12,150	\$11,700	\$11,250	\$10,800	\$10,350	\$9,900	\$9,450	\$9,000	\$108,000
Computer Desks	15	Varies	1	EA	\$600	\$600	\$576	\$552	\$528	\$504	\$480	\$456	\$432	\$408	\$384	\$360	\$4,000
Storage Units/Compartments	15	Varies	7	EA	\$800	\$5,600	\$5,360	\$5,120	\$4,880	\$4,640	\$4,400	\$4,160	\$3,920	\$3,680	\$3,440	\$3,200	\$38,000
Room Washing Machine	15	Varies	1	EA	\$1,000	\$1,000	\$950	\$900	\$850	\$800	\$750	\$700	\$650	\$600	\$550	\$500	\$5,000
Room w/ Washed Hood	15	Varies	1	EA	\$20,000	\$20,000	\$19,000	\$18,000	\$17,000	\$16,000	\$15,000	\$14,000	\$13,000	\$12,000	\$11,000	\$10,000	\$120,000
Misc. Kitchen Equipment	15	Varies	1	EA	\$15,000	\$15,000	\$14,250	\$13,500	\$12,750	\$12,000	\$11,250	\$10,500	\$9,750	\$9,000	\$8,250	\$7,500	\$85,000
Laundry	15	Varies	1	EA	\$30,000	\$30,000	\$28,500	\$27,000	\$25,500	\$24,000	\$22,500	\$21,000	\$19,500	\$18,000	\$16,500	\$15,000	\$180,000
Room Ventilators	15	Varies	2	EA	\$400	\$800	\$760	\$720	\$680	\$640	\$600	\$560	\$520	\$480	\$440	\$400	\$4,000
Food Cart	15	Varies	1	EA	\$350	\$350	\$332	\$314	\$296	\$278	\$260	\$242	\$224	\$206	\$188	\$170	\$2,000
Medical Furniture	15	Varies	12	EA	\$1,500	\$18,000	\$17,400	\$16,800	\$16,200	\$15,600	\$15,000	\$14,400	\$13,800	\$13,200	\$12,600	\$12,000	\$144,000
AGA (Nursing) Tubs	15	Unknown	1	EA	\$40,000	\$40,000	\$38,000	\$36,000	\$34,000	\$32,000	\$30,000	\$28,000	\$26,000	\$24,000	\$22,000	\$20,000	\$240,000
Passenger Van	10	1 & 10	1	EA	\$25,000	\$25,000	\$23,750	\$22,500	\$21,250	\$20,000	\$18,750	\$17,500	\$16,250	\$15,000	\$13,750	\$12,500	\$150,000
TOTAL UNINFLATED						\$121,000	\$116,436	\$111,872	\$107,308	\$102,744	\$98,180	\$93,616	\$89,052	\$84,488	\$79,924	\$75,360	\$920,000
Inflation Factor - 2.5% **			1.025	(factor)		\$122,025	\$117,461	\$112,897	\$108,333	\$103,769	\$99,205	\$94,641	\$90,077	\$85,513	\$80,949	\$76,385	\$940,000
TOTAL INFLATED						\$122,025	\$117,461	\$112,897	\$108,333	\$103,769	\$99,205	\$94,641	\$90,077	\$85,513	\$80,949	\$76,385	\$940,000

EA - Square Feet
 AVG EUL - Average Expected Useful Life
 EFF AGE - Effective Age
 Qty - Quantity/Units/Life

** - The inflation rate is an assumed inflation factor rate. The actual inflation factor will likely vary from this assumption. PSI assumes no responsibility or liability arising out of an actual inflation different from the projected inflation.

ANNUAL/ QUARTERLY FACILITY FINANCIAL REPORT

Facility Name: _____

Facility Address: _____

Report Period: _____ months beginning _____ and ending _____
 period only. All information reported should be for this

Occupancy Data		Census Data	% Resident Days	% Revenues
Total Beds/Units:	_____	Medicaid:	_____ %	_____ %
Total Available Days:	_____	Medicare:	_____ %	_____ %
Total Occupied Days:	_____	Private and Other:	_____ %	_____ %
Occupancy Percentage:	_____ %	Total:	_____ %	_____ %

OPERATING DATA

1. Gross Revenues \$ _____
2. Contractual Allowances \$ _____
3. Net Revenues \$ _____
4. Operating Expenses \$ _____
5. Net Operating Income \$ _____
6. Interest Expense excluding accounts
 receivable financing and personal
 property leases \$ _____
7. Tenant's Income Taxes \$ _____
8. Depreciation Expense \$ _____
9. Amortization Expense \$ _____
10. Base Rent Expense \$ _____
11. Management Fees \$ _____
12. Total EBITDARM Adjustments \$ _____
13. Net Income (amount should agree with the facility's financial
 statements) \$ _____