

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, 2017

To: February 28, 2018

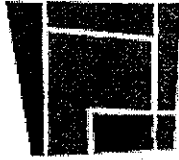
Issued: December 6, 2016

Recommended By: Joel Bunis, Bureau Chief

License: NCI-2643

Issued By: Colby Bower, Assistant Director

53



ARIZONA DEPARTMENT
OF HEALTH SERVICES

LICENSING

December 6, 2016

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,

Diane Eckles

Diane Eckles
Bureau Chief

DEib

Enclosure

Douglas A. Ducey | Governor Cara M. Christ MD, MS | Director

150 North 18th Avenue, Suite 440, Phoenix, AZ 85007-3247 P | 602-364-2690 F | 602-324-0993

W | azhealth.gov

Health and Wellness for all Arizonans

LTC 53 Beds 240 APP 2089

3.1.17
2.28.18



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.

I. HEALTH CARE INSTITUTION INFORMATION

Name of Health Care Institution: Avalon Southwest Health & Rehabilitation License No. NCI-2643

Mailing Address: 2900 E. Milber Street

City: Tucson State: Arizona Zip Code: 85714

Phone No. (520) 294-0005 Fax No. (520) 294-4417 E-mail: _____

Class: Nursing Care Institution

What is the health care institution's scope of practice:
Skilled nursing services

Health care institution's days and hours of operation:
Sun 24 Mon 24 Tues 24 Wed 24 Thurs 24 Fri 24 Sat 24

Is health care institution accredited? YES 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? YES NO *

*Currently certified for Medicare and Medicaid



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

II. OWNER INFORMATION

Owner's Name: Avalon Care Center-Tucson, LLC
 Street Address: 206 North 2100 West
 City: Salt Lake City State: UT Zip Code: 84116
 Phone No. (801) 596-8844 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: <u>Avalon Care Center-Tucson, LLC</u> | Title: <u>Sole Member and Manager</u> |
| Name: <u>Scott R. Carpenter</u> | Title: <u>Senior Vice President</u> |
| Name: <u>Faye Lincoln</u> | Title: <u>Senior Vice President</u> |

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: CT CORPORATION SYSTEM Title: _____
Street Address: 3800 N. Central Avenue, Suite 460
City: Phoenix State: Arizona Zip Code: 85012
Phone No. (602) 234-9600

IV. GOVERNING AUTHORITY

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



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

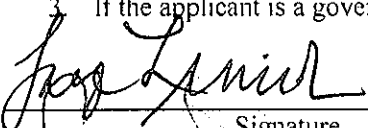
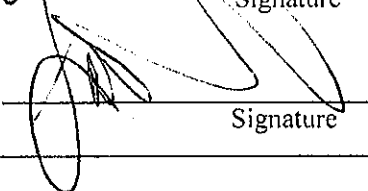
Name: Brian D. Balliet Title: Administrator

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

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

J. J. J. J. J.

Signature of Administrator

11/29/2016

Signature Date

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

November, 2016

| | |
|----------------------|----------------|
| Charles R. Kirton | Owner/Chairman |
| James O. Mason | Board Director |
| David E. Dangerfield | Board Director |
| Brian C. Swinton | Board Director |
| Carl R. Tippets | Board Director |
| Charles H. Gonzales | Board Director |
| David R. Devereaux | Board Director |
| Anne H. Stuart | Board Director |
| Robert D. Woltil | Board Director |
| Harold D. Burton | Board Director |
| Lane Bowen | Board Director |
| Christie Franklin | 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 |
| David R. Devereaux | 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 |
| Ken S. Knapton | Senior Vice President/Chief Information Officer |
| Christie L. Franklin | Executive Vice President |

MANAGING INDIVIDUAL

Brian Balliet, Administrator

COMPLETE

1 YR CYCLE

TUCSON FIRE DEPARTMENT
REPORT OF OCCUPANCY INSPECTION

035893

Page 1 of 1

| | | |
|---|--|--|
| ADDRESS 2900 E. MILBER ST. | | DATE 1/21/16 |
| BUSINESS NAME AVAZON SOUTHWEST HEALTH & REHABILITATION | | PHONE 260-0377 291-8885 |
| OCCUPANCY CLASS / BUSINESS TYPE I 2 | PROPERTY REPRESENTATIVE RUBEN ALBERT | |
| BUSINESS OWNER | BUILDING OWNER | |
| FIRE CODE EDITION IFC 2012 | <input checked="" type="checkbox"/> INSPECTION | <input type="checkbox"/> COMPLAINT NO. _____ |
| INCIDENT NO. _____ | TYPE <u>Full</u> | TYPE _____ |

MAKE EVERY WEEK FIRE PREVENTION WEEK

- 5003.4 - PLACE SIGN ON FENCE OUTSIDE OF OXYGEN STORAGE AREA.
- 703.2 - REPAIR MAGNET TO FIRE DOOR

PROPERTY REP SIGNATURE SENT ELECTRONICALLY INSPECTOR D. LITTEL MARSHAL # 28

CAPTAIN SIGNATURE _____ INSPECTOR SIGNATURE _____

Your Fire Department will make a REINSPECTION of the above conditions on 2/4 2016 POSTED

REINSPECTED BY [Signature] APPROVED DISAPPROVED DATE 1/20 2016

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

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 1: PROPERTY, TERM, RENEWAL OPTION, DEFINITIONS AND SAMPLE CALCULATIONS.....2

1.1 Leased Property.....2

1.2 Term; Renewal Option.....2

1.3 Cancellation for Violation of Regulatory Agreement.....2

1.4 Definitions.....3

1.5 Sample Calculations for Base Rent and For Financial Covenants.16

ARTICLE 2: RENT.....18

2.1 Base Rent.....18

2.2 Base Rent Adjustment.....19

2.3 Payment of Impound Rent.....20

2.4 Payment of Rent.....20

2.5 Late Charge.....21

2.6 Additional Rent.....21

2.7 Net Net Net Lease.....21

ARTICLE 3: IMPOSITIONS AND UTILITIES.....21

3.1 Payment of Impositions.....21

3.2 Due Date for Payment of Impositions.....22

3.3 Prorations During Year of Lease Expiration.....22

3.4 Invoices and Evidence of Payment to be Delivered to Landlord.....22

3.5 Tenant to Prepare and File All Tax Returns for Impositions.....22

3.6 Entitlement to Tax Refunds.....22

3.7 Tenant's Right to Protest.....22

3.8 Utilities.....24

3.9 Discontinuance of Utilities.....24

3.10 Business Expenses.....24

ARTICLE 4: INSURANCE.....24

4.1 Property Insurance.....24

4.2 Liability Insurance.....25

4.3 Builder's Risk Insurance.....26

4.4 Business Interruption Insurance.....26

4.5 Employee Dishonesty Insurance.....27

4.6 Additional Insurance.....27

4.7 Insurance Requirements.....27

4.8 Replacement Value.....28

4.9 Blanket Policy.....29

4.10 No Separate Insurance.....29

4.11 Waiver of Subrogation.....29

4.12 Mortgages or Deeds of Trust.....29

4.13 Escrows.....29

4.14 Tenant to Strictly Comply With Reporting Requirements in Policies.30

ARTICLE 5: INDEMNITY30

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 PREMISES32

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' LIENS33

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 REMEDIES36

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 DESTRUCTION44

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

ARTICLE 10: CONDEMNATION.....48

10.1 Total Taking......48

10.2 Partial Taking......48

10.3 Condemnation Proceeds Not Trust Funds......48

ARTICLE 11: TENANT'S PROPERTY.....49

11.1 Tenant's Property......49

11.2 Requirements for Tenant's Property......49

ARTICLE 12: OPTION TO PURCHASE.....50

12.1 Option to Purchase......50

12.2 Option Price......51

12.3 Condition of Property......51

12.4 Closing......52

12.5 Failure to Close Option......52

12.6 Assignability of Purchase Option; Failure to Exercise Option to Purchase and Renewal Option......52

ARTICLE 13: NEGATIVE COVENANTS.....52

13.1 No Debt......52

13.2 No Liens......53

13.3 No Guaranties......53

13.4 No Transfer......53

13.5 No Dissolution......53

13.6 No Change in Management or Operation......53

13.7 No Investments......53

13.8 Contracts......53

13.9 Subordination of Payments to Affiliates......54

13.10 Change of Location or Name......54

13.11 Change in Number/Type of Beds and Units......54

13.12 Management Contract Subject to Termination if Tenant Defaults on HUD Regulatory Agreement......54

13.13 No Default on Obligations Under CapitalSource Finance LLC Agreement......54

ARTICLE 14: AFFIRMATIVE COVENANTS.....55

14.1 Perform Obligations......55

14.2 Proceedings to Enjoin or Prevent Construction......55

14.3 Documents and Information......55

14.4 Compliance With Laws......58

14.5 Broker's Commission......59

14.6 Existence and Change in Ownership......59

14.7 Facility Licensure and Certification......59

14.8 Transfer of License and Facility Operations......60

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

ARTICLE 19: QUIET ENJOYMENT, SUBORDINATION, ATTORNMEN AND ESTOPPEL CERTIFICATES73

19.1 Quiet Enjoyment.73

19.2 Subordination.73

19.3 Attornment.74

19.4 Estoppel Certificates.75

ARTICLE 20: TENANT'S REPRESENTATIONS AND WARRANTIES75

20.1 Organization and Good Standing.75

20.2 Power and Authority.75

20.3 Enforceability.76

20.4 Government Authorizations.76

20.5 Financial Statements.76

20.6 Compliance with Laws.76

20.7 No Litigation.77

20.8 Consents.77

20.9 No Violation.77

20.10 Reports and Statements.77

20.11 Other Name or Entities.78

20.12 Parties in Possession.78

20.13 Access.78

20.14 Utilities.78

20.15 Condemnation and Assessments.78

20.16 Zoning.78

20.17 Pro Forma Statement.79

20.18 Environmental Matters.79

20.19 Leases and Contracts.79

20.20 No Default.79

20.21 No Adverse Notice From Insurer.80

ARTICLE 21: LANDLORD'S REPRESENTATIONS AND WARRANTIES80

21.1 Organization and Good Standing.80

21.2 Power and Authority.80

21.3 Enforceability.80

21.4 Government Authorizations.80

21.5 No Litigation.80

21.6 Consents.81

21.7 No Violation.81

21.8 Acquisition of Leased Property.81

ARTICLE 22: SECURITY INTEREST81

22.1 Assignment of Intercreditor Agreement with Capital Source.81

22.2 Lien on Receivables and Execution of a New Intercreditor Agreement At Funding of HUD Loan.81

| | | |
|---------------------------------|---------------------------------------|----|
| 22.3 | Collateral..... | 81 |
| 22.4 | Additional Documents..... | 82 |
| 22.5 | Notice of Sale..... | 83 |
| 22.6 | Recharacterization..... | 83 |
| 22.7 | Subordination..... | 83 |
| ARTICLE 23: MISCELLANEOUS | | 83 |
| 23.1 | Notices..... | 83 |
| 23.2 | Advertisement of Leased Property..... | 84 |
| 23.3 | Entire Agreement..... | 85 |
| 23.4 | Severability..... | 85 |
| 23.5 | Captions and Headings..... | 85 |
| 23.6 | Governing Law..... | 85 |
| 23.7 | Lease to Be Recorded..... | 85 |
| 23.8 | Waiver..... | 85 |
| 23.9 | Binding Effect..... | 85 |
| 23.10 | No Offer..... | 85 |
| 23.11 | Modification..... | 86 |
| 23.12 | Landlord's Modification..... | 86 |
| 23.13 | No Merger..... | 86 |
| 23.14 | Laches..... | 86 |
| 23.15 | Limitation on Tenant's Recourse..... | 86 |
| 23.16 | Construction of Lease..... | 86 |
| 23.17 | Counterparts..... | 87 |
| 23.18 | Lease Guaranty..... | 87 |
| 23.19 | Custody of Escrow Funds..... | 87 |
| 23.20 | Exhibits..... | 87 |
| 23.21 | Dispute Resolution..... | 87 |
| 23.22 | Consent to Service of Process..... | 87 |
| 23.23 | Attorney's Fees and Expenses..... | 88 |
| 23.24 | Survival..... | 88 |
| 23.25 | Time..... | 88 |
| 23.26 | Landlord Not in Control..... | 88 |
| 23.27 | Incorporation of Recitals..... | 88 |

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 |

Index of Defined Terms

ADA..... 3

Additional Rent..... 3

Affiliate 3

Alterations..... 4

Anniversary Date 4

Annual Company Budget..... 4

Annual Facility Budget 4

Article 9 4

Bankruptcy Code..... 82

Base Rent..... 4

Base Rent During Bridge Loan..... 13

Bridge Lender(s)..... 4

Bridge Loan..... 4

Builder's Risk Policy 26

Business Day 4

Casualty..... 44

CERCLA..... 4

Certificates of Need 55

Closing 4

Closing Date 60

Collateral 4

Commencement Date 5

Commissioner..... 5

Control..... 8

controlled by..... 8

Corporate Guarantor 5

Default Rent 5

EBITDARM 5

Environmental Laws 5

Event of Default..... 5

Expiration Date 5

Facility 5

Facility State 5

Facility Uses..... 5

FHA 63

Financial Statements 5

Fixtures..... 5

full replacement value..... 28

Government Authorizations..... 6

Guarantor..... 6

Guaranty 6

Hazardous Materials 6

HIPDB 6

HUD 6

HUD Loan..... 6

HUD Mandated Repairs..... 7

Impositions 7

Impound Amounts..... 7

Impound Rent..... 8

Improvements..... 20

Imputed EBITDARM 8

Individual Guarantor 14

Initial Base Rent..... 8

Initial Base Rent During HUD Loan..... 14

Initial Impound Deposit..... 19

Initial Tenant Deposit..... 8

Initial Term 8

Intercreditor Agreement..... 2

Investment Base..... 8

Issuer..... 8

JAMS..... 8

Landlord 87

Landlord Affiliate..... 8

Landlord’s Manager..... 8

Landlord’s Overhead 9

LC Proceeds 9

LCR..... 9, 72

Lease 64

Lease Coverage Ratio 9

Lease Documents 14

Lease Year 9

Leased Property 9

Legal Requirements..... 9

Lender 9

Letter of Credit..... 9

License..... 9

Master Lease 55

Material Obligation 1

MIP..... 10

Monthly Deposit Date..... 10

Monthly Payments for Impound Amounts 15

Mortgage..... 15

Mortgage Loan 1

Mortgagee..... 1

Net Worth 1

Notices..... 15

..... 83

Option Price 10

Option to Purchase 10

Organization State 10

Organizational Documents 10

Parties 11

Party 11

Permitted Alterations 11

Permitted Exceptions 11

Permitted Liens 11

Personal Property 11

Plans and Specifications 66

Pro Forma Statement 15

Prompt Corrective Action 72

Provider Agreements 55

Purchase Notice 11

Receivables 11

Receiver 41

Regulatory Agreement 11

Related Rights 12

Renewal Option 12

Renewal Term 12

Rent 12, 15

Rent Schedule 12

Replacement Operator 12

Secured Party 12

Security Deposit 71

Seller 12

Special Form 25

Sublease 1

substantially destroyed 44

Taking 48

Tenant 12

Tenant Regulatory Agreement 2

Tenant's Affiliate 12

Tenant's Assignor 12

Tenant's Property 12

Termination Notice 45

Total Costs 15

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.

Department of Housing and Urban Development Federal Housing Administration ("HUD") under the provisions of Section 232 of the National Housing Act, and the Regulations thereunder. Landlord will be entering into a HUD Regulatory Agreement (the "Regulatory Agreement") with the Federal Housing Commissioner (the "Commissioner") in connection with the said Mortgage insured by HUD. This Lease is intended to comply with the requirements of the National Housing Act and Section 232 thereunder and all regulations promulgated pursuant thereto. Tenant will be required to enter into a Regulatory Agreement Nursing Home with HUD (the "Tenant Regulatory Agreement"). In the event of any conflict between the terms of this Lease and the terms of the Tenant Regulatory Agreement between Tenant and Commissioner, the terms of the Tenant Regulatory Agreement shall control.

NOW, THEREFORE, in consideration of the mutual covenants, agreements, promises, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged by the Parties, the Parties hereby agree as follows:

ARTICLE 1: PROPERTY, TERM, RENEWAL OPTION, DEFINITIONS AND SAMPLE CALCULATIONS

1.1 Leased Property. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord all of Landlord's right, title and interest in and to the Leased Property, commonly known as La Colina Health Care Center, located at 2900 East Milber Street, Tucson, AZ 85714, as further described in Exhibit A attached hereto and made part hereof, including, without limitation, all buildings, structures, improvements, appurtenances, easements and fixtures, subject, however, to the Permitted Exceptions and subject to the terms and conditions of this Lease.

1.2 Term; Renewal Option. The initial term ("Initial Term") of this Lease commences at 12:01 a.m. Arizona Time on the date on which the Landlord acquires title to the Leased Property ("Commencement Date") and expires at 11:59 p.m. Arizona Time on the day before the Anniversary Date which is eleven (11) Years after the first year's Anniversary Date (the "Expiration Date"). Tenant has one option to extend the Lease Term for four (4) years as described in Section 1.2.2. The Lease will terminate sooner if the Tenant exercises its Option to Purchase as hereinafter provided, in which case this Lease shall expire upon Closing of Tenant's purchase of the Leased Property.

1.3 Cancellation for Violation of Regulatory Agreement. This Lease may be canceled upon thirty (30) days written notice given to Landlord and Tenant by the Commissioner in connection with the Contract of Mortgage Insurance with HUD, for a violation of any of the provisions of the Tenant Regulatory Agreement, unless the violation is corrected to the satisfaction of the Commissioner within said thirty (30) day period.

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

management and policies of such entity. "Affiliate" includes, without limitation, each Corporate Guarantor.

"Alterations" has the meaning set forth in Section 15.1.

"Anniversary Date": See definition under Time Definitions below.

"Annual Company Budget": See definition under Financial Terms below.

"Annual Facility Budget": See definition under Financial Terms definitions below.

"Bankruptcy Code" means the United States Bankruptcy Code set forth in 11 U.S.C. §101, *et seq.*, as amended from time to time.

"Base Rent" has the meaning set forth in §2.1 and refers to the monthly rent exclusive of late charges, Default Rent, Impound Amounts and other Additional Rent as set forth herein. The method of calculating Base Rent will depend on whether the Leased Property is encumbered by the Bridge Loan or by the HUD Loan, and this is explained in Article 2. An example of how to calculate the Base Rent during the Bridge Loan and the Base Rent during the HUD Loan is shown in Article 1.4 hereof.

"Bridge Lender(s)" shall refer to the financial institution(s) providing the loan to the Landlord to fund Landlord's purchase of the Leased Property, and to any financial institution providing mezzanine financing to remain in place until recordation of the instrument securing the HUD loan.

"Bridge Loan" shall mean the loan obtained in accordance with Section 2.1.3 and which will encumber the Leased Property on the Commencement Date. The Bridge Loan will include any existing loan to be assumed by Landlord and any mezzanine financing to be obtained by Landlord and recorded on the Commencement Date.

"Business Day" means any day other than a Saturday, Sunday, or a day on which the U.S. Mail is suspended.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time.

"Closing" means the closing of Landlord's purchase of the Leased Property.

"Collateral" has the meaning set forth in Section 22.3.

"Commissioner" means the Commissioner of the Department of Housing and Urban Development, his deputies, and/or any other federal official charged with

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

other devices for the transmission of radio, television and other signals, all of which, to the greatest extent permitted by law, are hereby deemed by the parties hereto to constitute real estate, together with all replacements, modifications, alterations and additions thereto.

"Government Authorizations" means all permits, licenses, approvals, consents, and authorizations required to comply with all Legal Requirements, including, but not limited to, [i] zoning permits, variances, exceptions, special use permits, conditional use permits, and consents; [ii] the permits, licenses, provider agreements and approvals required for licensure and operation of the Facility in accordance with its Facility Uses and as a provider certified under the federal Medicare and state Medicaid programs; [iii] environmental, ecological, coastal, wetlands, air, and water permits, licenses, and consents; [iv] curb cut, subdivision, land use, and planning permits, licenses, approvals and consents; [v] building, sign, fire, health, and safety permits, licenses, approvals, and consents; [vi] architectural reviews, approvals, and consents required under restrictive covenants if there are any, and [vii] Certificates of Need, if any.

"Guarantor" means Avalon Health Care, Inc., a Utah corporation, and each Individual Shareholder Guarantor and Individual Employee Guarantor, individually and collectively.

"Guaranty" means, individually and collectively, the Unconditional and Continuing Lease Guaranty entered into by Guarantors to guarantee payment and performance of the Lease and any amendments thereto or substitutions or replacements of the Lease.

"Hazardous Materials" means any substance [i] the presence of which poses a hazard to the health or safety of persons on or about the Land, including, but not limited to, asbestos containing materials; [ii] which requires removal or remediation under any Environmental Law, including, without limitation, any substance which is toxic, explosive, flammable, radioactive, or otherwise hazardous; or [iii] which is regulated under or classified under any Environmental Law as hazardous or toxic, including, but not limited to, any substance within the meaning of "hazardous substance," "hazardous material," "hazardous waste," "toxic substance," "regulated substance," "solid waste" or "pollutant" as defined in any Environmental Law.

"HIPDB" means the Healthcare Integrity and Protection Data Bank maintained by the Department of Health and Human Services.

"HUD" means and refers to the United States Department of Housing and Urban Development. The head of HUD is the Commissioner as herein defined.

"HUD Loan" means any replacement financing which will pay off the Bridge Loan. If Landlord is unable to obtain a loan guaranteed by HUD, then the term

"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

Date. The Identity of Landlord's Manager may be changed from time to time by written Notice to Tenant.

"Landlord's Overhead" is defined in Financial Terms below.

"LC Proceeds" has the meaning set forth in §18.3.

"Lease" means this Lease Agreement, as amended from time to time.

"Lease Coverage Ratio" ("LCR"): See Financial Terms definitions below.

"Lease Documents" means this Lease and all documents executed by Landlord and Tenant relating to this Lease or the Facility, including, but not limited to, the Memorandum of Lease, any Regulatory Agreement executed in connection with the Leased Property, and the Guaranty Agreement.

"Lease Year": See Time Definitions below.

"Leased Property" has the meaning set forth in Section 1.1.

"Legal Requirements" means all laws, regulations, rules, orders, writs, injunctions, decrees, certificates, requirements, agreements, conditions of participation and standards of any federal, state, county, municipal or other governmental entity, administrative agency, insurance underwriting board, architectural control board, private third-party payor, accreditation organization, or any restrictive covenants applicable to the development, construction, condition and operation of the Facility by Tenant for the Facility Uses, including, but not limited to, [i] zoning, building, fire, health, safety, sign, and subdivision regulations and codes; [ii] certificate of need laws; [iii] licensure to operate the Facility in accordance with its Facility Uses; [iv] Medicare and Medicaid certification requirements (if applicable); [v] the ADA; [vi] any Environmental Laws; and [vii] requirements, conditions and standards for participation in third-party payor insurance programs.

"Lender" means the mortgagee of any mortgage secured by the Leased Premises, and the Beneficiary of any Deed of Trust secured by the Leased Premises, whether or not such mortgage or deed of trust has been recorded at the inception of the Lease Term, and specifically including any Bridge Lender and any Lender of funds constituting the HUD Loan.

"Letter of Credit" means an irrevocable and transferable letter of credit issued by Issuer in favor of Landlord as security for the Lease and in form acceptable to Landlord, and any amendments thereto or replacements or substitutions for the Letter of Credit.

"Material Obligation" means

[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

its Operating Agreement certified by such entity, as amended to date; and for a Tenancy in Common, the Tenancy-in-Common Agreement under which it is governed.

"Party" and "Parties" means the Landlord and/or the Tenant as the case may be.

"Permitted Alterations" has the meaning set forth in Section 15.3.

"Permitted Exceptions" means all easements, liens, encumbrances, restrictions, agreements and other title matters existing as of the Commencement Date, including, without limitation, the exceptions to title set forth on Exhibit B attached hereto.

"Permitted Liens" means (i) liens granted to Landlord; (ii) liens customarily incurred by Tenant in the ordinary course of business for items not delinquent, including, without limitation, deposits and charges under Workers' Compensation laws; (iii) liens for taxes and assessments not yet due and payable; (iv) any lien, charge or encumbrance which is being contested in good faith pursuant to the Lease; (v) the Permitted Exceptions; and (vi) liens which arise by operation of law even when Tenant is not in default under any agreement or obligation.

"Personal Property" means all machinery, equipment, furniture, furnishings, movable walls or partitions, computers (and all associated software), trade fixtures and other personal property (but excluding consumable inventory and supplies owned by Tenant) used in connection with the Leased Property, together with all replacements and alterations thereof and additions thereto, except items, if any, included within the definition of Fixtures or Improvements.

"Pro Forma Statement": See Financial Terms below.

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

"Receivables" means [i] all of Tenant's right to receive payment for providing resident care and services as set forth in any accounts, contract rights, and instruments, and [ii] those documents, chattel paper, inventory proceeds, provider agreements, participation agreements, ledger sheets, files, records, computer programs, tapes, and agreements relating to Tenant's rights to receive payment for providing resident care services to the extent allowed by applicable law.

"Regulatory Agreement" means that contract which Tenant will be required to sign as a condition to Landlord's obtaining financing under the FHA Section 232 HUD Loan Program for the Leased Property.

"Related Rights" means all easements, rights (including bed operating rights) and appurtenances relating to the Land and the Improvements.

"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,

if applicable), which shall include the balance sheet, statement of income, statement of cash flows, statement of shareholders' equity and statement of capital expenditures for the applicable period.

"Annual Facility Budget" means Tenant's projection of the Facility Financial Statement for the next fiscal year (or the 12-month rolling forward period, if applicable).

"Base Rent During Bridge Loan" has the meaning set forth in Section 2.1.1.

The "Current Ratio" means the value of Current Assets of Avalon Health Care, Inc. divided by the value of Current Liabilities of Avalon Health Care, Inc. The value of the Current Assets and the Current Liabilities shall be determined in accordance with generally accepted accounting principles.

"EBITDARM" as defined herein means the Tenant's net income, computed in accordance with generally accepted accounting principles, plus the Tenant's payments for the following expenses: interest (which excludes interest payments in connection with accounts receivable financing and personal property leases); federal and state taxes on the Tenant's income; depreciation; amortization; Base Rent; and Tenant's management fees.

"Financial Statements" means:

[i] for Tenant and for Avalon Health Care, Inc. the annual, quarterly and monthly date financial statements, including an audited balance sheet, statement of income, and statement of changes in cash flows for the current fiscal year;

[ii] for the Facility, including an audited Facility Financial Statement for the current fiscal year (except that the census data and comparison information included in the Facility Financial Statement are not required to be audited). During any time when the Leased Property is encumbered by a HUD Loan, the Facility Financial Statement shall mean the HUD audit of the Facility, prepared in accordance with Generally Accepted Accounting Principles.

[iii] for Guarantor, if Guarantor is an individual, a current unaudited personal financial statement. All financial statements shall be prepared in accordance with generally accepted accounting principles.

"Financial Statements" also include all operating statements for the Facility that were submitted to Landlord prior to the Commencement Date.

In preparing Financial Statements for the facility, any expense categories that were paid by Avalon Health Care, Inc. or by any other Tenant Affiliate must be

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.

"Monthly Deposit Date" has the meaning set forth in Section 2.3.

"Monthly Payments for Impound Amounts" has the meaning set forth in Section 2.3.

"Net Worth" for the Financial Statements of Tenant and of Avalon Health Care Inc., the Net Worth shall be determined in accordance with generally accepted accounting principles. For the Financial Statements of the Individual Guarantors, the value of assets may be reported at fair market value, determined reasonably and in good faith.

"Pro Forma Statement" means a financial forecast for the Facility for the next three-year period prepared by Tenant.

"Rent" means Base Rent, plus Additional Rent, which includes Impound Amounts, late charges, if any, and also includes if applicable, Default Rent.

"Total Costs" means the Investment Base plus the initial principal amount of the HUD Loan.

Time Definitions:

The following definitions are used in the Lease to compute various dates including the date on which Base Rent is adjusted, the dates during which the Tenant may exercise its Purchase Option as set forth in Article 12, etc.

"Anniversary Date" means, for the first year of the Lease, the date that is one year later than the date of the first day of the month in which the Commencement Date occurred. For all subsequent years under the Lease, the Anniversary Date shall be the date that is twelve (12) months following the last Anniversary Date. The Anniversary Date is the date used in computing all escalations of Base Rent hereunder, and in computing the deadline for the Tenant to notify Landlord of the Tenant's desire to exercise the Option to Purchase pursuant to Article 12 hereof.

"Commencement Date" has the meaning set forth in Section 1.2.

"Expiration Date" has the meaning set forth in Section 1.2.

"Lease Year" means each consecutive year during which this Lease is in effect. The first Lease Year commences on the Commencement Date and expires on the last day before the first Anniversary Date, so the first Lease Year will be more than eleven months and less than twelve months, and the remaining Lease Years will be full years. In making prorations, the parties shall base calculations on the actual number of days during a given period.

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]

Avalon HC Example Calcs for La Colina

Purchase from CSFB affiliate via New Bridge Loan financing to HUD Refi, NNN w Guarantees, 50% Cash Security Deposit and 50% Letter of Credit.

| Line | | |
|------|--------------------------------------|-------------------------|
| 1 | Price from Seller | \$ 12,550,000.00 |
| 2 | Acquisition Costs | 63,710.41 |
| 3 | Bridge Costs | 86,687.21 |
| 4 | HUD Costs | 826,079.42 |
| 5 | Eyring/ Mohr et. al. Assignment Fees | 699,218.39 |
| 6 | CFG Consulting Fee | 251,000.00 |
| 7 | Total Costs | <u>\$ 14,476,695.43</u> |

| | Bridge Costs | HUD Costs | Rate | Bridge Base Rent | HUD Refi Base Rent | Amort |
|----|---------------------------------|---------------|-------------------|------------------|--------------------|-------|
| 9 | Investment Base \$ 2,553,174 | \$ 2,553,174 | 12.07985% | \$ 306,380.88 | \$ 308,414.48 | |
| 10 | Bridge \$ 11,097,442 | | 9.915% | 1,100,311.37 | | IO |
| 11 | Mezz \$ - | | 0.00% | - | | |
| 12 | HUD | \$ 11,921,600 | 4.95% | | \$717,446.64 | 35 |
| 13 | PMI | | 0.50% | | 59,608.00 | |
| 14 | | | Subtotal | 1,406,692.26 | 1,085,469.13 | |
| 15 | Landlord Overhead | | 3.00% | \$ 42,200.77 | \$ 32,564.07 | |
| 16 | | | Annual Base Rent | \$ 1,448,893.02 | \$ 1,118,033.20 | |
| 17 | | | Monthly Base Rent | \$ 120,741.09 | \$ 93,169.43 | |
| 18 | Security Dep + Letter of Credit | | | \$ 440,000.00 | \$ 440,000.00 | |

| | Term: Jan- Nov 2004 | Annualized |
|----|---|--------------------|
| 19 | Months: 11 | |
| 20 | Net Income | 3,101 |
| 21 | +Interest (excluding: AR Financing & PP Leases) | - |
| 22 | +Income Taxes | - |
| 23 | +Cost Recovery (Deprec + Amortization) | 45,428 |
| 24 | +Base Rent | 1,450,000 |
| 25 | +Management Fees | - |
| 26 | EBITDARM | 1,498,811 |
| 27 | Imputed Costs: | |
| 28 | 2004 & 2005 Mgmt Fee 3% | 277,847 |
| 29 | 2006 Mgmt Fee 4% | |
| 30 | 2007 + Mgmt Fee 5% | |
| 31 | Replacement Reserves \$300 /Bed | \$72,000 |
| 32 | Imputed EBITDARM | 1,148,964 |
| | | HUD Refi Base Rent |
| 33 | Lease Coverage Ratio (Line 32/ Line 16) | 0.79 / 1.03 |

Version: 76
Date: 8/8/2005

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

recalculated in accordance with section 2.1.2 hereof and the resulting dollar amount shall then be adjusted to reflect the 2.5% annual adjustment compounded by the number of Lease Years since the Commencement Date of the Lease.

2.1.2 Base Rent and Impound Rent During HUD Loan. The Base Rent shall change at the time the Landlord pays off the Bridge Loan and replaces it with a "HUD Loan" or other long-term financing. The "Initial Base Rent During HUD Loan" is calculated as follows: Any additional investment (cash or equity) deposited into the escrow by Landlord in connection with the Closing of the HUD Loan will be added to the Landlord's Investment Base. Such amounts will include the cost of any additional due diligence reports, legal fees, cost of "locking" a specified interest rate for the HUD loan and all other required expenses. Deposits for locking the rate will not be added to Landlord's Investment Base if they are returned,

In addition to the sum of money required to provide Landlord with a Twelve Percent (12%) cash on cash return on its Investment Base, the Tenant will pay sufficient sums to pay principal and interest on the monthly loan payment to the HUD-insured Lender, as well as all MIP required under the HUD Loan. A sample calculation is shown in Article 1.4, "Sample Calculations" above.

If the mortgage securing the HUD Loan is not recorded on the first day of the month, the Base Rent During Bridge Loan and the Base Rent During HUD Loan and Impound Rent shall be prorated.

On the next Anniversary Date following recordation of the HUD Loan, the monthly Base Rent shall be adjusted to reflect the 2.5% annual increase.

2.1.3 Best Efforts to Obtain Lowest Interest Rate. Landlord will use its best efforts to obtain the lowest interest rate on the Bridge Loan and on the HUD Loan that are consistent with reasonable business practices of purchasers of skilled nursing care facilities.

2.1.4 Best Efforts to Expedite HUD Financing. Landlord, Tenant and the Corporate Guarantor will use their best efforts to obtain the HUD Loan as quickly as possible, consistent with HUD and Lender requirements and with reasonable business practices.

2.2 Base Rent Adjustment. The Base Rent shall be escalated as set forth in Sections 2.1.1 and 2.1.2, and shall also be adjusted in the following manner.

2.2.1 Adjustment for Changes in the Mortgage Payment, For MIP Requirements, and for Changes in Impound Requirements. In the event that the Base Rent is changed, the Landlord shall notify the Tenant in writing of the change,

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

any fractional month shall be prorated on a daily basis. Payments of Base Rent and Impound Rent to Landlord shall be made electronically, through the use of wire or other method approved by Landlord, in accordance with written directions to be furnished to Tenant by Landlord's Manager or other principal identified in writing by Landlord, or by such other method of payment and at such other place as Landlord may from time to time direct in writing. Rent shall be deemed paid when actually received by Landlord. All rent hereunder shall be due and payable without diminution or offset. Checks, if Landlord allows any to be used, shall be deemed payment only if cleared in the ordinary course. Payment may be made by check only if approved in writing by Landlord. During the time when the Leased Property is encumbered by a HUD Loan, if a default is declared by the Commissioner under the provisions of the Regulatory Agreement, a copy of notice of default shall be given to Tenant, and Tenant shall thereafter make all future payments under this Lease to the Commissioner.

2.5 Late Charge. Landlord and Tenant acknowledge and agree that it would be extremely difficult or impossible to determine the amount of actual damages Landlord would suffer as a result of Tenant's default in the timely payment of Base Rent and Additional Rent including Impound Amounts. Therefore, the Tenant agrees to pay the following late charge: any Rent not paid within five (5) business days after the date when due shall automatically and without notice bear a late payment charge in an amount equal to five percent (5%) of the amount that was due. Said amount shall be payable to Landlord as Additional Rent.

2.6 Additional Rent. All payments of money required to be made by Tenant by or on behalf of Landlord pursuant to the term of this Lease that are not included in Base Rent shall be deemed additional rent ("Additional Rent").

2.7 Net Net Net Lease. This Lease is intended to be a Net Net Net Lease in that it is the intention of the parties hereto that the rent payable to Landlord shall not be reduced by any cost or charge whatsoever, and that all expenses and charges, whether for upkeep, maintenance, insurance, real estate taxes, utilities, federal, state and municipal requirements, impounds, replacement reserve requirements including Monthly Payments for Impound Amounts, and other charges of a like nature or type or otherwise, except for Landlord's income taxes and franchise taxes, shall be paid by Tenant. This provision is not in derogation of the specific provisions of this Lease, but in expansion thereof and as an indication of the general intentions of the parties hereto.

ARTICLE 3: IMPOSITIONS AND UTILITIES

3.1 Payment of Impositions. Tenant shall pay, as Additional Rent, all Impositions that may be levied or become a lien on the Leased Property or any part thereof at any time (whether prior to or during the Term), without regard to prior ownership of said Leased Property.

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

of real estate or personal property assessments and Landlord, at Tenant's expense as aforesaid, shall fully cooperate with Tenant in such protest, appeal, or other action.

Tenant, on its own or on Landlord's behalf (or in Landlord's name), but at Tenant's expense, may contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Imposition or any Legal Requirement or Insurance requirement or any lien, attachment, levy, encumbrance, charge or claim provided that

[i] in the case of an unpaid Imposition, lien, attachment, levy, encumbrance, charge or claim for which an amount is owed by Tenant, the commencement and continuation of such proceedings shall suspend the collection thereof from Landlord and from the Leased Property (or such Imposition shall have been paid);

[ii] neither the Leased Property nor any Rent therefrom nor any part thereof or Interest therein would be in any immediate danger of being sold, forfeited, attached or lost;

[iii] in the case of a Legal Requirement, Landlord would not be in any immediate danger of civil or criminal liability for failure to comply therewith pending the outcome of such proceedings;

[iv] in the event that any such contest shall involve a sum of money or potential loss in excess of \$50,000.00, Tenant shall deliver to Landlord and its counsel an opinion of Tenant's counsel to the effect set forth in clauses [i], [ii] and [iii], to the extent applicable;

[v] in the case of a Legal Requirement and/or an Imposition, lien, encumbrance or charge, Tenant shall give such reasonable security as may be demanded by Landlord to insure ultimate payment of the same and to prevent any sale or forfeiture of the affected Leased Property or the Rent by reason of such nonpayment or noncompliance; provided, however, the provisions of this section shall not be construed to permit Tenant to contest the payment of Base Rent, Impound Amounts or Additional Rent (except as to contests concerning the method of computation or the basis of levy of any Imposition or the basis for the assertion of any other claim) or any other sums payable by Tenant to Landlord hereunder;

[vi] in the case of an insurance requirement, the coverage required by Article 4 shall be maintained; and

[vii] if such contest be finally resolved against Landlord or Tenant, Tenant shall, as Additional Rent due hereunder, promptly pay the amount required to be paid, together with all interest and penalties accrued thereon, or comply with the applicable Legal Requirement or Insurance requirement.

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

requirements of the Lender and HUD, insuring the Leased Property against the following:

4.1.1 Loss or damage commonly covered by a "Special Form" policy insuring against physical loss or damage to the Improvements and Personal Property, 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 policy shall be in the amount of the full replacement value of the Improvements and Personal Property and shall contain a deductible amount acceptable to Landlord. Landlord shall be named as an additional insured. The policy shall include a stipulated value endorsement or agreed amount endorsement and endorsements for contingent liability for operations of building laws, demolition costs, and increased cost of construction.

4.1.2 If applicable, loss or damage by explosion of steam boilers, pressure vessels, or similar apparatus, now or hereafter installed on the Leased Property, in commercially reasonable amounts acceptable to Landlord.

4.1.3 Consequential loss of rents and income coverage insuring against all "Special Form" risk of physical loss or damage with limits and deductible amounts acceptable to Landlord covering risk of loss during any reconstruction, and containing an endorsement for extended period of indemnity, which shall be written with a stipulated amount of coverage if available at a reasonable premium.

4.1.4 If the Leased Property is located, in whole or in part, in a federally designated 100-year flood plain area, flood insurance for the Improvements in an amount equal to the lesser of [I] the full replacement value of the Improvements; or [II] the maximum amount of insurance available for the Improvements under all federal and private flood insurance programs.

4.1.5 Loss or damage caused by the breakage of plate glass in commercially reasonable amounts acceptable to Landlord.

4.1.6 Loss or damage commonly covered by blanket crime insurance, including employee dishonesty, loss of money orders or paper currency, depositor's forgery, and loss of property of patients accepted by Tenant for safekeeping, in commercially reasonable amounts acceptable to Landlord, the Lender, and during the period when the Leased Property is encumbered by the HUD Loan, to HUD.

4.2 Liability Insurance. At Tenant's expense, Tenant shall maintain liability insurance in form and amount satisfactory to the Lender and during the time the Leased Property is encumbered with the HUD Loan, satisfactory to HUD, insuring the Landlord and the Tenant against the following:

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.

4.5 Employee Dishonesty Insurance. The Tenant shall maintain a policy of Employee Dishonesty Coverage which covers all of Tenant's employees. The policy shall have a coverage limit of in the dollar amount required by Lender or, if there is no specific Lender requirement, in the amount of Three Million Dollars (\$3,000,000) annual aggregate. Landlord will not require a fidelity bond unless required by the Lender.

4.6 Additional Insurance. Any other or additional insurance required pursuant to any mortgages or deeds of trust secured by the Leased Property.

4.7 Insurance Requirements. The following provisions shall apply to all Insurance coverages required hereunder:

4.7.1 The form and substance of all policies shall be subject to the approval of Landlord, which approval will not be unreasonably withheld.

4.7.2 The carriers of all policies shall have a Best's Rating of "A" or better and a Best's Financial Category of VIII or higher and shall be authorized to do insurance business in the State of Arizona.

4.7.3 Tenant shall be the "named insured" and Landlord shall be an "additional insured" on each policy.

4.7.4 Tenant shall deliver to Landlord certificates or policies showing the required coverages and endorsements. The policies of insurance shall provide that the policy may not be canceled or not renewed, and no material change or reduction in coverage may be made, without at least 30 days' prior written notice to Landlord.

4.7.5 The policies shall contain a severability of interest and/or cross liability endorsement, provide that the acts or omissions of Tenant or Landlord will not invalidate the coverage of the other party, and provide that Landlord shall not be responsible for payment of premiums.

4.7.6 All loss adjustment shall require the written consent of Landlord and Tenant, as their interests may appear.

4.7.7 At least 30 days prior to the expiration of each insurance policy, Tenant shall deliver to Landlord a certificate showing renewal of such policy and payment of the annual premium therefore and a current Certificate of Compliance (in the form delivered at the time of Closing) completed and signed by Tenant's insurance agent.

4.7.8 All liability policies shall be "occurrence" policies and not "claims made" policies, provided, however that the Landlord may, in its sole discretion, allow Tenant to purchase Claims Made policies if Landlord determines that occurrence

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

Improvements) to the Leased Property, Landlord may have such full replacement value redetermined at any time after such Permitted Alterations are made, regardless of when the full replacement value was last determined.

4.9 Blanket Policy. Notwithstanding anything to the contrary contained in this Article 4, Tenant may carry the insurance required by this Article under a blanket policy of insurance, provided that the coverage afforded Tenant will not be reduced or diminished or otherwise be different from that which would exist under a separate policy meeting all of the requirements of this Lease.

4.10 No Separate Insurance. Tenant shall not take out separate insurance concurrent in form or contributing in the event of loss with that required in this Article, or increase the amounts of any then existing insurance, by securing an additional policy or additional policies, unless all parties having an insurable interest in the subject matter of the insurance, including Landlord and any Lender, are included therein as additional insureds or loss payees, the loss is payable under said insurance in the same manner as losses are payable under this Lease, and such additional insurance is not prohibited by the existing policies of insurance. Tenant shall immediately notify Landlord of the taking out of such separate insurance or the increasing of any of the amounts of the existing insurance by securing an additional policy or additional policies.

4.11 Waiver of Subrogation. Each party hereto hereby waives any and every claim which arises or may arise in its favor and against the other party hereto during the Term for any and all loss of, or damage to, any of its property located within or upon, or constituting a part of, the Leased Property, which loss or damage is covered by valid and collectible insurance policies, to the extent that such loss or damage is recoverable under such policies. Said mutual waiver shall be in addition to, and not in limitation or derogation of, any other waiver or release contained in this Lease with respect to any loss or damage to property of the parties hereto. Inasmuch as the said waivers will preclude the assignment of any aforesaid claim by way of subrogation (or otherwise) to an insurance company (or any other person), each party hereto agrees immediately to give each insurance company which has issued to it policies of insurance, written notice of the terms of said mutual waivers, and to have such insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance coverage by reason of said waivers, so long as such endorsement is available at a reasonable cost.

4.12 Mortgages or Deeds of Trust. The following provisions shall apply: [i] Tenant shall obtain a standard form of lender's loss payable clause insuring the interest of the Lender; [ii] Tenant shall deliver evidence of insurance to such Lender; [iii] loss adjustment shall require the consent of the Lender; and [iv] Tenant shall provide such other information and documents as may be required by the Lender.

4.13 Escrows. After the occurrence and during the continuance of an Event of Default hereunder, Tenant shall make such periodic payments of insurance

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.

5.2 Notice of Claim. Landlord shall notify Tenant in writing of any claim or action brought against Landlord in which indemnity may be sought against Tenant pursuant to this section. Such notice shall be given in sufficient time to allow Tenant to defend or participate in such claim or action, but the failure to give such notice in sufficient time shall not constitute a defense hereunder nor in any way impair the obligations of Tenant under this section unless the failure to give such notice precludes Tenant's defense of any such action.

5.3 Survival of Covenants. The covenants of Tenant contained in this section shall remain in full force and effect after the termination of this Lease until the expiration of the period stated in the applicable statute of limitations during which a claim or cause of action may be brought. Tenant further covenants to pay in full or otherwise satisfy any such claim or cause of action and to pay all expenses and charges incurred by Landlord relating to the enforcement of the provisions herein specified.

5.4 Reimbursement of Expenses. Unless prohibited by law, Tenant hereby agrees to pay to Landlord all of the reasonable fees, charges and reasonable out of pocket expenses related to the Facility and required hereby, or incurred by Landlord in enforcing the provisions of this Lease.

5.5 Environmental Indemnity; Audits. Tenant hereby indemnifies and agrees to hold harmless Landlord, any successors to Landlord's interest in this Lease, and Landlord's and such successors' directors, officers, managing members, employees and agents from and against any losses, claims, damages (including consequential damages), penalties, fines, liabilities (including strict liability), costs (including cleanup and recovery costs), and expenses (including expenses of litigation and reasonable consultants' and attorneys' fees) incurred by Landlord or any other indemnitee or assessed against any portion of the Leased Property by virtue of any claim or lien by any governmental or quasi governmental unit, body, or agency, or any third party, for cleanup costs or other costs pursuant to any Environmental Law on account of any condition or occurrence taking place during Tenant's possession or right to possession of the Leased Property before or after the Commencement Date. Tenant's indemnity shall survive the termination of this Lease. Tenant shall assert on Landlord's behalf any claims that Tenant may have against any third party related to Tenant's possession of the Leased Property prior to the Commencement Date. Provided, however, Tenant shall have no indemnity obligation with respect to [i] Hazardous Materials first introduced to the Leased Property subsequent to the date that Tenant's occupancy of the Leased Property shall have fully terminated; or [ii] Hazardous Materials introduced to the Leased Property by Landlord, its agent, employees, successors or assigns. If at any time during the Term of this Lease any governmental authority notifies Landlord or Tenant of a violation of any Environmental Law or Landlord reasonably believes that a Facility may violate any Environmental Law, Landlord may require one or more environmental audits of such portion of the Leased Property, in such form, scope and substance as specified by Landlord, at Tenant's expense. Tenant shall, within 30 days after receipt of an invoice from Landlord,

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

THEREIN, LATENT OR PATENT, IT BEING AGREED THAT ALL SUCH RISKS ARE TO BE BORNE BY TENANT.

6.3 Conditions of Use and Occupancy. Tenant agrees that during the Term it shall use and keep the Leased Property in a careful, non-negligent manner that does not create a foreseeable risk of harm to third parties; not commit or suffer waste thereon; not use or occupy the Leased Property for any unlawful purposes; not use or occupy the Leased Property or permit the same to be used or occupied, for any purpose or business deemed extra-hazardous on account of fire or otherwise; keep the Leased Property in such repair and condition as may be required by the State Of Arizona or City of Tucson Department of Health, or other city, state or federal authorities, free of all cost to Landlord; not permit any acts to be done which will cause the cancellation, invalidation, or suspension of any insurance policy; and permit Landlord and its agents to enter upon the Leased Property at all reasonable times to examine the condition thereof. Landlord shall have the right to have an annual inspection of the Leased Property performed during normal business hours and, if the Tenant is in default, Tenant shall pay an inspection fee of \$1,500.00 plus Landlord's reasonable out of pocket expenses within 30 days after receipt of Landlord's invoice. Landlord shall make reasonable efforts not to interfere with or disrupt Tenant's business during such inspection, and any access by Landlord to patient records or medical records during such inspections shall be governed by patient confidentiality and privacy laws.

ARTICLE 7: MAINTENANCE AND MECHANICS' LIENS

7.1 Maintenance. Tenant shall maintain, repair, and replace the Leased Property, including, without limitation, all structural and nonstructural repairs and replacements to the roof, foundations, exterior walls, HVAC systems, equipment, parking areas, sidewalks, water, sewer and gas connections, pipes and mains. Tenant shall pay, as Additional Rent, the full cost of maintenance, repairs, and replacements and shall, if required by the Lender or by HUD, pay Impound Amounts for the purpose of defraying the cost of such repairs and replacements. Tenant shall maintain all drives, sidewalks, parking areas, and lawns on or about the Leased Property in a clean and orderly condition, free of accumulations of dirt, rubbish, tripping hazards and standing water. Tenant shall at all times maintain, operate and otherwise manage the Leased Property on a basis and in a manner consistent with similar properties that are maintained and operated in first-class condition. All repairs shall, to the extent reasonably achievable, be at least equivalent in quality to the original work or the property to be repaired shall be replaced. Tenant will not take or omit to take any action the taking or omission of which might materially impair the value or the usefulness of the Leased Property or any parts thereof for the Facility Uses. Tenant shall permit Landlord to inspect the Leased Property at all reasonable times, and while typically, Landlord will give Tenant reasonable advance notice of an inspection, Landlord is not required to do so, and if Landlord gives Tenant notice of maintenance problem areas and gives Tenant written notice thereof setting forth its concerns in

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.

If agreed upon by Landlord, Landlord shall request the Lender and, if applicable, HUD, to allow Tenant to pay for capital improvements and replacements from the Replacement Reserves.

Tenant shall pay for Replacement Reserves in such amounts as may be reasonably required by Landlord, the Lender or HUD. Withdrawals from the HUD Replacement Reserves shall be accounted for between Landlord and Tenant on a LIFO (Last in First Out) basis. Any interest earned on the HUD Replacement Reserves shall be allocated annually between Landlord and Tenant based upon the respective values of their contributions to the Replacement Reserve account, and each shall report its respective share for income tax purposes.

For example, if Landlord were to contribute \$100,000 to the Replacement Reserve Account, and if Tenant were to make monthly deposits totaling \$50,000, then (a) If Tenant were to withdraw \$40,000 for repairs, the funds in the account would belong \$100,000 to Landlord and \$10,000 to Tenant and the earned interest would be allocated accordingly; or (b) If under the same circumstances, Tenant were to withdraw \$60,000 from the account, then Landlord would own the entire \$90,000 in the account and the next reserve payments would be allocated to replace Landlord's deposit, before Tenant would again own any share of the deposit.

Landlord will reimburse Tenant for cosmetic upgrades to the interior of the facility in an amount not to exceed \$101,682. These funds are not to be used for HUD required repairs or upgrades but for cosmetic upgrades of the facility as approved in advance by the Landlord and HUD as HUD may require.

7.4 Mechanic's Liens. Tenant shall have no authority to permit or create a lien against Landlord's interest in the Leased Property, and Tenant shall post notices or file such documents as may be required to protect Landlord's interest in the Leased Property against liens. Tenant hereby agrees to defend, indemnify, and hold Landlord harmless from and against any mechanic's lien against the Leased Property by reason of work, labor, services or materials supplied or claimed to have been supplied on or to the Leased Property. Subject to Tenant's right to contest the same, Tenant shall remove, bond off, or otherwise obtain the release of any mechanic's lien filed against the Leased Property within 10 days after Tenant's receipt of notice of the filing thereof. Tenant shall pay all expenses in connection therewith, including, without limitation, damages, interest, court costs and reasonable attorneys' fees.

7.5 Replacements of Fixtures and Landlord's Personal Property. Tenant shall not remove Fixtures and Landlord's Personal Property from the Leased Property except to replace the Fixtures and Landlord's Personal Property with other new items of equal or better quality. Items being replaced by Tenant may be removed and shall become the property of Tenant and items replacing the same shall be and remain the property of Landlord. Tenant shall execute, upon written request from Landlord, any and all documents necessary to evidence Landlord's ownership of

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

cure provisions do not apply to any Event of Default otherwise specifically described in any other subsection of Section 8.1.

8.1.4 Tenant abandons or vacates the Leased Property or any material part thereof, ceases to operate the Facility, ceases to do business or ceases to exist for any reason for any one or more days, except during any period of repair or reconstruction after any damage thereto or destruction or condemnation thereof.

8.1.5 [i] The filing by Tenant or by any Corporate Guarantor of a petition under the Bankruptcy Code or the commencement of a bankruptcy or similar proceeding by Tenant or by any Guarantor; [ii] the failure by Tenant or by any Guarantor within sixty (60) days to dismiss an involuntary bankruptcy petition or other commencement of a bankruptcy, reorganization or similar proceeding against such party, or to lift or stay any execution, garnishment or attachment of such consequence as will impair its ability to carry on its operation at the Leased Property; [iii] the entry of an order for relief under the Bankruptcy Code in respect of Tenant or any Guarantor; [iv] any assignment by Tenant or by any Guarantor for the benefit of its creditors; [v] the entry by Tenant or by any Guarantor into an agreement of composition with its creditors; [vi] the approval by a court of competent jurisdiction of a petition applicable to Tenant or to any Guarantor in any proceeding for its reorganization instituted under the provisions of any state or federal bankruptcy, insolvency, or similar laws; [vii] appointment by final order, judgment, or decree of a court of competent jurisdiction of a receiver of a whole or any substantial part of the properties of Tenant or of any Guarantor (provided such receiver shall not have been removed or discharged within sixty (60) days of the date of his qualification).

8.1.6 [i] Any receiver, administrator, custodian or other person takes possession or control of any of the Leased Property and continues in possession for sixty (60) days; [ii] any writ against any of the Leased Property is not released within sixty (60) days; [iii] any judgment is rendered or proceedings are instituted against the Leased Property or Tenant which affect the Leased Property or any part thereof, which is not dismissed for 60 days (except as otherwise provided in this section); [iv] all or a substantial part of the assets of Tenant or any Guarantor are attached, seized, subjected to a writ or distress warrant, or are levied upon, or come into the possession of any receiver, trustee, custodian, or assignee for the benefit of creditors; [v] Tenant or any Guarantor is enjoined, restrained, or in any way prevented by court order, or any proceeding is filed or commenced seeking to enjoin, restrain or in any way prevent Tenant or any Guarantor from conducting all or a substantial part of its business or affairs; or [vi] except as otherwise permitted hereunder, a final notice of lien, levy or assessment is filed of record with respect to all or any part of the Leased Property or any property of Tenant located at the Leased Property and is not dismissed, discharged, or bonded off within thirty (30) days.

8.1.7 Any representation or warranty made by Tenant or by Guarantor in this Lease or any other document executed in connection with this Lease,

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

Tenant's appeal was unsuccessful and the judgment shall, in the opinion of Landlord, have a material effect on the ability of Tenant to operate the Facility.

8.1.15 Tenant fails to give Landlord notice not later than twenty four (24) hours after Tenant's receipt of a Notice of Immediate Jeopardy from any regulatory authority;

8.1.16 Tenant fails to give Landlord notice within five (5) calendar days of receiving notice of denial of payment for new admissions from any regulatory authority;

8.1.17 Tenant fails to cure or abate the cause of any Notice of Immediate Jeopardy or violation that could result in a denial of payment that is claimed by any regulatory authority within the time period permitted to cure or abate the violation;

8.1.18 Default or breach by any Guarantor under the Guaranty beyond the expiration of any applicable cure period contained therein;

8.1.19 Failure by Tenant to renew or replace the Letter of Credit, if any being held as the Security Deposit upon the expiration thereof;

8.1.20 Tenant violates any term, covenant or condition of Tenant's Regulatory Agreement with respect to the HUD Loan which violation is not cured within the time allowed by HUD.

8.2 Remedies. Upon the occurrence of an Event of Default under this Lease, and at any time thereafter until Landlord waives the default in writing or acknowledges cure of the default in writing, at Landlord's option, without declaration, notice of nonperformance, protest, notice of protest, notice of default, notice to quit or any other notice or demand of any kind, Landlord may exercise any and all rights and remedies provided in this Lease or any Lease Document or otherwise provided under law or in equity, including, without limitation, any one or more of the following remedies:

8.2.1 Landlord may re enter and take possession of the Leased Property without terminating this Lease, and lease the Leased Property for the account of Tenant, holding Tenant liable for all costs of Landlord in reletting the Leased Property and for the difference in the amount received by such reletting and the amounts payable by Tenant under the Lease.

8.2.2 Landlord may terminate this Lease by written notice to Tenant, exclude Tenant from possession of the Leased Property and use efforts to lease the Leased Property to others, holding Tenant liable for the difference in the amounts received from such reletting and the amounts payable by Tenant under this Lease.

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.

At Landlord's option, Tenant shall [i] provide Landlord a full accounting of all amounts received on account of Receivables with such frequency and in such form as Landlord may require, either with or without applying all collections on Receivables in payment of the Tenant's obligations to Landlord or [ii] deliver to Landlord on the day of receipt all such collections in the form received and duly endorsed by Tenant.

At Landlord's request, Tenant shall institute any action or enter into any settlement reasonably determined by Landlord to be reasonably necessary to obtain recovery or redress from any account debtor in default of Receivables. Landlord as a Secured Party within the meaning of Article 9 of the applicable Commercial Code may give notice of its security interest in the Receivables to any or all account debtors with instructions to make all payments on Receivables directly to Landlord, as Secured Party, thereby terminating Tenant's authority to collect Receivables, subject to the requirements of applicable law, the Intercreditor Agreement as it now exists or as it may hereafter be amended or novated and Article 22 of this Lease.

After terminating Tenant's authority to enforce or collect Receivables in accordance with this Lease, Landlord, as Secured Party, shall have the right to take possession of any or all Receivables and records thereof and is hereby authorized to do so, and only Landlord shall have the right to collect and enforce the Receivables.

Notwithstanding any other provision hereof, Landlord does not assume any of Tenant's obligations under any Receivable, and Landlord shall not be responsible in any way for the performance of any of the terms and conditions thereof by Tenant.

8.2.10 Without waiving any prior or subsequent Event of Default, Landlord may waive any Event of Default or, with or without waiving any Event of Default, remedy any default.

8.2.11 Landlord may enter and take possession of the Land or any portion thereof and the Facility without terminating this Lease and complete construction and renovation of the Improvements (or any part thereof) and perform the obligations of Tenant under the Lease Documents.

8.2.12 Landlord may apply, with or without notice to Tenant, for the appointment of a receiver ("Receiver") for Tenant or Tenant's business or for the Leased Property. Unless prohibited by law, such appointment may be made either before or after termination of Tenant's possession of the Leased Property, without notice, without regard to the solvency or insolvency of Tenant at the time of application for such Receiver and without regard to the then value of the Leased Property, and Landlord as Secured Party may be appointed as Receiver. After the occurrence and during the continuance of an Event of Default, Landlord shall be entitled to appointment of a receiver as a matter of right and without the need to make any showing other than the existence of an Event of Default. The Receiver shall have the power to collect the rents, income, profits and Receivables of the Leased Property

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 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

determines that any other amounts payable under this Lease are deemed to be interest, the Default Rent shall be adjusted to ensure that the aggregate interest payable under this Lease does not accrue at a rate in excess of the maximum legal rate.

8.6 Attorneys' Fees. Upon an Event of Default hereunder, Tenant shall pay all reasonable costs and expenses incurred by Landlord in enforcing or preserving Landlord's rights under this Lease, including, without limitation, [i] the fees, expenses, and costs of any litigation, appellate, receivership, administrative, bankruptcy, insolvency or other similar proceeding; [ii] reasonable attorney, paralegal, consulting and witness fees and disbursements; and [iii] the expenses, including, without limitation, lodging, meals, and transportation, of Landlord and its employees, agents, attorneys, and witnesses in preparing for litigation, administrative, bankruptcy, insolvency or other similar proceedings and attendance at hearings, depositions, and trials in connection therewith. All such reasonable costs, expenses, charges and fees payable by Tenant shall be deemed to be Additional Rent under this Lease.

8.7 Escrows and Application of Payments. As security for the performance of the Tenant's obligations hereunder, Tenant hereby assigns to Landlord all its right, title, and interest in and to all monies escrowed with Landlord under this Lease and all deposits with utility companies, taxing authorities and insurance companies; provided, however, that Landlord shall not exercise its rights hereunder unless an Event of Default has occurred and is continuing. Except as otherwise set forth herein, any payments received by Landlord under any provisions of this Lease during the existence or continuance of an Event of Default shall be applied to the Tenant's obligations hereunder in the order which Landlord may determine.

8.8 Remedies Cumulative. The remedies of Landlord herein are cumulative to and not in lieu of any other remedies available to Landlord at law or in equity. The use of any one remedy shall not be taken to exclude or waive the right to use any other remedy.

8.9 Waivers. Tenant waives [i] any right to a trial by jury in any action or proceeding arising out of or relating to this Lease, [ii] any objections, defenses, claims or rights with respect to the exercise by Landlord of any rights or remedies, [v] any right of redemption whether pursuant to statute, at law or in equity, [vi] all presentments, demands for performance, notices of nonperformance, protest, notices of protest, notices of dishonor, notices to quit and any other notice or demand of any kind, and [vii] all notices of the existence, creation or incurring of any obligation or advance under this Lease before or after this date.

8.10 Obligations Under the Bankruptcy Code. Upon filing of a petition by or against Tenant under the Bankruptcy Code, Tenant, as debtor and as debtor-in-possession, and any trustee who may be appointed with respect to the assets of or estate in bankruptcy of Tenant, agree to pay monthly in advance on the first day of each month, as reasonable compensation for the use and occupancy of the Leased

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.

9.2.2 If the Facility's Improvements are substantially destroyed during the final 18 months of the Initial Term or any Renewal Term, Landlord may elect to terminate this Lease with respect to the entire Leased Property and retain the insurance proceeds unless Tenant exercises its option to purchase as set forth in §9.2.4. If Landlord elects to terminate, Landlord shall give notice ("Termination Notice") of its election to terminate this Lease within 30 days after receipt of Tenant's notice of the damage. If Tenant does not exercise its option to purchase under §9.2.4 within 30 days after delivery of the Termination Notice, this Lease shall terminate on the 30th day after delivery of the Termination Notice. If this Lease is so terminated, Tenant shall be liable to Landlord for all Rent and all other obligations accrued under this Lease through the effective date of termination.

9.2.3 If the Facility's Improvements are substantially destroyed during the final 18 months of the Term and Landlord gives the Termination Notice, Tenant shall have the option to renew this Lease with respect to the entire Leased Property (but not any part thereof). Tenant shall give Landlord irrevocable notice of Tenant's election to renew within 30 days after delivery of the Termination Notice. If Tenant elects to renew, this Lease will be in effect for the balance of the then current Term. All other terms of this Lease shall be in accordance with Article 12. The Improvements will be restored by Tenant in accordance with the provisions of this Article 9 regarding partial destruction.

9.2.4 If the Facility's Improvements are substantially destroyed during the final 18 months of the Term and Landlord gives the Termination Notice, Tenant shall have the option to purchase the entire Leased Property (but not any part thereof). Tenant shall give Landlord notice of Tenant's election to purchase within 30 days after delivery of the Termination Notice. If Tenant elects to purchase the Leased Property, the Option Price will be determined in accordance with §12.2. All other terms of the option to purchase shall be in accordance with Article 12. Landlord shall hold the insurance proceeds until the closing of the purchase of the Leased Property and at closing shall deliver the proceeds to Tenant.

9.3 Partial Destruction. If the Facility's Improvements are not substantially destroyed, then Tenant shall comply with the provisions of §9.4 and Landlord shall make the insurance proceeds available to Tenant for such restoration.

9.4 Restoration. Tenant shall promptly repair, rebuild, or restore the damaged Leased Property, at Tenant's expense, so as to make the Leased Property at least equal in value to the Leased Property existing immediately prior to such occurrence and as nearly similar to it in character as is practicable and reasonable.

Before beginning such repairs or rebuilding, or letting any contracts in connection with such repairs or rebuilding, Tenant will submit for Landlord's approval, which approval Landlord will not unreasonably withhold or delay, plans and

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

requirements of the insurance rating organization, or similar body. Any remaining proceeds of insurance after such restoration will be Tenant's property.

9.5 Insufficient Proceeds. If the proceeds of any insurance settlement are not sufficient to pay the costs of Tenant's repair, rebuilding or restoration under §9.4 in full, Tenant shall deposit with Landlord at Landlord's option, and within 10 days of Landlord's request, an amount sufficient in Landlord's reasonable judgment to complete such repair, rebuilding or restoration. Tenant shall not, by reason of the deposit or payment, be entitled to any reimbursement from Landlord or diminution in or postponement of the payment of the Rent. } wow

9.6 Not Trust Funds. Notwithstanding anything herein or at law or equity to the contrary, none of the insurance proceeds paid to Landlord as herein provided shall be deemed trust funds, and Landlord shall be entitled to dispose of such proceeds as provided in this Article 9. Tenant expressly assumes all risk of loss, including a decrease in the use, enjoyment or value, of the Leased Property from any casualty whatsoever, whether or not insurable or insured against.

9.7 Landlord's Inspection. During the progress of such repairs or rebuilding, Landlord and its architects and engineers may, from time to time, inspect the Leased Property and will be furnished, if required by them, with copies of all contracts with contractors and design professionals, plans, shop drawings, and specifications relating to such repairs or rebuilding. Tenant will keep all plans, shop drawings, and specifications at the building, and Landlord and its architects and engineers may examine them at all reasonable times. If, during such repairs or rebuilding, Landlord and its architects and engineers determine that the repairs or rebuilding are not being done in accordance with the approved plans and specifications, Landlord will give prompt notice in writing to Tenant, specifying in detail the particular deficiency, omission, or other respect in which Landlord claims such repairs or rebuilding do not accord with the approved plans and specifications. Upon the receipt of any such notice, Tenant will cause corrections to be made to any deficiencies, omissions, or such other respect. Tenant's obligations to supply insurance, according to Article 4, will be applicable to any repairs or rebuilding under this section.

9.8 Landlord's Costs. Tenant shall, within 30 days after receipt of an invoice from Landlord, pay the reasonable costs, expenses, and fees of any architect or engineer employed by Landlord to review any plans and specifications and to supervise and approve any construction, or for any services rendered by such architect or engineer to Landlord as contemplated by any of the provisions of this Lease, or for any services performed by Landlord's attorneys in connection therewith.

9.9 No Rent Abatement. Rent will not abate pending the repairs or rebuilding of the Leased Property.

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

risk of loss, including a decrease in the use, enjoyment, or value, of the Leased Property from any Condemnation.

ARTICLE 11: TENANT'S PROPERTY

11.1 Tenant's Property. Tenant shall have the right to install, place, and use on the Leased Property such fixtures, furniture, equipment, inventory and other personal property in addition to the Personal Property that was on site on the Commencement Date as may be required or as Tenant may, from time to time, deem necessary or useful to operate the Leased Property for its permitted purposes. All fixtures, furniture, equipment, inventory, and other personal property installed, placed, or used on the Leased Property which is owned by Tenant or leased by Tenant from third parties is hereinafter referred to as "Tenant's Property". As of the Commencement Date, Tenant's Property shall include, without limitation, the Personal Property identified in Exhibit F, together with any and all replacements thereof. Notwithstanding anything else herein contained, the Landlord shall have the right to use the Facility name at the expiration or termination of this Lease or at any time that Landlord regains possession of the Leased Property because of a Tenant default.

11.2 Requirements for Tenant's Property. Tenant shall comply with all of the following requirements in connection with Tenant's Property:

11.2.1 Tenant shall, at Tenant's sole cost and expense, maintain, repair, and replace Tenant's Property.

11.2.2 Tenant shall, at Tenant's sole cost and expense, keep Tenant's Property insured against loss or damage by fire, vandalism and malicious mischief, sprinkler leakage, earthquake, and other physical loss perils commonly covered by fire and extended coverage, boiler and machinery, and difference in conditions insurance in an amount not less than 90% of the then full replacement cost thereof. Tenant shall use the proceeds from any such policy for the repair and replacement of Tenant's Property. The insurance shall meet the requirements of Section 4.

11.2.3 Tenant shall pay all taxes applicable to Tenant's Property.

11.2.4 If Tenant's Property is damaged or destroyed by fire or any other cause, Tenant shall have the right, but not the obligation to repair or replace Tenant's Property (unless the same is required for the operation of the Leased Property in compliance with Legal Requirements in which case Tenant shall be required to promptly repair or replace the same) unless Landlord elects to terminate this Lease pursuant to Section 9.2.2.

11.2.5 Unless an Event of Default or any event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default has

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.

12.1.2 If the Leased Property's Improvements are substantially destroyed during the final eighteen (18) months of the Term, Tenant must give a Purchase Notice within thirty (30) days after Landlord gives the Termination Notice pursuant to Section 9.2.4.

12.1.3 If the Leased Property is taken during the final eighteen (18) months of the Term by exercise of the right of eminent domain or by conveyance made in response to the threat of the exercise of such right, Tenant must give a Purchase Notice within thirty (30) days after delivery of the notice of Landlord's intent to terminate pursuant to Section 10.1.1.

12.1.4 Tenant shall have no right to exercise the Option to Purchase other than in accordance with this Article 12.

12.1.5 Nothing herein contained shall alter the Landlord's absolute right to sell all or any part of its Interest in the Leased Property. Any such sale shall be subject to Lease, including without limitation this Option to Purchase.

12.2 Option Price. The option price ("Option Price") will be Total Cost as of the Closing of the HUD Loan, compounded by Two Percent (2%) per annum. If Tenant exercises the Purchase Option and the Replacement Reserve Account's balance is less than the amount of Replacement Reserves funded by Landlord, Tenant shall reimburse the Landlord for the amount of Replacement Reserves funded by Landlord as part of the Option Price at Closing. In addition to the Option Price, Tenant shall pay all closing costs and expenses in connection with the transfer of the Leased Property to Tenant, including, but not limited to, the following: [a] real property conveyance or transfer fees or deed stamps; [b] title search fees, title insurance commitment fees, and title insurance premiums; [c] survey fees; [d] environmental assessment fees; [e] All of Tenant's financing costs; [f] recording fees; [g] fees of any escrow agent; [h] all amounts, costs, expenses, charges, Rent and other Items payable by Tenant to Landlord, payable but at that time unpaid by Tenant, including, but not limited to, enforcement costs as set forth in Article 8 on Defaults and [i] any prepayment penalty (punitive interest) and all other charges imposed on Landlord's loan that are charged by the Lender or by HUD. Landlord shall pay its own legal fees and brokerage commissions.

12.3 Condition of Property. If Tenant exercises the Option to Purchase, Tenant shall take the Leased Property in its then as-is condition, with all faults, known or unknown. Landlord shall have no obligation to make any disclosures to Tenant regarding the physical condition of the Leased Property or regarding its suitability for its intended purpose. Landlord shall convey and Tenant shall accept title to the Leased Property subject only to (1) all liens, encumbrances and other matters disclosed in Landlord's title insurance policy as of the date the Tenant exercises the Option to Purchase; (2) liens, if any, for Impositions not yet delinquent; (3) those mortgage liens or deeds of trust securing the HUD Loan as defined in this Lease and

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.

13.2 No Liens. Tenant shall not create, incur, or permit to exist any lien, charge, encumbrance, easement or restriction upon the Leased Property or any lien upon or pledge of any interest in Tenant, except for Permitted Liens. Tenant shall not assign, mortgage or encumber this Lease, in whole or in part, or sublet all or any part of the Premises without the prior written consent of Landlord and without the prior written consent of the Commissioner, which consent by either Landlord or the Commissioner may be given or withheld in their sole and unfettered discretion.

13.3 No Guaranties. Tenant shall not create, incur, assume, or permit to exist any guarantee of any loan or other indebtedness except for the endorsement of negotiable instruments for collection in the ordinary course of business. Landlord acknowledges that Avalon Health Care, Inc. is a guarantor and/or indemnitor under documents related to the Master Lease, the GECC Loan and the CapitalSource Finance LLC Loan.

13.4 No Transfer. Tenant shall not sell, lease, sublease, mortgage, convey, assign or otherwise transfer any legal or equitable interest in the Leased Property or any part thereof, except for transfers made in connection with any Permitted Lien or, subject to the terms of Article 16 on Assignments and Subleasing, leases to residents of the Leased Property.

13.5 No Dissolution. Tenant and Corporate Guarantor shall not dissolve, liquidate, merge, consolidate or terminate its existence or sell, assign, lease, or otherwise transfer (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired).

13.6 No Change in Management or Operation. Excluding a change resulting from Landlord's exercise of its remedies pursuant to Article 8 on Defaults of this Lease, no material change shall occur in the ownership of Tenant or Corporate Guarantor or in the management or licensed operation of the Facility; provided, however, that Tenant may make administrative changes at the Facility level in the ordinary course of business without Landlord's prior consent.

13.7 No Investments. Tenant shall not loan to any person or entity or hold evidence of indebtedness issued by any other person or entity, except for cash, cash balances temporarily invested in short term or money market securities or investment grade securities issued by an entity that is not an Affiliate of or subject to common ownership with such entity.

13.8 Contracts. Tenant shall not execute or modify any material contracts or agreements with respect to the Facility except for contracts and modifications approved by Landlord. Contracts made in the ordinary course of business and in an amount less than \$50,000.00 shall not be considered "material" for purposes of this paragraph.

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.

ARTICLE 14: AFFIRMATIVE COVENANTS

14.1 Perform Obligations. Tenant shall perform all of its obligations under this Lease, the Government Authorizations, the Permitted Exceptions, and all Legal Requirements. Tenant shall, during the term of this Lease, maintain, at its cost, in full force and effect, and reserve and promptly comply with all present and future laws, regulations, and rules applicable to the following:

14.1.1 The nursing care institution license authorizing the operation of the Facility as a skilled nursing facility (the "License");

14.1.2 All Medicare and Medicaid provider agreements associated with the operation of the skilled nursing facility ("Provider Agreements"); and

14.1.3 All Certificates of Need, if any, with respect to the Facility ("Certificates of Need").

14.2 Proceedings to Enjoin or Prevent Construction. If any proceedings are filed seeking to enjoin or otherwise prevent or declare invalid or unlawful Tenant's construction, occupancy, maintenance, or operation of the Facility or any portion thereof, Tenant will cause such proceedings to be vigorously contested in good faith, and in the event of an adverse ruling or decision, prosecute all allowable appeals therefrom, and will, without limiting the generality of the foregoing, resist the entry or seek the stay of any temporary or permanent injunction that may be entered, and use its commercially reasonable efforts to bring about a favorable and speedy disposition of all such proceedings and any other proceedings.

14.3 Documents and Information.

14.3.1 Furnish Documents. Tenant shall periodically during the term of the Lease deliver to Landlord the Annual Financial Statements, Periodic Financial Statements, Annual Facility Budget, Annual Company Budget and all other documents, reports, schedules and copies described in this Article within the specified time periods.

14.3.1.1 Annual and Quarterly Facility Financial Statements will include an income statement, balance sheet statements of cash flows, occupancy reports, and payor mix with actual vs. budget.

14.3.1.2 Copies of Cost Reports filed with Medicare, Medicaid or any other state agencies must be sent to Landlord within five (5) Business Days of filing.

14.3.1.3 Annual audited financial statements of the Corporate Guarantor are due within One Hundred Twenty (120) days after Fiscal Year End. Unaudited financial statements of Tenant and any Individual Guarantor are due within

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.

14.3.2 Furnish Information. Tenant shall [i] promptly supply Landlord and the Commissioner with such information concerning its financial condition, affairs and property as Landlord may reasonably request or HUD may request from time to time hereafter; [ii] promptly notify Landlord in writing of any condition or event that constitutes a breach or event of default of any term, condition, warranty, representation, or provision of this Lease or any other agreement, and of any material adverse change in its financial condition; [iii] maintain a standard and modern system of accounting; [iv] permit Landlord or the Commissioner or any of their agents or representatives to have access to and to examine all of its books and records regarding the financial condition of the Facility at any time or times hereafter during business hours and after reasonable oral or written notice; and [v] permit Landlord to copy and make abstracts from any and all of said books and records.

14.3.3 Further Assurances and Information. Tenant shall, on request of Landlord from time to time, execute, deliver, and furnish documents as may be necessary to fully consummate the transactions contemplated under this Lease. Within fifteen (15) days after a request from Landlord, Tenant shall provide to Landlord such additional information regarding Tenant, Tenant's financial condition, or the Facility as Landlord, or any existing or proposed creditor of Landlord, or any auditor or underwriter of Landlord, may reasonably require from time to time, including, without limitation, a current Tenant's Certificate and Facility Financial Report in the format of Exhibits D and E, or in such other format as shall be reasonably requested in writing by Landlord or by any underwriter or auditor of Landlord. From and after the occurrence and during the continuance of an Event of Default, upon Landlord's request, but not more than once every three years, Tenant shall provide to Landlord, at Tenant's expense, an appraisal prepared by an MAI appraiser setting forth the current fair market value of the Leased Property.

At any time that Tenant has committed an Event of Default as described in Article 8 hereof, Landlord may require the Tenant to furnish the Landlord with the following additional financial information:

1. Quarterly Variance Report for the Facility, including occupancy, census, capital expenditures and operating revenues and expenses by line item with a detailed explanation of the cause of all material variances from the Annual Facility Budget (i.e., more than 10% for that line item) and a description of Tenant's plans for eliminating all material variances – within 45 days after the end of each quarter.
2. Quarterly Update to Annual Company Budget (on a 12 month rolling forward period) – within forty-five (45) days after the end of each quarter.
3. Facility information: [i] a security deposit report, including resident name, date of move in, security deposit, and corresponding security deposit bank account balance, with a monthly update of any changes; [ii] a report accounting for all resident trust funds, including corresponding trust fund deposit bank accounts; [iii] a

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

the ADA, and Landlord shall have no responsibility for such compliance. Tenant shall fully comply with the provisions of (a) any State or local laws prohibiting discrimination in housing on the basis of race, color, creed or national origin, and (b) with the Regulations of the Federal Housing Administration providing for non-discrimination and equal opportunity in housing. It is understood and agreed that failure or refusal to comply with any such provisions shall be a proper basis for the Commissioner to take any corrective action he may deem necessary including, but not limited to, the refusal to consent to a further renewal of the Lease between Landlord and Tenant, the rejection of applications for FHA mortgage insurance, and the refusal to enter into future contracts of any kind with which Tenant is identified, and further, the Commissioner shall have a similar right of corrective action (a) with respect to any individuals who are officers, directors, managers, members, partners or principal stockholders of Tenant, and (b) with respect to any other type of business association or organization with which the officers, directors, trustees, managers, partners, associates or principal stockholders of Tenant may be identified.

14.5 Broker's Commission. Neither Landlord nor Tenant knows of any brokerage or finder's fees or commissions which will be payable in connection with execution or consummation of the transactions contemplated hereby except for a finder's fee to Capital Funding Group and assignment fees to Phil Eyring, Eyring Realty, Inc., Mohr Financial and William P. Mohr, which assignment fees shall be paid by investors who will form the Limited Liability Company that is the Landlord. Except as provided herein, Landlord and Tenant shall each indemnify and defend the other from claims of brokers and finders for commissions arising out of the indemnifying party's conduct or representations.

14.6 Existence and Change in Ownership. Tenant and each Guarantor that is not a natural person shall maintain its existence throughout the term of this Lease. Any change in the ownership of Tenant, directly or indirectly, shall require Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion. Any change in ownership of Corporate Guarantor requires Landlord's prior written consent, which may be given or withheld in Landlord's sole discretion. Landlord has pre-approved a one-time transfer of up to 40% of the ownership interest in the Corporate Guarantor to employee shareholders.

14.7 Facility Licensure and Certification. Tenant shall [i] give written notice to Landlord within five days after an inspection of the Facility with respect to health care licensure or certification has occurred; and [ii] deliver to Landlord copies of each of the reports, notices, correspondence and all other items and documents listed under Article 14.3 within five days after receipt thereof. Tenant acknowledges that it has reviewed Article 14.3 and agrees to the foregoing obligation. If Tenant receives a Facility survey or inspection report with material deficiencies, notice of failure to comply with a plan of correction or an HIPDB adverse action report, Tenant shall cure all deficiencies and implement all corrective actions within the earlier

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

and be construed as an absolute assignment for purposes of vesting in Landlord (or Landlord's designee) all of Tenant's right, title, and interest in and to the following, to the extent assignable by law:

- 14.8.2.1** the License;
- 14.8.2.2** the Facility name;
- 14.8.2.3** inventory required to operate the Facility;
- 14.8.2.4** each of the Provider Agreements;
- 14.8.2.5** each of the Certificates of Need;
- 14.8.2.6** all documents, charts, personnel records, patient records, and other documents relating to the Facility or operations at the Facility;

14.8.2.7 all existing agreements with patients and residents of the Facility and any guarantors of such agreements and any and all patient trust fund accounts;

14.8.2.8 Subject to obligations under any of Tenant's leases or other financing arrangements, then all hardware, software and data shall be left intact at the Leased Property. Tenant shall also leave all computer systems connected to Tenant's network for a period of one hundred twenty (120) days after the expiration or earlier termination of the Lease or Tenant's right to possession of the Leased Property. In such event, Tenant shall also make any data or records relating to the past operation of the Leased Property accessible to the Landlord and to any new operator of the Facility in order to facilitate the orderly operation of the Facility in a manner which protects the health, welfare and care of the Facility's patients;

14.8.2.9 Pursuant to 42 C.F.R. §§ 422.14(a) and 489.18(c), any Replacement Operator shall be assigned Tenant's Medicare provider agreement and state Medicaid provider agreement. Tenant agrees to provide such letters, verifications and other documents to Landlord or to the Replacement Operator designated by Landlord and to the Facility State's Medicaid agency as are necessary to effect the transfer. The Tenant acknowledges that the Landlord's replacement tenant may bill both Medicare and the Facility State's Medicaid agency for services furnished to the Facility residents who qualify for benefits under either program after the date that the Tenant ceases to operate the Facility.

14.8.2.10 Tenant shall make available to Landlord and to any Replacement Operator all personal property and inventory used in operating the Facility. If Tenant is in default at the time of the transfer of possession of the Leased Property, Landlord shall be entitled to seize such personal property and inventory as

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

determined by Landlord. Tenant shall pay a Security Deposit, in the total amount of Four Hundred Forty Thousand Dollars (\$440,000), less the Thirty Thousand Dollar (\$30,000) Tenant's Initial Deposit. The Security Deposit may consist of cash plus a Letter of Credit, in form satisfactory to Landlord and issued by a financial institution acceptable to Landlord. In addition, at Close, Tenant shall be responsible to pay Landlord the first month's Base Rent, plus, as Additional Rent, prorated taxes, including but not limited to real property taxes and personal property taxes, as well as all insurance premiums for the insurance required by this Lease, including prepayment of a full year of insurance premiums for the insurance required by Article 4 hereof and payments into the insurance impound described in Article 3 hereof, plus all other start up costs that are necessary and/or that are required by Landlord or by the Lender.

14.11 Capital Expenditures. Tenant shall pay for all Critical and Non-Critical Repairs Identified in physical condition reports concerning the Facility that are required by the Lender or by HUD. These expenditures shall be made according to a schedule required by Landlord, the Lender or HUD. Tenant may access funds assigned by the Seller to Landlord for the purpose of paying for these Capital Expenditures, with Landlord's consent, but if such funds are insufficient to pay for all of the required critical and non-critical repairs, Tenant shall be solely responsible for any remaining costs, and for paying for any deposit or impound for such repairs that may be required by the Lender or by HUD.

14.12 Cooperation with Lender Requirements. Tenant hereby covenants and agrees to cooperate with Landlord by executing and complying with any security agreements or other Lender requirements established by Landlord's Lender(s), including any agreement requiring a portion of the Base Rent and or the Impound Rent due hereunder to be paid directly to the Lender for the account of Landlord. Tenant shall perform all duties required of Tenant by the Lender and/or by the Federal Housing Authority ("FHA") and/or by the U.S. Department of Housing and Urban Development ("HUD"). Tenant agrees to execute the Tenant Regulatory Agreement in form and content acceptable to the Commissioner, and Tenant agrees to comply at all times with the terms of same. Such duties may include, but are not limited to, procurement of a Fidelity Bond, at Tenant's sole cost and expense, in an amount required by the Lender, FHA and/or by HUD. Tenant shall also pay for and provide audited financial statements in the form required by the Lender and/or by FHA or HUD, and shall pay any other costs required in connection with HUD's audit rights. The Leased Property and the books, records, documents and other papers relating to the Facility and its operation shall, at all times be maintained by Tenant in reasonable condition for proper audit and subject to examination and inspection at any reasonable time by the Commissioner or his/her duly authorized agents. Tenant shall keep copies of all written contracts or instruments which affect the Facility at the Facility, all of which may be subject to inspection and examination by the Commissioner or his/her duly authorized agent. Tenant shall also allow inspections of the Leased Premises and of the Tenant's books and records by the Lender and by HUD. The cost of all of these obligations shall be deemed Additional Rent. Landlord and the Commissioner shall be furnished by Tenant,

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.

15.2 Approval of Alterations. If Tenant desires to perform any Permitted Alterations, Tenant shall deliver to Landlord plans, specifications, drawings, the proposed form of contract with the general contractor, and such other information as may be reasonably requested by Landlord (collectively the "Plans and Specifications"), prepared by an appropriate design professional licensed to practice in the State of Arizona, showing in reasonable detail the scope and nature of the Alterations that Tenant desires to perform. It is the intent of the parties hereto that the level of detail shall be comparable to that which is referred to in the architectural profession as "design development drawings" as opposed to working or biddable drawings. Landlord agrees not to unreasonably delay its review of the Plans and Specifications. Within thirty (30) days after receipt of an invoice, Tenant shall reimburse Landlord for all costs and expenses incurred by Landlord in reviewing and, if required, approving or disapproving the Plans and Specifications, inspecting the Leased Property, and otherwise monitoring compliance with the terms of this Article 15. Tenant shall comply with the requirements of Section 15.4 in making any Permitted Alterations.

15.3 Permitted Alterations. Permitted Alterations means any one of the following: [i] Alterations approved by Landlord; [ii] Alterations required under Section 7.3; [iii] Alterations having a total cost of less than \$25,000.00; or [iv] repairs, rebuilding and restoration required or undertaken pursuant to Section 9.4.

15.4 Requirements for Permitted Alterations. Tenant shall comply with all of the following requirements in connection with any Permitted Alterations:

15.4.1 The Permitted Alterations shall be made in accordance with the approved Plans and Specifications.

15.4.2 The Permitted Alterations and the installation thereof shall comply with all applicable legal requirements and insurance requirements. The Tenant shall provide the Landlord with a written copy of any required building permit at least five days prior to commencing construction. Tenant shall cause the general contractor and the design professional of record to name the Landlord and the Lender as additional insureds at no cost to Landlord and Lender. Tenant shall provide the Landlord with the declarations page of the general contractor's commercial general liability insurance policy and with the declarations page of the design professional's professional liability policy no later than five days prior to commencement of construction. Tenant shall contractually require the general contractor and the design professional of record to carry workers' compensation insurance as required by law, and to carry liability insurance with a coverage amount satisfactory to Landlord.

15.4.3 The Permitted Alterations shall be done in a good and workmanlike manner, shall not impair the value or the structural integrity of the Leased Property, and shall be free and clear of all mechanic's liens.

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.

15.7 Signs. Tenant may, at its own expense, erect and maintain identification signs at the Leased Property, provided such signs comply with all laws, ordinances, and regulations. Upon the termination or expiration of this Lease, Tenant shall, within thirty (30) days after notice from Landlord, remove the signs and restore the Leased Property to its original condition.

ARTICLE 16: ASSIGNMENT AND SALE OF LEASED PROPERTY

16.1 Prohibition on Assignment and Subletting. Tenant acknowledges that Landlord has entered into this Lease in reliance on the personal services and business expertise of Tenant. Except as provided herein, Tenant may not assign, sublet, mortgage, hypothecate, pledge, grant a right of first refusal or transfer any interest in this Lease, or in the Leased Property, in whole or in part, without the prior written consent of Landlord and the Commissioner, which Landlord or the Commissioner may withhold in its sole and absolute discretion. The following transactions will be deemed an assignment or sublease requiring Landlord's prior written consent: [i] an assignment by operation of law; [ii] an imposition (whether or not consensual) of a lien, mortgage, or encumbrance upon Tenant's interest in the Lease other than in favor of Landlord; [iii] an arrangement (including, but not limited to, management agreements, concessions, licenses, and easements) specifically excluding any management agreement entered into by Tenant with an Affiliate of Tenant which allows the use or occupancy of all or part of the Leased Property by anyone other than Tenant; and [iv] any change of ownership of Tenant. Landlord's consent to any assignment, right of first refusal or sublease will not release Tenant (or any guarantor) from its payment and performance obligations under this Lease, but rather Tenant, each guarantor, and Tenant's assignee or sublessee will be jointly and severally liable for such payment and performance. An assignment, right of first refusal or sublease without the prior written consent of Landlord will be void at Landlord's option. Landlord's consent to one assignment, right of first refusal or sublease will not waive the requirement of its consent to any subsequent assignment or sublease.

16.2 Requests for Landlord's Consent to Assignment, Sublease or Management Agreement. If Tenant is required to obtain Landlord's consent to a specific assignment, sublease, or management agreement, Tenant shall give Landlord [i] the name and address of the proposed assignee, subtenant or manager; [ii] a copy of the proposed assignment, sublease or management agreement; [iii] reasonably satisfactory information about the nature, business and business history of the proposed assignee, subtenant, or manager and its proposed use of the Leased Property; and [iv] banking, financial, and other credit information, and references about the proposed assignee, subtenant or manager sufficient to enable Landlord to determine the financial responsibility and character of the proposed assignee, subtenant or manager. Any assignment, sublease or management agreement shall contain provisions to the effect that [a] such assignment, sublease or management agreement is subject and subordinate to all of the terms and provisions of this Lease and to the rights of Landlord and that the assignee, subtenant or manager shall comply with all

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.

16.4 Sale of Leased Property. If Landlord or any subsequent owner of the Leased Property sells the Leased Property, its liability for the performance of its agreements in this Lease will end on the date of the sale of the Leased Property, and Tenant will look solely to the purchaser for the performance of those agreements. For purposes of this section, any holder of a mortgage or security agreement which affects the Leased Property at any time, and any landlord under any lease to which this Lease is subordinate at any time, will be a subsequent owner of the Leased Property when it succeeds to the interest of Landlord or any subsequent owner of the Leased Property.

16.5 Assignment by Landlord. Landlord may transfer, assign, mortgage, collaterally assign, or otherwise dispose of Landlord's interest in this Lease or the Leased Property. Any such sale, transfer, assignment, mortgage, collateral assignment or other disposition shall be pursuant to this Lease unless otherwise agreed by Tenant, and shall be subject to Tenant's Option to Purchase.

ARTICLE 17: HOLDOVER AND SURRENDER

17.1 Holding Over. If Tenant, with or without the express or implied consent of Landlord, continues to hold and occupy the Leased Property (or any part thereof) after the expiration of the Term or earlier termination of this Lease (other than pursuant to Tenant's purchase of the Leased Property), such holding over beyond the Term and the acceptance or collection of Rent in the amount specified below by Landlord shall operate and be construed as creating a tenancy from month to month and not for any other term whatsoever. Said month to month tenancy may be terminated by Landlord by giving Tenant ten (10) days' written notice, and at any time thereafter Landlord may re enter and take possession of the Leased Property. During any such holdover tenancy, Tenant shall pay Rent for each month in an amount equal to the sum of [i] one and one half (1½) times the Base Rent payable during the month in which such expiration or termination occurs, plus [ii] all Additional Rent accruing during the month, plus [iii] any and all other sums payable by Tenant pursuant to this Lease. During any holdover tenancy after the expiration of the Term or earlier termination of this Lease, Tenant shall be obligated to perform and observe all of the terms, covenants and conditions of this Lease, but shall have no rights hereunder other than the right, to the extent given by applicable law, to continue its occupancy and use of the Leased Property until the tenancy is terminated. Nothing contained herein shall constitute the consent, express or implied, of Landlord to the holding over of Tenant after the expiration or earlier termination of this Lease.

17.2 Surrender. Except for [i] Permitted Alterations; [ii] normal and reasonable wear and tear (subject to the obligation of Tenant to maintain the Leased Property in good order and repair during the Term); and [iii] damage and destruction not required to be repaired by Tenant, Tenant shall surrender and deliver up the Leased Property at the expiration or termination of the Term in as good order and condition as of the Commencement Date.

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

Issuer acceptable to Landlord within thirty (30) days after written notice from Landlord to Tenant of the occurrence of any of the following: [i] Notice from the Issuer that the Letter of Credit will not be extended for an additional one year period; [ii] The Laclede Financial Corporation rating (or rating of a comparable rating service) of the Issuer is less than "C+" (or the comparable rating of such other rating service); [iii] The admission by Issuer in writing of its inability to pay its debts generally as they become due, or Issuer's filing of a petition in bankruptcy or petitions to take advantage of any insolvency act, making an assignment for the benefit of its creditors, consenting to the appointment of a receiver of itself or of the whole or any substantial part of its property, or filing a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law, regulation, or statute of the United States of America or any state thereof or [iv] Issuer is at any time determined by a court of competent jurisdiction not to be at least "adequately capitalized," as that term is defined and used in the "Prompt Corrective Action" statute, 12 U.S.C. §1831, and implementing regulations. Tenant's failure to comply with the requirements of this section shall be an immediate Event of Default without any notice (other than as provided for in this section), cure or grace period. Upon such Event of Default, Landlord shall be entitled to draw upon the Letter of Credit and Landlord may, solely at its option and without any obligation to do so, require Tenant to obtain a replacement Letter of Credit satisfactory to Landlord with the Letter of Credit proceeds made available to Tenant solely to secure Tenant's reimbursement obligation for the replacement Letter of Credit.

18.4 Draws. Landlord may draw cash from the Security Deposit or may draw under the Letter of Credit upon the occurrence and during the continuance of an Event of Default hereunder. Any such draw shall not cure an Event of Default unless the amount drawn shall be sufficient to completely cure the default. The proceeds from the Letter of Credit ("LC Proceeds") shall be the sole property of Landlord and may be used, retained and invested by Landlord without restriction or limitation. Landlord shall have no obligation to account for its use of the LC Proceeds and Tenant shall have no interest in or claim against the LC Proceeds. Landlord shall have the right and option, but not the obligation, to apply all or any portion of the LC Proceeds to pay all or any portion of [i] all Rent and other charges and expenses payable by Tenant under this Lease; plus [ii] all reasonable expenses and costs incurred by Landlord in enforcing or preserving Landlord's rights under this Lease or any security for the Lease, including, without limitation, [a] the fees, expenses, and costs of any litigation, appellate, receivership, administrative, bankruptcy, insolvency, or other similar proceeding; [b] attorney, paralegal, consulting and witness fees and disbursements; and [c] the expenses, including, without limitation, lodging, meals and transportation of Landlord and its employees, agents, attorneys, and witnesses in preparing for litigation, administrative, bankruptcy, insolvency, or similar proceedings and attendance at hearings, depositions, and trials in connection therewith.

18.5 Partial Draws. Upon the occurrence of a monetary Event of Default under this Lease, Landlord may, at its option, make a partial draw from the

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

lease or underlying lease, first mortgage, first deed of trust, or other first lien against the Leased Property, together with any renewal, consolidation, extension, modification or replacement thereof, which now or at any subsequent time affects the Leased Property or any interest of Landlord in the Leased Property, except to the extent that any such instrument expressly provides that this Lease is superior. Tenant shall execute an agreement to subordinate this Lease to the HUD Regulatory Agreement if requested to do so by Landlord. The Lease and all estates, rights, options, liens and charges therein contained or created under the Lease are and shall be subject and subordinate to the lien of (i) the Mortgage on the Landlord's interest in the Premises in favor of Mortgagee insofar as it affects the real and personal property comprising the Premises or located thereon or therein, and to all renewals, modifications, consolidations, replacements and extensions thereof, and to all advances made or to be made thereunder, to the full extent of amounts secured thereby and interest thereon, (ii) that certain Regulatory Agreement for Multifamily Housing Projects between Landlord and the U.S. Department of Housing and Urban Development which will be recorded against the Premises, and (iii) that certain Regulatory Agreement Nursing Homes between Tenant and the U.S. Department of Housing and Urban Development which will also be recorded against the Premises. The foregoing subordination provision is expressly conditioned upon any lessor or mortgagee being obligated and bound to recognize Tenant as the tenant under this Lease, and such lessor or mortgagee shall have no right to disturb Tenant's possession, use and occupancy of the Leased Property or Tenant's enjoyment of its rights under this Lease except as allowed by any HUD Regulatory Agreement executed in connection with the financing of a HUD Loan secured by a mortgage or deed of trust on the Leased Property unless and until an Event of Default occurs hereunder. Any foreclosure action or proceeding by any mortgagee with respect to the Leased Property shall not affect Tenant's rights under this Lease and shall not terminate this Lease unless and until an Event of Default occurs hereunder. The foregoing provisions will be self operative, and no further instrument will be required in order to effect them. However, Tenant shall execute, acknowledge and deliver to Landlord, at any time and from time to time upon demand by Landlord, such documents as may be requested by Landlord or any Lender, to confirm or effect any such subordination, provided that any such document shall include a nondisturbance provision as set forth in this section satisfactory to Tenant. Any Lender shall be deemed to be bound by the nondisturbance provision set forth in this section.

19.3 Attornment. If any holder of any mortgage, indenture, deed of trust, or other similar instrument described in Section 19.2 succeeds to Landlord's interest in the Leased Property, Tenant will pay to such holder all Rent subsequently payable under this Lease. Tenant shall, upon request of anyone succeeding to the interest of Landlord, automatically become the tenant of, and attorn to, such successor in interest without changing this Lease. The successor in interest will not be bound by [i] any payment of Rent for more than one month in advance; [ii] any amendment or modification of this Lease thereafter made without its consent as provided in this Lease; [iii] any claim against Landlord arising prior to the date on which the successor

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

necessary to authorize the execution, delivery and performance of its obligations under this Lease.

20.3 Enforceability. This Lease constitutes a legal, valid, and binding obligation of Tenant, enforceable in accordance with its terms, except as such enforceability may be limited by creditors' rights laws and general principles of equity.

20.4 Government Authorizations. Tenant holds, and as of the Commencement Date, will hold all Government Authorizations that are required to be held by the Tenant to operate the Facility.

20.5 Financial Statements. Tenant has furnished Landlord with true, correct, and complete copies of the Financial Statements; provided, however, with respect to any Financial Statements prepared by the Seller, Tenant's representation set forth herein shall be limited to the best of Tenant's knowledge. The Financial Statements fairly present the financial position of Tenant and Guarantor as applicable, as of the respective dates and the results of operations for the periods then ended in conformance with generally accepted accounting principles applied on a basis consistent with prior periods; provided, however, with respect to any Financial Statements prepared by the Seller, Tenant's representation set forth herein shall be limited to the best of Tenant's knowledge. The Financial Statements and other information furnished to Landlord are true, complete and correct and, as of the Commencement Date, no material adverse change has occurred since the furnishing of such statements and information; provided, however, with respect to any Financial Statements prepared by the Seller, Tenant's representation set forth herein shall be limited to the best of Tenant's knowledge. As of the Commencement Date, the Financial Statements and other information do not contain any untrue statement or omission of a material fact and are not misleading in any material respect; provided, however, with respect to any Financial Statements prepared by the Seller, Tenant's representation set forth herein shall be limited to the best of Tenant's knowledge. Tenant and each Guarantor are solvent, and no bankruptcy, insolvency, or similar proceeding is pending or contemplated by or, to the knowledge of Tenant, against Tenant or any Guarantor.

20.6 Compliance with Laws. To the best of Tenant's knowledge, there is no violation of, or noncompliance with, [i] any laws, orders, rules or regulations, ordinances or codes of any kind or nature whatsoever relating to the Facility or the ownership or operation thereof (including, without limitation, building, fire, health, occupational safety and health, zoning and land use, planning and environmental laws, laws pertaining to use and disposal of toxic substances, orders, rules and regulations); [ii] any covenants, conditions, restrictions or agreements affecting or relating to the ownership, use or occupancy of the Facility; [iii] any order, writ, regulation or decree relating to any matter referred to in [i] or [ii] above; and [iv] Tenant and/or its Affiliate(s) have maintained all patient trust funds in accordance with all applicable laws, rules and regulations.

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

instruments submitted to Landlord, including, without limitation, all agreements relating to management of the Facility, the Letter of Credit, and Tenant's working capital are true, correct and complete copies and include all amendments and modifications of such agreements.

20.11 Other Name or Entities. Except as disclosed herein, none of Tenant's business is conducted through any subsidiary, unincorporated association or other entity and Tenant has not, within the six years preceding the date of this Lease [i] changed its name, [ii] used any name other than the name stated herein, [iii] merged or consolidated with, or acquired any of the assets of, any corporation or other business except for the rights of Avalon Health Care, Inc. to enter into the leasehold interest for the Leased Property, or [iv] reorganized or otherwise changed its respective Organization State.

20.12 Parties in Possession. Except as disclosed on Exhibit B and except for the residents of the Facility, there are no parties in possession of any Leased Property or any portion thereof as managers, lessees, tenants at sufferance, or trespassers.

20.13 Access. Access to the Land is directly from a dedicated public right of way without any easement. To the knowledge of Tenant, there is no fact or condition which would result in the termination or reduction of the current access to and from the Land to such right of way.

20.14 Utilities. There are available at the Land gas, municipal water, and sanitary sewer lines, storm sewers, electrical and telephone services in operating condition which are adequate for the operation of the Facility at a reasonable cost. The Land has direct access to utility lines located in a dedicated public right of way without any easement. As of the Commencement Date, there is no pending or, to the knowledge of Tenant, threatened governmental or third party proceeding which would impair or result in the termination of such utility availability.

20.15 Condemnation and Assessments. As of the Commencement Date, the Tenant has not received notice of, and there are no pending or, to the best of Tenant's knowledge, threatened, condemnation, assessment or similar proceedings affecting or relating to the Facility, or any portion thereof, or any utilities, sewers, roadways or other public improvements serving the Facility.

20.16 Zoning. As of the Commencement Date, [i] the use and operation of the Facility for the Facility Uses is a permitted use under the applicable zoning code; [ii] except as disclosed in writing by the Tenant to the Landlord prior to the Commencement Date, , no special use permits, conditional use permits, variances, or exceptions have been granted or are needed for such use of the Facility; [iii] the Land is not located in any special districts such as historical districts or overlay districts; and [iv] the Facility has been constructed in accordance with and complies with all

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

the giving of notice or the passage of time, or both, would constitute or result in such an Event of Default.

20.21 No Adverse Notice From Insurer. Tenant and its Affiliates have received no notice from any insurer of any defects or inadequacies in the Leased Property which would adversely affect the insurability of the Leased Property or which would increase the cost of insuring the Leased Property beyond that which is customarily charged to provide insurance to skilled nursing facilities in the vicinity of the Leased Property, with the kinds and amounts of coverage required under Article 4 hereof.

ARTICLE 21: LANDLORD'S REPRESENTATIONS AND WARRANTIES

Landlord hereby makes the following representations and warranties as of the Commencement Date to Tenant and acknowledges that Tenant is executing this Lease in reliance upon such representations and warranties. Landlord's representations and warranties shall survive the execution and delivery of this Lease.

21.1 Organization and Good Standing. Landlord is a limited liability company. Any entities which are included in the limited liability company will, as of the Commencement Date, be validly organized and existing under the laws of their respective Formation States and will be duly authorized to enter into this Lease and qualified to do business in the State of Arizona.

21.2 Power and Authority. Landlord has the power and authority to execute, deliver and perform this Lease.

21.3 Enforceability. This Lease constitutes a legal, valid and binding obligation of Landlord, enforceable in accordance with its terms, except as such enforceability may be limited by creditors' rights laws and general principles of equity.

21.4 Government Authorizations. As of the Commencement Date, Landlord will hold all Governmental Authorizations that are required to be held by Landlord as the owner of the Leased Property.

21.5 No Litigation. Except as disclosed in writing to the Tenant, (i) There are no actions or suits or any proceedings or investigations by any governmental agency or regulatory body pending against Landlord; (ii) no HIPDB adverse action reports have been issued against Landlord; (iii) Landlord has not received notice of any threatened actions, suits, proceedings or investigations against Landlord at law or in equity or before any governmental board, agency or authority which, if determined adversely to Landlord, would materially and adversely affect the financial condition of Landlord or Landlord's ownership of the Leased Property; (iv) there are no unsatisfied or outstanding judgments against Landlord; (v) there are no pending labor disputes, grievances, strikes or boycotts or litigation or administrative procedures materially and adversely affecting the employees, operation or business conducted by Landlord, and

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

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.

22.3.2 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.

22.3.3 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.

22.3.4 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.

22.3.5 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.

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

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

22.3.8 Tenant's Property identified in Exhibit F.

22.4 Additional Documents. At the request of Landlord, Tenant shall execute additional security agreements, financing statements, and such other documents as may be requested by Landlord to maintain and perfect such security interest. Tenant authorizes Landlord to file financing statements describing the Collateral to perfect and maintain the security interest granted hereunder without the signature or any further authorization of Tenant or any Subtenant, if any.

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

c/o EYRING REALTY, INC.
c/o Mr. Phillip M. Eyring, President
1777 N. California Blvd., Suite 300
Walnut Creek, CA 94596
(925) 295-1340

With a copy to:

Ann Rankin, Esq.
Law Offices of Ann Rankin
3911 Harrison Street
Oakland, CA 94611
(510) 653-8886

NOTICES TO TENANT:

AVALON CARE CENTER-TUCSON, LLC

c/o Avalon Health Care, Inc.
Mr. Robert Pommerville
President and Chief Executive Officer
255 East 400 South, Suite 200
Salt Lake City, Utah 84111
801-596-8844

With a copy to:

Victor Taylor, Esq.
Parr, Waddoups, Brown, Gee and Loveless
185 South State Street Suite 1300
Salt Lake City, Utah 84111
801-532-7840

Joseph E. Casson, Esq.
Proskauer Rose LLP
1233 20th Street Suite 800
Washington DC 20036
202-778-1111

23.2 Advertisement of Leased Property. In the event the parties hereto have not executed a renewal Lease within 180 days prior to the expiration of this Lease, or Tenant has not exercised its Option to Purchase, then Landlord or its agent shall have the right to enter the Leased Property at all reasonable times for the purpose of exhibiting the Leased Property to others and to place upon the Leased Property for and during the period commencing 180 days prior to the expiration of this Lease, "for sale" or "for rent" notices or signs.

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

diligence review and has read and approved all due diligence materials, inspections and reports.

23.11 Modification. This Lease may only be modified by a writing signed by both Landlord and Tenant. All references to this Lease, whether in this Lease or in any other document or instrument, shall be deemed to incorporate all amendments, modifications and renewals of this Lease, made after the date hereof. If Tenant requests Landlord's consent to any change in ownership, merger or consolidation of Tenant or the Corporate Guarantor, any assumption of the Lease, or any modification of the Lease, Tenant shall provide Landlord all relevant information and documents sufficient to enable Landlord to evaluate the request. In connection with any such request, Tenant shall pay to Landlord a fee in the amount equal to the greater of \$2,500.00 or Landlord's reasonable attorney's fees and expenses and other reasonable out of pocket expenses incurred in connection with Landlord's evaluation of Tenant's request, the preparation of any documents and amendments, the subsequent amendment of any documents between Landlord and its lenders, and all related matters.

23.12 Landlord's Modification. Tenant acknowledges that Landlord may mortgage the Leased Property or use the Leased Property as collateral for a collateralized mortgage obligation. If any mortgage lender of Landlord desires any modification of this Lease, Tenant agrees to consider such modification in good faith and, if Tenant agrees to such modification, to execute an amendment of this Lease.

23.13 No Merger. The surrender of this Lease by Tenant or the cancellation of this Lease by agreement of Tenant and Landlord or the termination of this Lease on account of Tenant's default will not work a merger.

23.14 Laches. No delay or omission by either party hereto to exercise any right or power accruing upon any noncompliance or default by the other party with respect to any of the terms hereof shall impair any such right or power or be construed to be a waiver thereof.

23.15 Limitation on Tenant's Recourse. Tenant's sole recourse against Landlord, and any successor to the interest of Landlord in the Leased Property, is to the interest of Landlord, and any such successor, in the Leased Property. Tenant will not have any right to satisfy any judgment which it may have against Landlord, or any such successor, from any other assets of Landlord, or any such successor. In this section, the terms "Landlord" and "successor" include the limited liability company and Members of "Landlord" and "successor" and the agents, managing members and employees of the same. The provisions of this section are not intended to limit Tenant's right to seek injunctive relief or specific performance.

23.16 Construction of Lease. This Lease has been prepared by Landlord and its professional advisors and reviewed by Tenant and its professional

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

LANDLORD'S RIGHT TO BRING ANY ACTION OR PROCEEDING AGAINST TENANT, OR THE PROPERTY OF TENANT IN THE COURTS OF ANY OTHER JURISDICTION.

23.23 Attorney's Fees and Expenses. Tenant shall pay to Landlord all reasonable costs and expenses incurred by Landlord in administering this Lease and the security for this Lease, enforcing or preserving Landlord's rights under this Lease and the security for this Lease, and in all matters of collection, whether or not an Event of Default has actually occurred or has been declared and thereafter cured, including, but not limited to, [a] reasonable attorney's and paralegal's fees and disbursements; [b] the fees and expenses of any litigation, administrative, bankruptcy, insolvency, receivership and any other similar proceeding; [c] court costs; [d] the expenses of Landlord, its employees, agents, attorneys and witnesses in preparing for litigation, administrative, bankruptcy, insolvency and other proceedings and for lodging, travel, and attendance at meetings, hearings, depositions, and trials; and [e] consulting and witness fees and expenses incurred by Landlord in connection with any litigation or other proceeding.

23.24 Survival. The following provisions shall survive termination of the Lease: Article 8 (Defaults and Remedies); Article 9 (Damage and Destruction); Article 10 (Condemnation); §14.9 (Transfer of License and Facility Operations); §14.10 (Bed Operating Rights); §16.2 (Assignment or Sublease); Article 17 (Holdover and Surrender); §18 (Security Deposit and Letter of Credit); Article 22 (Security Interest) and §23.24 (Survival).

23.25 Time. Time is of the essence in the performance of this Lease.

23.26 Landlord Not in Control. Except as herein otherwise provided, none of the covenants or other provisions contained in this Lease shall, or shall be deemed to, give Landlord the right or power to exercise control over the affairs or management of Tenant. The right of Landlord shall be limited to the rights to exercise the remedies referred to in this Lease.

23.27 Incorporation of Recitals. The Recitals set forth in this Lease are hereby incorporated into this Lease as if fully set forth herein.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

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

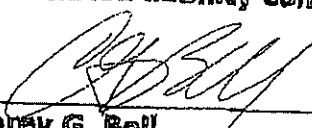
Date: 9-2-2005

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)

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

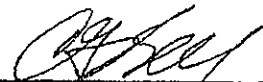
Date: _____

By: _____
William P. Mohr
Its Managing Member

Tenant:

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

Date: 1-5-2005

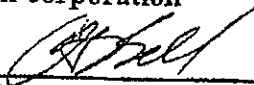
By: 
Corey G. Bell
Vice President and Chief
Financial Officer

[signatures continue on next page]

Corporate Guarantor:

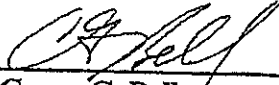
AVALON HEALTH CARE, INC.
a Utah corporation

Date: 1-5-2005

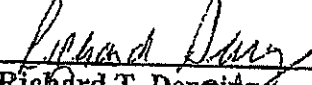
By: 
Corey G. Bell
Vice President and Chief Financial
Officer

As Individual Guarantor

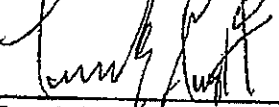
Date: 1-5-2005


Corey G. Bell

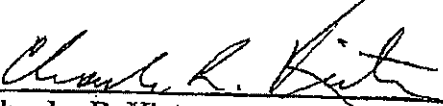
Date: 1-5-2005


Richard T. Denning

Date: 5 Jan 05


Lewis E. Garrett

Date: 1-5-2005


Charles R. Kirton

Date: 5 January 2005


Robert W. Pommerville

SCHEDULE 1: INITIAL RENT SCHEDULE

**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;

All refunds or reimbursements of whatever nature or description which relate to or are attributable to the period prior to the Commencement Date and all deposits, escrowed funds and similar funds;

All claims, disputes and litigation, and all amounts of any nature or description relating thereto, to the extent such dispute, claim or litigation is related to the period prior to the Commencement Date, including without limitation claims or actions against third parties;

Proprietary materials of Tenant respecting its ownership and operation of the Facility, including, but not limited to, internal financial information, policy and procedures manuals, employee records, dietary menus, contracts and forms promulgated by Tenant;

All operating agreements, contracts and equipment leases (and rights thereunder) for supplies and/or services;

Micro fiche readers;

Training tapes and miscellaneous in-service training materials;

"Hot Line" posters;

"Employee of the Month" plaques and stands;

Facility brochures and marketing manuals;

Employee "Dress for Success" and "Professional" mirrors;

Tenant promulgated forms, contracts and internal financial statements;

Uniforms;

All owned and leased computer equipment, hardware, software and programs, including, but not limited to, equipment racks, network firewall equipment, DSL equipment, servers, terminals, monitors, keyboards, mice, printers, data processing systems, programs and software (including dietary and billing software);

Any security deposits or prepayments of any kind whatsoever;

Cash, cash equivalents, tax reimbursement or other refunds due Tenant;

Any right to the use of any of the following names, designs or marks: "Avalon", "Avalon Care Center", "Avalon Health Care", "La Colina", "Heritage", "Heritage Management" and any variation, derivative or combination thereof and associated trademarks, service marks and logos;

Vehicles used in connection with the Facility, whether owned or leased by Tenant;

Time clocks and software;

Copiers and other copy machines and equipment;

Postage meters and postage machines and equipment;

Nautilus equipment;

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

EXHIBIT B: PERMITTED EXCEPTIONS

TITLE EXCEPTIONS

1. Taxes for the year of closing and subsequent years, not yet due and payable.
2. Rights or claims of possession of patients and residents.
3. Exceptions to Landlord's title insurance policy to be issued as of Closing.
4. All matters revealed on that certain ALTA/ACSM Survey referenced in Landlord's title insurance policy to be issued as of Closing.

EXHIBIT D: FORM OF CERTIFICATE FOR FINANCIAL REPORTS

Tenant hereby certifies to Landlord to the best of Tenant's knowledge as follows:

1. The attached [specify audited or unaudited and annual or quarterly, and if consolidated, so state] financial statements of Tenant [i] have been prepared in accordance with generally accepted accounting principles consistently applied; [ii] have been prepared in a manner substantially consistent with prior financial statements submitted to Landlord; and [iii] fairly present the financial condition and performance of Tenant in all material respects.

2. The attached [Annual or Quarterly] Facility Financial Report and Facility Accounts Receivable Aging Report for the Report Period is complete, true and accurate and has been prepared in a manner substantially consistent with prior schedules submitted to Landlord. As set forth in the [Annual or Quarterly] Facility Financial Report, Avalon Health Care, Inc has maintained the minimum Net Worth and Current Ratio and Property has maintained the Lease Coverage Ratio for the Report Period as required under the Lease between Tenant and Landlord.

3. To the best of my knowledge, Tenant was in compliance with all of the provisions of the Lease and all other documents executed by Tenant in connection with the Lease at all times during the Report Period, and no default, or any event which with the passage of time or the giving of notice or both would constitute a default, has occurred under the Lease.

Executed this ___ day of _____, _____

Name: _____

Title: _____

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) \$ _____

FINANCING DATA
(NOTE: THIS DATA BREAKS OUT ITEMS 6 AND 7 ABOVE.)

| | Related to _____ | All Other Leases and/or Debt | Total |
|--------------------|---------------------|------------------------------------|----------|
| Lease Payments | _____ | _____ | _____ |
| Interest Payments | _____ | _____ | _____ |
| Principal Payments | _____ | _____ | _____ |
| | \$ _____ | \$ _____ | \$ _____ |

LEASE COVERAGE RATIO

1. Net Income \$ _____
2. Total EBITDARM Adjustments \$ _____
3. Less Imputed Management Fee
 (_____% of gross revenues) (_____)
4. Less Imputed Replacement Reserve for period
 (\$300.00 per bed per year) (_____)
5. Imputed EBITDARM \$ _____
6. Base Rent Payments to Landlord \$ _____
7. Actual Coverage Ratio (Line 5 / Line 6) _____
8. Minimum Lease Coverage Ratio (per Lease Agreement) _____

CURRENT RATIO

1. Current Assets \$ _____
2. Current Liabilities \$ _____
3. Actual Current Ratio (Line 1 ÷ Line 2) _____
4. Minimum Current Ratio (per Lease Agreement) _____

I certify that the foregoing is true and accurate.

_____ Date: _____
 Name: _____ Phone Number: _____
 Title: _____

QUARTERLY FACILITY ACCOUNTS RECEIVABLE AGING REPORT

Facility Name: **La Colina**

Facility Address: **2900 East Milber St., Tucson, AZ 85714**

Accounts Receivable Aging as of _____ (most recent quarter ended)

| PAYOR | 0-30 DAYS | % | 31-60 DAYS | % | 61-90 DAYS | % | OVER 90 DAYS | % | TOTALS | % |
|----------------------|----------------|---|----------------|---|----------------|---|----------------|---|----------------|---|
| Medicaid | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % |
| Medicare | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % |
| Commercial Insurance | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % |
| Other | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % |
| TOTALS | \$ 100% | | \$ 100% | | \$ 100% | | \$ 100% | | \$ 100% | |
| % OF TOTALS | _____ | % | _____ | % | _____ | % | _____ | % | _____ | % |

Accounts Receivable Aging as of _____ (2nd recent quarter ended)

| PAYOR | 0-30 DAYS | % | 31-60 DAYS | % | 61-90 DAYS | % | OVER 90 DAYS | % | TOTALS | % |
|------------|-----------|---|------------|---|------------|---|--------------|---|----------|---|
| Medicaid | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % |
| Medicare | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % |
| Commercial | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % | \$ _____ | % |

La Colina Lease D-4

| | | | | | | |
|-------------|----------|----------|----------|----------|----------|----------|
| Insurance | ____% | ____% | ____% | ____% | ____% | ____% |
| Other | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| TOTALS | \$ 100% | \$ 100% | \$ 100% | \$ 100% | \$ 100% | \$ 100% |
| % OF TOTALS | ____% | ____% | ____% | ____% | ____% | ____% |

EXHIBIT E: LIST OF LEASES AND CONTRACTS**AVALON CARE CENTER -- LA COLINA
Contracts and Leases**

| Facility # | Vendor Name | Description |
|-------------------|---|----------------------|
| 127 | Ana Fuentevilla M.D. | Medical Director |
| 127 | Avaya Financial | Phone system |
| 127 | Burns Pest | Pest Elimination |
| 127 | Pitney Bowes | postage |
| 127 | Stericycle | waste removal |
| 127 | Xerox | copiers |
| 127 | VGM Financial | copiers |
| 127 | Great America | computer equipment |
| 127 | VA Resources | computer equipment |
| 127 | VA Resources | printers |
| 127 | Avalon Health Care Management of Arizona, L.L.C. | management agreement |
| 127 | TOG II LLC/La Colina Investors, LLC | lease agreement |
| 127 | Healthcare Services | lease agreement |
| 127 | Southpaw Landscaping | lawncare |
| 127 | Insurance Policies | insurance |
| 127 | Employee Benefits | employee benefits |

EXHIBIT F: LIST OF TENANT PROPERTY

Tenant's Property includes, without limitation, the following:

1. Cash and cash equivalents on hand or relating to the Facility;
2. Insurance maintained by Tenant, including without limitation, all prepayments of insurance related to the Facility and Facility operations;
3. All refunds or reimbursements of whatever nature or description which relate to or are attributable to the period prior to the Commencement Date and all deposits, escrowed funds and similar funds;
4. All claims, disputes and litigation, and all amounts of any nature or description relating thereto, to the extent such dispute, claim or litigation is related to the period prior to the Commencement Date, including without limitation claims or actions against third parties;
5. Proprietary materials of Tenant respecting its ownership and operation of the Facility, including, but not limited to, internal financial information, policy and procedures manuals, employee records, dietary menus, contracts and forms promulgated by Tenant;
6. All operating agreements, contracts and equipment leases (and rights thereunder) for supplies and/or services;
7. Micro fiche readers;
8. Training tapes and miscellaneous in-service training materials;
9. "Hot Line" posters;
10. "Employee of the Month" plaques and stands;
11. Facility brochures and marketing manuals;
12. Employee "Dress for Success" and "Professional" mirrors;
13. Tenant promulgated forms, contracts and internal financial statements;
14. Uniforms;
15. All owned and leased computer equipment, hardware, software and programs, including, but not limited to, equipment racks, network firewall equipment, DSL equipment, servers, terminals, monitors, keyboards, mice, printers, data processing systems, programs and software (including dietary and billing software);
16. Any security deposits or prepayments of any kind whatsoever;
17. Cash, cash equivalents, tax reimbursement or other refunds due Tenant;
18. Any right to the use of any of the following names, designs or marks: "Avalon", "Avalon Care Center", "Avalon Health Care", "La Colina", "Heritage", "Heritage Management" and any variation, derivative or combination thereof and associated trademarks, service marks and logos;

19. Vehicles used in connection with the Facility, whether owned or leased by Tenant;
20. Time clocks and software;
21. Copiers and other copy machines and equipment;
22. Postage meters and postage machines and equipment;
23. Nautilus equipment;
24. Leased oxygen concentrators; and
25. Any and all leased or owned equipment not specifically enumerated on Exhibit C Landlord's Personal Property.