

## SUBLEASE AGREEMENT AND CONSENT

**THIS SUBLEASE AGREEMENT AND CONSENT** (this "Sublease") is entered as of this 13<sup>th</sup> day of January, 1995, by and between **PLEASANT CARE CORPORATION**, a California corporation ("Sublessor"), and **COVENANT CARE CALIFORNIA, INC.**, a California corporation ("Sublessee").

**THE PARTIES ENTER** this Sublease on the basis of the following facts, intentions and understandings:

- A. Sublessor, as tenant, leases that certain building and other improvements (collectively, the "Building") and subleases the ground (the "Ground"; the Building and the Ground shall be referred to herein collectively as the "Premises") commonly known as Pleasant Care Convalescent Hospital of Santa Barbara, located at 160 South Patterson Avenue, in the City of Rancho La Goleta, County of Santa Barbara and State of California, more particularly described on Exhibit "A" attached hereto, pursuant to that certain Lease and Sublease (together with any amendments, addenda, assignments, memoranda, modifications, short forms and supplements thereto, collectively, the "Master Lease") dated January 29, 1991, by and between Sublessor and Western Convalescent Hospitals, Ltd./Santa Barbara, a California limited partnership ("Master Lessor"). A copy of the Master Lease is attached hereto as Exhibit "B" and incorporated herein by this reference.
- B. In connection with the acquisition of certain assets of Sublessor by Sublessee, the following documents have been or will be entered into:
  - 1. that certain Amended and Restated Purchase and Sale Agreement dated as of October 28, 1994 (the "Asset Purchase Agreement"), by and between Sublessor, Atlas Care Enterprises, Incorporated, a California corporation, Mastercare Health Facilities, Incorporated, a California corporation, and Pleasant Care of Northern California, Inc., a California corporation as sellers, and Sublessee and Covenant Care, Inc., a California corporation, as purchasers; and
  - 2. that certain Credit, Security, Guaranty and Pledge Agreement dated as of January 13, 1995 (the "Agreement"), by and between Sublessee, as borrower, the debtors and guarantors named therein, the lenders named therein, and Banque Paribas, Los Angeles Agency ("Agent"), as agent for such parties as are now or may hereafter be lenders under the Agreement (Agent, acting on its own behalf and on behalf of such lenders, and any successors and assigns of Agent, is hereinafter referred to as the "Secured Party").
- C. Pursuant to the above-referenced documents and agreements (i) Sublessor will sublet the Premises to Sublessee under this Sublease; (ii) Sublessee shall grant a security interest to the Secured Party in all of the personal property owned by Sublessee and

now or hereafter located on the Premises, including, without limitation, Sublessee's inventory, equipment, floor coverings, drapes, supplies, lighting, beds, furniture, furnishings, fixtures, machinery and tools, if any, together with all additions, substitutions, replacements and improvements to the same, but specifically excluding the personal property owned by Master Lessor and located on the Premises (collectively, "Personal Property") and (iii) all of the outstanding capital stock of Sublessee will be pledged to the Secured Party pursuant to the Agreement.

- D. In connection with the foregoing, Sublessor desires to sublease the Premises to Sublessee pursuant to the terms and conditions hereinafter set forth.

**NOW THEREFORE, IN CONSIDERATION** of the mutual covenants and promises of the parties herein contained, the parties herein agree as follows:

1. **Sublease.** Subject to Master Lessor's consent as hereinafter provided, Sublessor leases to Sublessee and Sublessee hires from Sublessor the Premises on the terms and conditions set forth herein.

2. **Term.** The term of this Sublease shall commence on the date hereof ("Term Commencement Date") and end on January 30, 2011 (the "Term").

3. **Rent.** Sublessee shall pay directly to Master Lessor, in advance (on the first day of each month of the term hereof), in equal monthly payments, the rent due under the Master Lease (the "Master Lease Rent"); provided, that, as between Sublessor and Sublessee, the portion of the Master Lease Rent to be paid by Sublessee ("Base Rent") shall be [REDACTED] per month (subject to adjustment as provided below in this Section 3) and Sublessor shall at all times pay to Sublessee the remaining portion of the Master Lease Rent, as the same may be adjusted pursuant to the terms of the Master Lease. Base Rent for any period during the Term hereof which is for less than one month shall be a pro rata portion of the monthly installment based upon a 30-day month. Base Rent shall be payable in lawful money of the United States to Master Lessor as provided under Section 7 below at the address stated herein or to such other persons or at such other places as Master Lessor may designate in writing. Base Rent shall increase on each anniversary of the Term Commencement Date (each such anniversary thereof being an "Adjustment Date") by [REDACTED] of the Base Rent in effect for the month immediately prior to the Adjustment Date plus the percentage change in the Consumer Price Index ("CPI") as calculated by multiplying the fraction, the numerator of which shall be the CPI for the month that is one (1) month prior to the applicable Adjustment Date and the denominator of which shall be the CPI for the month that is thirteen (13) months prior to the applicable Adjustment Date, by the Base Rent in effect immediately prior to such Adjustment Date and adding to the product thereof the product of [REDACTED] multiplied by the Base Rent in effect immediately prior to such Adjustment Date; provided, however, in no event shall Base Rent be increased on any Adjustment Date by more than [REDACTED] over the Base Rent in effect for the immediately preceding year for the years 1994 through 1999, inclusive, [REDACTED] over the Base Rent in effect for the immediately preceding year for the years 2000 through

2017, inclusive, and [REDACTED] over the Base Rent in effect for the immediately preceding year for the remaining years of the Term.

4. **Use.** The Premises shall be used and occupied only for a licensed skilled nursing facility and for any other purpose permitted under the Master Lease.

5. **Compliance with Law.** Sublessor represents and warrants to Sublessee that the Premises substantially complies with all applicable federal, state and local health, fire, and safety laws, rules and regulations, including all federal, state and local zoning and other applicable laws, ordinances, rules and regulations applicable to the Premises, and no waivers have been obtained which in the event of damage or destruction would prevent restoration to the Premises as it was operated immediately before such damage or destruction. In the event that it is determined that this representation or warranty has been violated, then it shall be the obligation of the Sublessor, after written notice from Sublessee, to promptly, at Sublessor's sole cost and expense, rectify any such violation.

6. **Condition of Premises.** All sewer, electrical, plumbing and heating systems, air conditioning units and systems, and lighting fixtures on the Premises are as of the date hereof in good condition and in good working order, reasonable wear and tear excepted, and the roof and the foundations thereof are, as of the date hereof, in good condition and free from leaks.

7. **Sublease Subject to Master Lease.** This Sublease shall be subject to all of the terms, covenants and conditions of the Master Lease and Sublessee shall assume and perform the obligations of Sublessor as tenant under the Master Lease, except for Sublessor's Retaining Obligations (defined below). Sublessee shall not commit or permit to be committed on the Premises any act or omission which shall violate any terms, covenants or conditions of the Master Lease. Sublessee shall pay all rent owing and to be owed under this Sublease in accordance with Section 3 above. No changes or modifications shall be made to this Sublease without the consent of Master Lessor.

8. **Events of Default.** The occurrence of any of the following events shall constitute an event of default ("Event of Default") and a material breach of this Sublease on the part of Sublessee:

(a) Sublessee's failure to pay any rent or other sums due hereunder on the date when such payment is due, where such failure continues for ten (10) days after written notice that such payment is due; provided that if there is a shorter time period governing the cure of such a default under the Master Lease, such shorter cure period shall be deemed to be the cure period under this subsection.

(b) Sublessee's breach of, or Sublessee's failure to perform any of Sublessee's other covenants, agreements or obligations hereunder, including without limitation with respect to Sublessee's Assumed Obligations (defined below), where such breach or failure continues for thirty (30) days after written notice to Sublessee to cure any

such breach or failure; provided that it shall not be an Event of Default under this Section 8(b) if Sublessee commences to cure such default within thirty (30) days after such written notice and diligently prosecutes such cure to completion; provided that if there is a shorter time period governing the cure of such a default under the Master Lease, such shorter cure period shall be deemed to be the cure period under this subsection.

Notwithstanding the foregoing, Sublessor agrees to send to the Secured Party a copy of any notice of default sent to Sublessee pursuant to this Section 8 and Sublessor agrees that the Secured Party shall have, in addition to the time periods provided to Sublessee hereunder, such additional period of time as is reasonably necessary to cure such default not to exceed ninety (90) days. This provision shall not affect any cure periods granted by the Master Lessor in the attached Consent.

9. **Remedies.** Upon the occurrence of an Event of Default by Sublessee, Sublessor shall have any and all rights and remedies available to Sublessor at law or in equity.

10. **Incorporation of Master Lease.** The terms, conditions and respective obligations of Sublessor and Sublessee to each other under this Sublease shall be the terms, conditions and respective obligations of the landlord and tenant, respectively, under the Master Lease except for those provisions in the Master Lease which are in conflict or inconsistent with, or directly contradicted by, this Sublease, in which event the terms of this Sublease shall control. The terms and conditions of the Master Lease shall control the obligations of Master Lessor and Sublessor. Therefore, for the purposes of this Sublease, wherever in the Master Lease the word "Lessor" is used it shall be deemed to mean the Sublessor herein and wherever in the Master Lease the word "Lessee" is used it shall be deemed to mean the Sublessee herein. During the Term of this Sublease, Sublessee does hereby expressly assume and agree to perform and comply with, for the benefit of Sublessor and Master Lessor, each and every obligation of Sublessor under the Master Lease except for the following obligations: [none]. The obligations that Sublessee has assumed pursuant to this paragraph are hereinafter referred to as the "Sublessee's Assumed Obligations." The obligations that Sublessee has not assumed under this paragraph are hereinafter referred to as the "Sublessor's Remaining Obligations." Sublessee shall defend, indemnify and hold Sublessor free and harmless of and from all liability, judgments, costs, damages, claims or demands, including reasonable attorneys' fees, arising out of Sublessee's failure to comply with or perform Sublessee's Assumed Obligations. Sublessor shall defend, indemnify and hold Sublessee free and harmless of and from all liability, judgments, costs, damages, claims or demands, including reasonable attorneys' fees, arising out of Sublessor's failure to comply with or perform Sublessor's Remaining Obligations.

11. **Sublessor's Obligations With Respect to Master Lease.** Sublessor agrees to maintain the Master Lease in full force and effect during the entire Term of this Sublease. In addition, with respect to the Master Lease, Sublessor agrees that: (a) Sublessor shall not enter into any amendment or modification of the Master Lease without first obtaining the written consent of Sublessee, which consent Sublessee may withhold in its sole and absolute

discretion, and if Sublessor and Master Lessor enter into any amendment or modification of the Master Lease without first obtaining Sublessee's prior written consent, then any such amendment or modification shall not be binding upon Sublessee, (b) Sublessee shall have the right to cure any default by Sublessor not caused by Sublessee's action or inaction under the Master Lease in accordance with the Consent attached hereto and Sublessor consents to any actions taken by Sublessee for the purpose of any such cure, (c) Sublessor shall reimburse Sublessee upon demand for all costs and expenses, including reasonable attorneys' fees, incurred by Sublessee in undertaking any such cure, or as otherwise agreed between Sublessor and Sublessee, (d) upon any default by Sublessor, not caused by Sublessee's action or inaction, under Master Lease that would permit Master Lessor to terminate the Master Lease, Sublessee shall have the right, exercisable upon ten (10) days' written notice to Master Lessor, to either become the direct lessee under the Master Lease in the place and stead of Sublessor or to enter into a new lease of the Premises directly with Master Lessor upon substantially the same terms and provisions as contained in the Master Lease.

12. **Assignment of Rights Under Master Lease.** Sublessor hereby assigns to Sublessee the rights to enforce the Master Lease against Master Lessor and the rights to exercise all options to extend the Master Lease, if any. Sublessor agrees that Sublessee shall have the right to pursue such enforcement in the place and stead of Sublessor in Sublessee's sole and absolute discretion. Sublessor and Sublessee agree to execute, acknowledge and record a Memorandum of Lease, Sublease and Right of First Refusal in the form attached hereto as Exhibit "C".

13. **Representations.** Sublessor hereby represents and warrants to Sublessee as follows:

(a) Sublessor is the sole tenant under the Master Lease and the sole sublessor under this Sublease and, to best of Sublessor's knowledge, Master Lessor is the sole landlord under the Master Lease and tenant under that certain Ground Lease dated August 1, 1966, by and between Richard Broder, an individual, and Hol-Pat Investments, a general partnership;

(b) A true, correct and complete copy of the Master Lease (along with all amendments thereto and assignments thereof) is attached hereto as Exhibit "B". Other than as set forth on Exhibit "B" of this Sublease, the Master Lease has not been modified or amended and is in full force and effect; and

(c) Neither Sublessor nor Master Lessor has committed a default under the Master Lease which remains uncured, and no event has occurred which, with the giving of notice or the passage of time or both, might constitute a default by Sublessor or Master Lessor under the Master Lease.

14. **Attorneys' Fees.** If either party shall commence an action against the other party in order to enforce any term, covenant or condition of this Sublease, the prevailing

party shall be entitled to recover from the losing party the costs and expenses of such action, including reasonable attorneys' fees to be set by the court in such action.

15. **Notices.** All notices or demands of any kind required or desired to be given by Sublessor or Sublessee hereunder shall be in writing and shall be deemed to be delivered forty-eight (48) hours after depositing the notice or demand in the United States Mail, certified or registered, postage prepaid, addressed to the parties as follows:

To Sublessor: Pleasant Care Corporation



To Sublessee: Covenant Care California, Inc.



To Master Lessor: Western Convalescent Hospitals, Ltd./Santa Barbara



16. **Further Assurances.** Sublessor and Sublessee agree to take any and all actions and execute (and, if necessary, acknowledge) any and all documents reasonably necessary to effectuate the purposes of this Sublease, including without limitation, the execution of any documents or notices necessary to enable Sublessee to confirm its rights under Section 12 above in accordance with this Sublease and the Master Lease.

17. **Master Lessor's Consent.** By the Consent attached hereto, Master Lessor consents to this Sublease and agrees to all obligations of Master Lessor or rights of Sublessee or Sublessor hereunder.

18. **Successors and Assigns.** This Sublease shall inure to the benefit of and shall be binding upon Sublessor, Sublessee and Master Lessor and their respective legal representatives, successors, and assigns.

19. **Counterparts.** This Sublease may be executed simultaneously or in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

20. **Governing Law.** This Sublease shall be construed in accordance with and governed by the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Sublease as of the day and year first above written.

**"SUBLESSOR":**

**Pleasant Care Corporation,**  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Emmanuel I. Bernabe

President

**"SUBLESSEE":**

**Covenant Care California, Inc.**  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Roy E. Christensen

Roy E. Christensen

President

**EXHIBIT "A"**  
**DESCRIPTION OF THE PREMISES**

The real property is situated in the unincorporated area of the County of Santa Barbara, State of California, and more particularly described as follows:

PARCEL A, as shown on a Map recorded in Book 2, Page 37 of Parcel Maps, in the office of the County Recorder of Santa Barbara County.

EXCEPTING an undivided 7-1/2% interest in and to any and all oil, gas, hydrocarbons and minerals lying below a depth of 500 feet below the surface of said land but without the right of surface entry, as conveyed to The Regents of the University of California, by Deed recorded February 21, 1962, in Book 1905, Page 53 of Official Records.



**EXHIBIT "B"**  
**MASTER LEASE**

**EXHIBIT "C"**  
**MEMORANDUM OF LEASE, SUBLEASE AND RIGHT OF FIRST REFUSAL**

RECORDING REQUESTED BY AND  
WHEN RECORDED, RETURN TO:

Brobeck, Phleger & Harrison  
550 South Hope Street  
Los Angeles, CA 90071-2604  
Attn: B. Maria Dennis, Esq.

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(Space Above This Line For Recorder's Use)

**MEMORANDUM OF LEASE, SUBLEASE AND RIGHT OF FIRST REFUSAL**

THIS MEMORANDUM OF LEASE, SUBLEASE AND RIGHT OF FIRST REFUSAL ("Memorandum") is executed as of January \_\_, 1995, by and among WESTERN CONVALESCENT HOSPITALS, LTD./SANTA BARBARA, a California limited partnership ("Master Lessor"), PLEASANT CARE CORPORATION, a California corporation ("Sublessor") and COVENANT CARE CALIFORNIA, INC., a California corporation ("Sublessee").

**RECITALS**

WHEREAS, Master Lessor and Sublessor have executed that certain lease and sublease ("Master Lease") dated as of January 29, 1991, covering those certain premises and related improvements ("Premises") located at 160 South Patterson Avenue, Rancho La Goleta, California, and more particularly described in Exhibit "A", attached hereto and incorporated herein by this reference;

WHEREAS, Sublessor and Sublessee have executed that certain sublease ("Sublease") dated as of January \_\_, 1995, covering the Premises; and

WHEREAS, Master Lessor and Sublessor desire to record notice of the Master Lease, and Sublessor and Sublessee desire to record notice of the Sublease, in the real estate records of Santa Barbara County, State of California.

NOW, THEREFORE, in consideration of the foregoing, Master Lessor, Sublessor and Sublessee hereby declare as follows:

1.1 Demise of Master Lease. Master Lessor hereby leases the Premises to Sublessor and Sublessor hereby leases the Premises from Master Lessor, subject to the terms, covenants and conditions more completely set forth in the Master Lease.

1.2 Term of Master Lease. The term of the Master Lease ("Term") commenced on February 1, 1991 and shall expire on January 31, 2011.

1.3 Right of First Refusal. Master Lessor hereby grants Sublessee a right of first refusal to purchase the Premises in accordance with Article 29 of the Master Lease, subject to the terms, covenants and conditions more completely set forth in the Master Lease.

1.4 Demise of Sublease. Sublessor hereby subleases the Premises to Sublessee and Sublessee hereby subleases the Premises from Sublessor, subject to the terms, covenants and conditions more completely set forth in the Sublease.

1.5 Term of Sublease. The term of the Sublease ("Sublease Term") commenced on January \_\_, 1995 and shall expire on January 30, 2011.

1.6 Counterparts. This Memorandum may be executed in counterpart originals and all such counterparts shall constitute one original Memorandum.

IN WITNESS WHEREOF, Master Lessor, Sublessor and Sublessee have executed this Memorandum as of the date and year first written above.

**"MASTER LESSOR":**

WESTERN CONVALESCENT  
HOSPITALS, LTD./SANTA BARBARA,  
a California limited partnership

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**"SUBLESSOR":**

PLEASANT CARE CORPORATION,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**"SUBLESSEE":**

COVENANT CARE CALIFORNIA, INC.  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

STATE OF CALIFORNIA            )  
  ) ss  
COUNTY OF \_\_\_\_\_ )

On January \_\_, 1995, before me, \_\_\_\_\_,  
Notary Public, personally appeared \_\_\_\_\_,  
personally known to me (or proved to me on the basis of satisfactory evidence) to be the  
person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that  
he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their  
signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s)  
acted, executed the instrument.

WITNESS my hand and official seal.

\_\_\_\_\_  
Signature

[SEAL]

STATE OF CALIFORNIA            )  
  ) ss  
COUNTY OF \_\_\_\_\_ )

On January \_\_, 1995, before me, \_\_\_\_\_,  
Notary Public, personally appeared \_\_\_\_\_,  
personally known to me (or proved to me on the basis of satisfactory evidence) to be the  
person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that  
he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their  
signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s)  
acted, executed the instrument.

WITNESS my hand and official seal.

\_\_\_\_\_  
Signature

[SEAL]

STATE OF CALIFORNIA            )  
  ) ss  
COUNTY OF \_\_\_\_\_ )

On January \_\_, 1995, before me, \_\_\_\_\_,  
Notary Public, personally appeared \_\_\_\_\_,  
personally known to me (or proved to me on the basis of satisfactory evidence) to be the  
person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that  
he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their  
signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s)  
acted, executed the instrument.

WITNESS my hand and official seal.

\_\_\_\_\_  
Signature

[SEAL]

**EXHIBIT "A"**

**(Legal Description)**

Exhibit "A" to that certain Memorandum of Lease and Sublease dated as of January \_\_, 1995, by and between Western Convalescent Hospitals, Ltd./Santa Barbara, a California limited partnership, as Master Lessor, Pleasant Care Corporation, a California corporation, as Sublessor, and Covenant Care California, Inc., a California corporation, as Sublessee.

The Premises are legally described as follows:

PARCEL A, as shown on a Map recorded in book 2, Page 37 of Parcel Maps, in the office of the County Recorder of Santa Barbara County.

EXCEPTING an undivided 7-1/2% interest in and to any and all oil, gas, hydrocarbons and minerals lying below a depth of 500 feet below the surface of said land but without the right of surface entry, as conveyed to The Regents of the University of California, by Deed recorded February 21, 1962, in Book 1905, Page 53 of Official Records.



## CONSENT

This Consent ("Consent") is dated as of January 13, 1995, by and among Western Convalescent Hospitals, Ltd./Santa Barbara, a California limited partnership ("Master Lessor"), Pleasant Care Corporation, a California corporation ("Sublessor"), and Covenant Care California, Inc., a California corporation ("Sublessee"), with reference to the following facts:

- A. Master Lessor, as lessor, currently leases to Sublessor that certain building and other improvements (collectively, the "Building") and subleases the ground (the "Ground"; the Building and the Ground shall be referred to herein collectively as the "Premises") commonly known as Pleasant Care Convalescent Hospital of Santa Barbara, located at 160 South Patterson Avenue in the City of Rancho La Goleta, County of Santa Barbara and State of California pursuant to that certain Lease and Sublease (as amended, the "Master Lease") dated January 29, 1991, by and between Master Lessor and Sublessor.
- B. Sublessor and Sublessee have entered into that certain Amended and Restated Purchase and Sale Agreement dated as of October 28, 1994 (the "Asset Purchase Agreement"), by and among Sublessor Atlas Care enterprises, Incorporated, a California corporation, Mastercare Health Facilities, Incorporated, a California corporation, and Pleasant Care of Northern California, Inc., a California corporation, as sellers, and Sublessee and Covenant Care, Inc., a California corporation, as purchasers.
- C. Pursuant to the Asset Purchase Agreement, Sublessor has agreed to sublease the Premises to Sublessee in accordance with that certain Sublease Agreement and Consent (the "Sublease") dated as of January 13, 1995, to which this Consent is attached.
- D. In addition, Sublessee has or will enter into that certain Credit, Security, Guaranty and Pledge Agreement dated as of January 13, 1995 (the "Agreement"), by and between Sublessee, as borrower, the debtors and guarantors named therein, the lenders named therein and Banque Paribas, Los Angeles Agency ("Agent"), as agent for such parties as are now or may hereafter be lenders under the Agreement (Agent, acting on its own behalf and on behalf of such lenders, and any successors and assigns of Agent, is hereinafter referred to as the "Secured Party").
- E. Pursuant to the Agreement, all of the outstanding capital stock of Sublessee will be pledged to the Secured Party.

- F. Sublessor and Sublessee have requested that Master Lessor consent to the Sublease and certain other matters relating thereto pursuant to the terms and provisions hereinafter set forth and Master Lessor has agreed to the same.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned hereby agrees as follows:

A. Master Lessor hereby consents to the subletting of the Premises by Sublessor to Sublessee and acknowledges Master Lessor's receipt of the Sublease. In addition, Master Lessor consents to the payment of rent by Sublessee directly to Master Lessor pursuant to Section 7 of the Sublease. Master Lessor acknowledges that pursuant to Section 12 of the Sublease, Sublessee has been assigned the right to enforce the Master Lease against Master Lessor, provided, that Master Lessor shall have the right to enforce the terms of the Master Lease against Sublessee. Master Lessor consents to the assignment of such rights only upon failure by Sublessor to exercise such rights. The foregoing consent shall not release Sublessor of its obligations under the Master Lease or alter the primary liability of Sublessor to pay the rent and perform and comply with all of the obligations of Sublessor to be performed under the Master Lease. Master Lessor agrees to execute, acknowledge and record a Memorandum of Sublease in the form attached to the Sublease as Exhibit "C".

B. Master Lessor hereby acknowledges, represents and warrants that: (i) Master Lessor has not sent to Sublessor or any other party any notice of default under the Master Lease which remains uncured, (ii) to the best of Master Lessor's knowledge, no default presently exists under the Master Lease and no event has occurred which, with the giving of notice or the passage of time or both, might constitute a default under the Master Lease, and (iii) a true, correct and complete copy of the Master Lease is attached to the Sublease as Exhibit "B" and the Master Lease is and remains in full force and effect.

C. In the event that Sublessor defaults on any of its obligations to be performed under the Master Lease, Master Lessor agrees to deliver to Sublessee a notice of any such default in accordance with the notice provisions hereinafter set forth.

D. In the event of a default under the Master Lease, Master Lessor agrees to send to the Secured Party a copy of any notice of default sent to Sublessor or Sublessee (or if no such notice is delivered to Sublessor or Sublessee, then Master Lessor shall deliver a notice of default to the Secured Party upon the occurrence of a default) and Master Lessor agrees that the Secured Party shall have the right (but not the obligation) to cure such default within the cure period for such default set forth in the Master Lease.

E. In the event that Sublessor defaults on any of its obligations under the Master Lease, Master Lessor agrees that so long as Sublessee is not in default under the Sublease beyond any applicable grace periods: (i) the rights of Sublessee under the Sublease shall not be terminated; (ii) Sublessee's possession of the Premises and the use and quiet enjoyment by Sublessee of the Premises shall not be disturbed by Master Lessor; and (iii) provided that Sublessor's default was not caused by Sublessee, if Sublessor's default would permit Master

Lessor to terminate the Master Lease, Master Lessor shall recognize Sublessee as tenant under the Master Lease. If the Master Lease is terminated or rejected for any reason, including without limitation, pursuant to the United States Bankruptcy Code (as the same may be amended from time to time) or otherwise (other than as a result of the act or neglect of Sublessee), Master Lessor agrees to enter into a new lease with Sublessee for the balance of the term of the Sublease upon the same terms and conditions as provided in the Master Lease.

F. The Personal Property (as defined in the Sublease) shall be and remain personal property notwithstanding the manner of its annexation to the Premises, its adaptability to the uses and purposes for which the Premises are used, or the intentions of the party making the annexation. Master Lessor and Sublessor hereby waive any rights which they may claim to have in and to the Personal Property, no matter how arising, including all rights of levy or distraint for rent. Master Lessor and Sublessor consent to the installation of the Personal Property on the Premises, and grant the Secured Party reasonable access to the Premises to remove the Personal Property, following reasonable notice to Master Lessor; provided, that Secured Party shall not disrupt the operation of the Premises. All physical damage to the Premises caused by the removal of the Personal Property shall be reimbursed or repaired by the Secured Party at its expense.

G. Master Lessor and Sublessor hereby acknowledge Sublessee's pledge of its capital stock to the Secured Party. Master Lessor further agrees that in connection with the Secured Party's exercise of its remedies under the Agreement, the stock of Sublessee may be transferred to the Secured Party by foreclosure, transfer in lieu of foreclosure or otherwise. Master Lessor further agrees that in connection with the exercise of the Secured Party's remedies under the Agreement, the Secured Party may, after obtaining the prior written consent of Master Lessor, which consent Master Lessor agrees to grant or withhold in accordance with the provisions of Article 17 of the Master Lease, either (i) sell or transfer Sublessee's capital stock to an unaffiliated third party, or (ii) after such foreclosure of the capital stock of Sublessee, transfer the leasehold interest of Sublessee under the Sublease to an unaffiliated third party; provided, that such purchaser, transferee or the Secured Party shall cure any default then existing under the Master Lease to the extent such default is capable of being cured by such purchaser, transferee or the Secured Party, and such purchaser or transferee shall agree in writing to keep, perform and observe all covenants, and terms and conditions contained in the Master Lease.

H. All notices or demands of any kind required or desired to be given by Sublessor, Sublessee or the Secured Party hereunder shall be in writing and shall be deemed to be delivered forty-eight (48) hours after depositing the notice or demand in the United States Mail, certified or registered, postage prepaid, addressed to the parties as follows:

To Sublessor: Pleasant Care Corporation



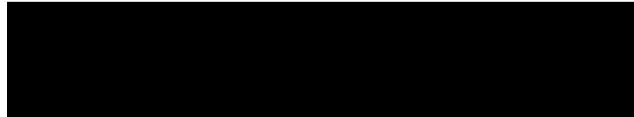
To Sublessee: Covenant Care California, Inc.



To Master Lessor: Western Convalescent Hospitals, Ltd./Santa Barbara



To the Secured Party: Banque Paribas



I. This Consent shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors, and permitted assigns.

J. This Consent shall be construed in accordance with and governed by the law of the State of California.

K. Sublessor and Sublessee acknowledge and agree that if any Personal Property is brought onto the Premises, Sublessor and/or Sublessee shall notify Master Lessor in writing and identify such Personal Property by tagging the items or by some other mutually agreeable method. If Master Lessor has not responded in writing within ten (10) days, then this shall serve as Master Lessor's acceptance that the Personal Property has been adequately identified as personal property not belonging to Master Lessor.

L. This Consent may be executed simultaneously or in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

This Consent is executed as of the day and year first above written.

"Master Lessor":

**Western Convalescent Hospitals, Ltd./Santa Barbara,**  
a California limited partnership

By: Phillip H. Furst

Name: Phillip H. Furst

Title: General Partner

"Sublessor":

**Pleasant Care Corporation,**  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

"Sublessee":

**Covenant Care California, Inc.,**  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

This Consent is executed as of the day and year first above written.

"Master Lessor":

**Western Convalescent Hospitals, Ltd./Santa Barbara,**  
a California limited partnership


By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

"Sublessor":

**Pleasant Care Corporation,**  
a California corporation

By:  \_\_\_\_\_

Name: Emmanuel I. Bernabe

Title: President

"Sublessee":

**Covenant Care California, Inc.,**  
a California corporation

By:  \_\_\_\_\_

Name: Roy E. Christensen

Title: President

The undersigned do hereby acknowledge and consent to the Sublease and reaffirm their liability under that certain "Lease Guaranty" dated January 28, 1991.



Emmanuel I. Bernabe

X

~~Emmanuel David~~

[INTENTIONALLY DELETED - SIGNATURE  
NOT NECESSARY TO DOCUMENT]