

**AMENDED AND RESTATED
OPERATING AGREEMENT
OF
COVENANT CARE CALIFORNIA, LLC**

THE SECURITIES REPRESENTED BY THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED NOR REGISTERED NOR QUALIFIED UNDER ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, DELIVERED AFTER SALE, TRANSFERRED, PLEDGED, OR HYPOTHECATED UNLESS QUALIFIED AND REGISTERED UNDER APPLICABLE STATE AND FEDERAL SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE COMPANY, SUCH QUALIFICATION AND REGISTRATION IS NOT REQUIRED. ANY TRANSFER OF THE SECURITIES REPRESENTED BY THIS AGREEMENT IS FURTHER SUBJECT TO OTHER RESTRICTIONS, TERMS, AND CONDITIONS WHICH ARE SET FORTH HEREIN.

**AMENDED AND RESTATED
OPERATING AGREEMENT**

OF

COVENANT CARE CALIFORNIA, LLC

THIS AMENDED AND RESTATED OPERATING AGREEMENT is entered into effective as of January 3, 2011 by Covenant Care, LLC, a Delaware limited liability company (the "**Member**"), with reference to the following facts and circumstances:

RECITALS:

WHEREAS, Covenant Care, LLC, a Delaware limited liability company was the sole shareholder of Covenant Care California, Inc., a California corporation (the "**Converting Corporation**"). The Converting Corporation adopted that certain Agreement and Plan of Conversion dated April 14, 2006 (the "**Plan**") pursuant to which the Corporation has been (i) converted into a California limited liability company (the "**Conversion**") in accordance with the provisions of Sections 1150 through 1160 of the California Corporations Code, and (ii) Section 368(a) of the Internal Revenue Code of 1986, as amended (the "**Code**").

WHEREAS, the Member desired to adopt and enter into an agreement to memorialize the terms pursuant to which the Company will be operated as a California limited liability company.

WHEREAS, the Company (as such term is hereinafter defined) was formed by the Member pursuant to the Beverly-Killea Limited Liability Company Act (Corporations Code sections 17100 – 17655) on April 14, 2006 (the "**Formation Date**"), as evidenced by the Articles of Organization filed with the Secretary of State of the State of California, and that certain Operating Agreement effective April 14, 2006 (the "**Original Operating Agreement**").

WHEREAS, the Member hereto desires to enter into this Agreement (as such term is hereinafter defined) to amend and restate the Original Operating Agreement as set forth herein.

NOW THEREFORE, the Member hereby agrees as follows:

SECTION 1. DEFINITIONS.

When used in this Agreement, the following terms shall have the respective meanings set forth below:

"**Affiliate**" means any person or entity which, directly or indirectly through one (1) or more intermediaries, controls or is controlled by or is under common control with another person or entity. The term "control" as used herein (including the terms "controlling," "controlled by," and "under common control with") means the possession, direct or indirect, of the power to (a) vote more than fifty percent (50%) of the outstanding voting securities of such person or entity, or (b) otherwise direct management policies of such person by contract or otherwise.

“Agreement” means this Operating Agreement of Covenant Care California, LLC.

“California Act” means the Beverly-Killea Limited Liability Act as set forth in Title 2.5 Limited Liability Companies, Chapter 1 *et seq.* of the California Corporations Code, as hereafter amended from time to time.

“Cash Flow” means the excess, if any, of all cash receipts of the Company as of any applicable determination date in excess of the sum of (a) all cash disbursements (inclusive of any reimbursements made to any Member, but exclusive of distributions to the Member in its capacity as such) of the Company prior to that date, plus (b) any reserve, determined in the sole discretion of the Member, for anticipated cash disbursements that will have to be made before additional cash receipts from third parties will provide the funds therefor.

“Company” means the limited liability company created pursuant to this Agreement and the filing of the Articles of Organization - Conversion (Form LLC-1A) with the California Secretary of State in accordance with the provisions of the California Act.

“Event of Dissolution” is defined in Section 6.1.

“Liquidation” means the date upon which the Company ceases to be a going concern (even though it may continue in existence for the purpose of winding up its affairs, paying its debts and distributing any remaining balance to the Member).

“Membership Interest” means with respect to any Member, the ownership interest of the Member in the Company, consisting of such Member’s (a) right, title and interest in and to the net profits, net losses, Cash Flow and capital of the Company, (b) rights to participate in the management of the Company as provided herein or under the California Act and (c) other rights and privileges as herein provided. The Company shall issue a certificate of Membership Interest to each member to evidence the limited liability company interests held by such Member. Each limited liability company interest shall constitute a “security” governed by Article 8 of the Uniform Commercial Code in effect from time to time in the State of California.

“Treasury Regulation” means any proposed, temporary, and/or final federal income tax regulation promulgated by the United States Department of the Treasury as heretofore and hereafter amended from time to time (and/or any corresponding provisions of any superseding revenue law and/or regulation).

SECTION 2. FORMATION.

2.1 Conversion. Pursuant to Sections 1150 through 1160 of the California Corporations Code, Section 368(a) of the Code, and in accordance with the Plan, as adopted by the Converting Corporation, the Converting Corporation has been converted into a California limited liability company by filing that certain a Limited Liability Company Articles of Organization – Conversion (Form LLC-1A) for the Company (the **“Certificate”**) on April 14, 2006 with the California Secretary of State’s office. As contemplated by the Plan, the officers of the Converting Corporation shall cause to be filed as promptly as possible (i) the Certificate, and (ii) IRS Form 8832 – Entity Classification Election.

2.2 Names and Addresses. The name of the Company is "Covenant Care California, LLC." The principal place of business of the Company shall be 27071 Aliso Creek Road, Suite 100, Aliso Viejo, California 92656. The name and address of the Company's agent for service of process is Andrew F. Torok, 27071 Aliso Creek Road, Suite 100, Aliso Viejo, California 92656. The address of the Member is 27071 Aliso Creek Road, Suite 100, Aliso Viejo, California 92656.

2.3 Nature of Business. The purposes of the Company shall be (a) to provide skilled nursing and assisted living services to various individuals who can no longer adequately care for themselves, and (b) to conduct such other activities as are appropriate to carrying out the foregoing purposes and to do all things incidental to or in furtherance of the above-enumerated purposes.

2.4 Term of Company. The term of the Company shall commence as of the date the Articles of Organization - Conversion (Form LLC-1A) for the Company are duly filed with the California Secretary of State, and shall continue until the winding up and liquidation of the Company and the completion of its business following an Event of Dissolution as provided in Section 6.1 herein.

SECTION 3. MANAGEMENT OF COMPANY.

3.1 Management of Company. The operations and affairs of the Company shall be administered by the Member, provided, that at any time that the Company has appointed a manager, all such operations and affairs shall be administered by such manager. The Member hereby appoints Robert Levin as its manager, who shall serve in such role until any successor or replacement is named in the sole discretion of the Member. Except as otherwise set forth in this Agreement, the Member (or any manager appointed from time to time) shall have all authority, rights, and powers conferred by law and those necessary or appropriate to carry out the purposes of the Company as set forth in Section 2.3 hereof, and all such authority, rights and powers shall be exercised by or under the direction of the Member (or any manager appointed from time to time). Subject to the voting requirements and restrictions set forth in this Section 3 and elsewhere in this Agreement, all loan documents, agreements, contracts, instruments, and any and all other matters and documents affecting or relating to the business of the Company may be executed and delivered on the Company's behalf by the Member (or any manager appointed from time to time).

3.2 Liability and Indemnity. Neither the Member nor any officer of the Company shall be liable or accountable in damages or otherwise to the Company, the Member or any other person or entity who has an interest in the Company for any error of judgment or any mistake of fact or law or for anything that the Member and/or officer may do or refrain from doing hereafter, except in the case of willful misconduct or gross negligence in performing or failing to perform the Member's and/or officer's duties hereunder. To the fullest extent permitted by law, the Company does hereby indemnify and agree to hold the Member and officer of the Company wholly harmless from and against any loss, expense or damage suffered by such Member and/or officer by reason of anything which the Member and/or officer may do or refrain from doing hereafter for and on behalf of the Company and in furtherance of its interest; *provided, however*, the Company shall not be required to indemnify the Member and/or officer from any loss,

expense or damage which the Member and/or officer may suffer as a result of the Member's and/or officer's willful misconduct or gross negligence in performing or in failing to perform the Member's and/or officer's duties hereunder and any such indemnity shall be recoverable only from the assets of the Company, and no Member shall have personal liability on account thereof.

3.3 Designation of Officers. The Member may, from time to time, designate officers of the Company and delegate to such officers such authority and duties as the Member may deem advisable and may assign titles (including, without limitation, chief executive officer, president, vice-president, secretary and/or treasurer) to any such officer. Unless the Member otherwise determines, if the title assigned to an officer of the Company is one commonly used for officers of a business corporation formed under the California General Corporations Code, the assignment of such title shall constitute the delegation to such officer of the authority and duties that are customarily associated with such office pursuant to the California General Corporations Code. Any number of titles may be held by the same officer. Any officer to whom a delegation is made pursuant to the foregoing shall serve in the capacity delegated unless and until such delegation is revoked by the Member or such officer resigns.

SECTION 4. MEMBER'S CONTRIBUTIONS TO COMPANY.

4.1 Initial Capital Contribution. Concurrently with the execution of this Agreement, the Member shall contribute all its right, title and interest in and to the Converting Corporation to the capital of the Company.

4.2 Additional Capital Contributions. If the Member determines that funds in excess of its initial capital contribution are necessary for the Company to meet its current or projected financial requirements, then the Member may, but shall not be obligated to, contribute to the Company, an amount equal to such necessary funds as an additional contribution to the capital of the Company.

4.3 Capital Contributions in General. Except as otherwise expressly provided in this Agreement, (a) the Member shall not be entitled to receive interest on such Member's contribution to the capital of the Company, and (b) the Member shall not be required to contribute additional capital to the Company other than as required by this Section 4.

SECTION 5. TAX MATTERS

5.1 Association Intended Solely for Tax Purposes; Election. The Member has converted the Company into a California limited liability company under the California Act, and does not intend to form a general or limited partnership under California or any other state law. The Member intends the Company to be classified and treated as an "association" taxable as a corporation within the meaning of Section 301.7701-2(b)(2) of the Treasury Regulations solely for federal and state income taxation purposes. Accordingly, the Member shall elect to classify and treat the Company as an "association" taxable as a corporation effective as of the effective date of the Conversion by filing IRS Form 8832 with the Internal Revenue Service and taking any and all other actions necessary or desirable to effect such change in classification for federal and state income tax purposes. The Member agrees to act consistently with the foregoing provisions of this Section 5.1 for all purposes, including, without limitation, for purposes of

reporting the transactions contemplated herein to the Internal Revenue Service and all state and local taxing authorities.

SECTION 6. DISTRIBUTION OF CASH FLOW.

6.1 Distribution of Cash Flow. Subject to Section 6.2, Cash Flow of the Company shall be distributed to the Member at such times and in such amounts as the Member may designate from time to time.

6.2 In-Kind Distributions. Assets of the Company (other than cash) shall not be distributed in kind to the Member without its prior written approval.

SECTION 7. DISSOLUTION AND WINDING UP OF COMPANY.

7.1 Events Causing Dissolution of Company. The Company shall dissolve and shall commence winding up and Liquidation upon the first to occur of: (a) the entry of a decree of judicial dissolution pursuant to Section 17351 of the California Act; or (b) the affirmative election of the Member to dissolve the Company (individually, an "*Event of Dissolution*"). The admission of any new Member into the Company shall not dissolve the Company, but the business of the Company shall continue without interrupt and without any break in continuity.

7.2 Winding Up of Company. Upon the Liquidation of the Company, the Member shall proceed to the winding up of the affairs of the Company. During such winding up process, the net profits, net losses and Cash Flow distributions shall continue to be allocated and distributed to the Member in accordance with this Agreement. The assets shall be liquidated as promptly as consistent with obtaining a fair value therefor, and the proceeds therefrom, to the extent available, shall be applied and distributed by the Company on or before the end of the taxable year of such Liquidation or, if later, within ninety (90) days after such Liquidation, in the following order: (a) first, to creditors including the Member, if a creditor, in the order of priority as provided by law; (b) second, to the setting up of any reserves which the Member deems necessary, for any contingent, conditional or unmatured liabilities or obligations of the Company (which shall be distributed as soon as practicable, as determined by the Member, to the Member); and (c) thereafter, to the Member.

SECTION 8. BOOKS AND RECORDS.

8.1 Books of Account and Bank Accounts. The Member shall determine the fiscal year and taxable year of the Company. The Company books and records shall be maintained using such method of accounting as the Member may determine. During normal business hours at the principal office of the Company all of the following shall be made available for inspection and copying by the Member at its own expense: (a) true and full information regarding the status of the business and financial condition of the Company; (b) a current list of the name and last known business, residence or mailing address of the Member; (c) a copy of this Agreement, the Articles of Organization and all amendments thereto, together with executed copies of any written powers-of-attorney pursuant to which this Agreement, the Articles of Organization and all amendments thereto have been executed; (d) the amount of cash and a description and statement of the agreed value of any other property or services contributed by each Member to

the capital of the Company and which each Member has agreed to contribute in the future; and (e) the date upon which each Member became a Member of the Company. The Company shall deposit all receipts, funds and income into a bank account selected by the Member and disbursements from such account may be made only upon the signature of the Member or such Member's designee.

8.2 Annual Reports and Tax Returns. Within one hundred twenty (120) days after the close of each fiscal year, the Member shall cause to be prepared and distributed, to each Member, at the expense of the Company, unaudited financial statements, which shall include, without limitation, a balance sheet of the Company, an operating (income or loss) statement, and all other information customarily shown on financial statements prepared in accordance with generally accepted accounting principles, consistently applied.


SECTION 9. MISCELLANEOUS.

9.1 Notices. All notices or other communications required or permitted hereunder shall be in writing, and shall be delivered or sent, as the case may be, by any of the following methods: (a) personal delivery; (b) overnight commercial carrier; (c) registered or certified mail, postage prepaid, return receipt requested; or (d) facsimile. Any such notice or other communication shall be deemed received and effective upon the earlier of (i) if personally delivered, the date of delivery to the address of the person to receive such notice; (ii) if delivered by overnight commercial carrier, one (1) day following the receipt of such communication by such carrier from the sender, as shown on the sender's delivery invoice from such carrier; (iii) if mailed, on the date of delivery as shown by the sender's registry or certification receipt; (iv) if given by, facsimile when sent. Any notice or other communication sent by facsimile must be confirmed within forty-eight (48) hours by letter mailed or delivered in accordance with the foregoing. Any reference herein to the date of receipt, delivery, or giving, or effective date, as the case may be, of any notice or communication shall refer to the date such communication becomes effective under the terms of this Section 9.1. Any such notice or other communication so delivered shall be addressed to the party to be served at the address for such party set forth in Section 2.2. Such addresses may be changed by giving written notice to the other parties in the manner set forth in this Section 9.1. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to constitute receipt of notice or other communication sent.

9.2 Construction of Agreement. The Section headings of this Agreement are used herein for reference purposes only and shall not govern, limit, or be used in construing this Agreement or any provision hereof. Time is of the essence of this Agreement. The provisions of this Agreement shall be construed and enforced in accordance with the laws of the State of California. This Agreement shall inure to the benefit of and shall bind the parties hereto and their respective personal representatives, successors, and assigns. Any agreement to pay any amount and any assumption of liability herein contained, express or implied, shall be only for the benefit of the Member (and its legal representatives and heirs), and such agreements and assumptions shall not inure to the benefit of the obligees of any indebtedness or any other party, whomsoever, deemed to be a third-party beneficiary of this Agreement. Every provision of this Agreement is intended to be severable.

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be duly executed as of the date first above written.

COVENANT CARE, LLC,
a Delaware limited liability company

By: 
Name: Robert A. Levin
Its: President and Chief Executive Officer