

EXHIBIT S
Form of Interim Operating Agreement

INTERIM LEASE AND SERVICES AGREEMENT

THIS INTERIM LEASE AND SERVICES AGREEMENT (this "Agreement") is made and entered into effective as of the ____ day of _____, 20__ (the "Effective Date") by and among _____, a Delaware limited liability company ("Landlord"), _____, a _____ ("Tenant") and [Emeritus Corporation, a Washington corporation/EmeriCare, Inc., a Delaware corporation] ("Emeritus/EmeriCare").

RECITALS

A. Landlord is the owner of certain real property located in _____ (the "State") and the improvements thereon that comprise that [skilled nursing/assisted living] facility which is known as _____ and located at _____ and the furniture, fixtures and equipment located therein (the "Facility").

B. In connection with the purchase and sale of the Facility, Landlord has entered into a Management Agreement with [Emeritus/EmeriCare] with respect to the day-to-day operation of the Facility.

C. [Emeritus/EmeriCare/Landlord] has applied to the _____ (the "Department") for a license to operate the Facility (the "License").

D. Pending issuance of the License, Landlord has agreed to lease the Facility to Tenant and Tenant has agreed to engage [Emeritus/EmeriCare] to provide certain administrative and financial services to the Facility.

E. Landlord, Tenant and [Emeritus/EmeriCare] are interested in documenting the terms and conditions of such interim arrangements.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants of the parties set forth herein, IT IS HEREBY AGREED AS FOLLOWS:

1. **The Lease**. Landlord does hereby lease to Tenant and Tenant does hereby lease from Landlord the Facility. Throughout the Lease Term (as defined below) the Facility shall be used solely as a licensed [skilled nursing/assisted living] facility.

2. **The Administrative and Financial Services and Tenant Reimbursement**.

(a) Tenant hereby engages [Emeritus/EmeriCare] to provide the administrative and financial services to the Facility during the Lease Term that are described in Exhibit A hereto (the "Services"). [Emeritus/EmeriCare] accepts the engagement and agrees to provide the

Services. All costs incurred by [Emeritus/EmeriCare] in providing the Services shall be deemed to be Facility Expenses (as hereinafter defined) and shall be paid from the funds deposited in the Facility Bank Account (as defined in Exhibit A).

(b) In consideration for the provision of the Services, [Emeritus/EmeriCare] shall be entitled to receive a fee (the "Services Fee") in an amount equal to [five] percent [5%] of the Gross Operating Revenues (as hereinafter defined) of the Facility. The Services Fee shall be due and payable in arrears on the twenty-fifth (25th) day of each month and may be paid by [Emeritus/EmeriCare] to itself from the funds deposited into the Facility Bank Account.

(c) By entering into this Agreement, Tenant does not delegate to [Emeritus/EmeriCare] any authority, powers, duties or responsibilities that it is prohibited by law from delegating and, notwithstanding anything to the contrary set forth herein, Tenant, as the licensed operator of the Facility, shall, subject to Landlord's financial obligations under Section 3(b), retain ultimate responsibility for the compliance of the Facility with applicable law and for the organization, management and operations of, and financial and administrative control over, the Facility.

(d) Landlord shall reimburse Tenant for all reasonable administrative costs and expenses (excluding overhead costs) actually incurred by Tenant in connection with performing its obligations under this Agreement, including, maintaining the effectiveness of the licenses from the State necessary to operate the Facility as a [skilled nursing/assisted living] facility. Any such request for reimbursement shall be accompanied by reasonably detailed supporting documentation of the costs and expenses incurred by Tenant and the reason therefore.

(e) For purposes hereof, the following definitions shall apply:

(i) "Gross Operating Revenues" shall include all payments received in connection with Occupancy Agreements or other payments for the use or occupancy of space in the Facility (whether by residents, licensees, concessionaires, permissive use arrangement, or otherwise), including, without limitation, any such payments received pursuant to any sublease or assignment of Occupancy Agreements, any lease, license, concession, or other permissive use arrangement; all payments made by any third-party payors under any third-party payor program (including, without limitation, to the extent applicable to the Facility, Medicare, Medicaid (however denominated under State law), CHAMPUS, Blue Cross and/or Blue Shield, managed care plans, or other private insurance plans or employee assistance programs), parking revenues, income from vending machines, photocopier machines, and other such devices, late charges, interest on past due rentals, payments under any licenses, concessions, or other agreements for advertising signs, telecommunications services, antennas, or disks, all lease modification, amendment, surrender, or cancellation payments, all proceeds in lieu of rental revenues from any business interruption insurance policies; all escalation payments; and all payments made by residents, or other

users of the Facility for extra services, including, without limitation, the use of any personal property used in connection with the Facility and the provision of any healthcare or other personal services. For the avoidance of doubt, the parties acknowledge and agree that the “Gross Operating Revenues” of the Facility shall not include income derived from interest on investments or otherwise (except for business interruption insurance proceeds as set forth above), proceeds of claims on account of insurance policies, abatement of taxes awards arising out of takings by eminent domain, discounts and dividends on insurance policies, sale or refinancing proceeds, monies paid for capital expenditures, all purchase discounts, and security deposits.

(ii) “Facility Expenses” shall include all expenses incurred in the course of the operation of the Facility during the Lease Term including, but not limited to, the Service Fee, the salaries, bonuses, commissions, state and federal payroll and social security tax obligations and benefits paid to or on behalf of the employees of the Facility, any out of pocket costs incurred by [Emeritus/EmeriCare] in preparing the Facility tax returns and any taxes due thereunder and any penalties or interest related to the payment thereof; the cost of all Facility supplies, utilities and equipment; any expenses incurred by [Emeritus/EmeriCare] in billing for services rendered at the Facility and/or in collecting or attempting to collect the accounts receivable of the Facility; and the cost of all insurance premiums due with respect to any insurance policies or programs which provide coverage for the Facility and any deductible, retention amounts or security payments related to claims or potential claims made under such insurance policies.

3. *The Rent/Working Capital.*

(a) During the Lease Term the rent shall be equal to the net profits of the Facility (after payment of all Facility Expenses, including, without limitation, the Services Fee), determined in accordance with generally accepted accounting principles, it being understood and agreed that it is the intent of the parties that during the Lease Term all of the benefits and burdens of the ownership of the Facility shall inure to the Landlord.

(b) In consideration for the payment of the Rent, Landlord shall provide to [Emeritus/EmeriCare] by way of deposit in the Facility Bank Account within ten (10) days after receipt of a written request with respect thereto setting forth in reasonable detail the amount of funding needed and the reason why such funding is needed, such working capital and other funding as may be needed to operate the Facility and maintain any reserves required by governmental regulatory agencies having jurisdiction over the Facility in the event the Gross Operating Revenues of the Facility are not sufficient to pay all of the Facility Expenses.

4. *Certain Covenants.*

(a) The parties acknowledge and agree that the Facility is currently secured by the loan and loan documents described in Exhibit B (the "Facility Loan Documents").

(b) Tenant further acknowledges and agrees that throughout the Lease Term, Tenant shall use commercially reasonable efforts to comply, and shall cause [Emeritus/EmeriCare] in the course of providing the Services to comply, with all of the requirements, obligations and limitations imposed under the Facility Loan Documents on Landlord and/or on any entity leasing the Facility from Landlord with respect to the Facility including, but not limited to, if and to the extent applicable, (i) the obligation to maintain the Facility in good, orderly, clean, safe, sanitary and sightly condition and to apply any insurance proceeds in accordance with the terms of the Facility Loan Documents, (ii) the limitations imposed with respect to the remodeling, reconstruction, addition to, or demolition of all or any part of the Facility, (iii) the obligation to, at all times, maintain in full force and effect a license from the State to operate the Facility as a [skilled nursing/assisted living] facility, (iv) the prohibition on operating the Facility as anything other than as a [skilled nursing/assisted living] facility, (v) the limitations on assignment and subletting, (vi) the limitations on the reduction in, or expansion of, the licensed bed capacity of the Facility, (vii) the requirements with respect to the maintenance and inspection of the Facility's books and records, (viii) the obligation to comply with any applicable prohibitions contained therein on discrimination in admissions to the Facility, (ix) the obligation to deposit the operating income from the Facility in an account established in the name of the Facility at a financial institution whose deposits are insured by an agency of the federal government, (x) the obligation to ensure that the Facility is at all times properly equipped to operate as a [skilled nursing/assisted living] facility and (xi) the prohibition against paying amounts for services, supplies or materials which are in excess of the amount ordinarily paid for such services, supplies or materials in the are where the services are rendered or the supplies or materials are furnished. Notwithstanding the previous sentence, Tenant does not undertake, and shall not be obligated to perform, any contractual covenant or financial obligation under the Facility Loan Documents.

5. Indemnity.

(a) The parties hereby acknowledge and agree that Tenant is entering into this Agreement solely as an accommodation to Landlord and [Emeritus/EmeriCare]. Accordingly, as between Landlord and [Emeritus/EmeriCare], on the one hand, and Tenant, on the other hand, (i) Landlord shall bear sole responsibility for (a) any non-performance under this Agreement and (b) any liabilities, claims, demands or causes of action arising or asserted against Tenant or any of Tenant's officers, directors, agent, employees, affiliates and insurers, including, without limitation, Tenant's Chief Restructuring Officer and Receiver (collectively, "Tenant Indemnified Parties") by Landlord, [Emeritus/EmeriCare] or any other person or entity as a result of the leasing of the Facility by Tenant pursuant to this Agreement and/or the operation of the Facility during the Lease Term; and (ii) Landlord and/or [Emeritus/EmeriCare] shall jointly and severally indemnify, defend and hold harmless Tenant and Tenant's Indemnified Parties from and against against (a) any and all damages, losses, costs and expenses arising from any breach of this Agreement and (b) any liabilities, claims, demands, causes of action, losses, costs and expenses

(including reasonable attorneys fees) arising or asserted against Tenant or Tenant's Indemnified Parties during or following the Lease Term as a result of the leasing of the Facility by Tenant pursuant to this Agreement, the operation of the Facility during the Lease Term of this Agreement and/or the provision of the Services by [Emeritus/EmeriCare] pursuant to this Agreement (collectively, the "Losses"). Notwithstanding the foregoing, the indemnity provided for herein shall not apply (a) with respect to Losses proximately caused by the gross negligence or willful misconduct of Tenant or any of the Tenant Indemnified Parties or (b) to any liabilities, claims, demands or causes of action arising or asserted against Tenant, any of the Tenant Indemnified Parties, Landlord or [Emeritus/EmeriCare] with respect to the leasing or operation of the Facility prior to the Effective Date or (c) limit any rights which Landlord may have to seek indemnity from [Emeritus/EmeriCare] or which [Emeritus/EmeriCare] may have to seek indemnity from Landlord with respect to any of the matters described in this Section 5(a).

(b) Tenant shall promptly notify Landlord and [Emeritus/EmeriCare] in writing of any claim or demand which Tenant has received or determines could give rise to a right of indemnification under this Section 5 (an "Indemnity Notice"). Subject to the right of Landlord and/or [Emeritus/EmeriCare] to defend in good faith third party claims as hereinafter provided, Landlord and/or [Emeritus/EmeriCare] shall satisfy its obligations under this Section 5 within thirty (30) days after the receipt of an Indemnity Notice from Tenant, it being agreed that neither Landlord nor [Emeritus/EmeriCare] shall be required to satisfy such obligations during any period in which Landlord or [Emeritus/EmeriCare] is defending in good faith the applicable third party claim in the manner described below.

(c) If Tenant shall deliver an Indemnity Notice to Landlord and [Emeritus/EmeriCare] pursuant to Section 5(b), and if Indemnity Notice relates to a claim or demand asserted by a third party against Tenant, the following provisions shall apply:

(i) Landlord and/or [Emeritus/EmeriCare] shall have the right, in its reasonable discretion, to either (x) pay such claim or demand or (y) employ counsel reasonably acceptable to Tenant to defend any such claim or demand asserted against Tenant.

(ii) Tenant shall have the right to participate in the defense of any such claim or demand at its own expense unless there is a conflict between the interests of Tenant, on the one hand, and Landlord and/or [Emeritus/EmeriCare], on the other hand, in which case Tenant shall have the right, subject to the consent of [Emeritus/EmeriCare], which consent shall not be unreasonably withheld, to retain a single attorney or law firm to serve as its separate counsel at the cost and expense of the Facility.

(iii) Landlord or [Emeritus/EmeriCare] shall notify Tenant in writing, as promptly as possible, but in any case by the later of (i) fifteen (15) days before the due date for the answer or response to a claim or ten (10) days after receipt of the Indemnity Notice (the "Answer Period") of its election to defend in good faith any such third party claim or demand or to pay such claim or demand, the failure

of Landlord or [Emeritus/EmeriCare] to give notice of an election to defend within such time period being deemed to be an election to pay such claim or demand, which payment shall be made within ten (10) business days after the end of the Answer Period.

(iv) So long as Landlord or [Emeritus/EmeriCare] is defending in good faith any such claim or demand asserted by a third party against Tenant, Tenant shall not settle or compromise such claim or demand, it being understood and agreed that Landlord or [Emeritus/EmeriCare], acting on behalf of Landlord, shall have the sole right to settle or compromise such claim or demand; provided, however, that the consent of Tenant, which consent may be withheld in its sole discretion, shall be required for any settlement or disposition of any claim or demand which results in any liability (which is not fully and promptly paid by Landlord or [Emeritus/EmeriCare] at the time of settlement) to, or the imposition of equitable relief, administrative sanctions or any other limitation on the operating authority of, Tenant. If neither Landlord nor [Emeritus/EmeriCare] elects to defend any such third party claim or demand and does not timely pay such claim or demand in accordance with this Section 5, then Tenant shall have the right to contest, compromise or settle such claim or demand and the cost of defense and settlement shall be an expense of operating the Facility in accordance with the terms hereof.

(v) Each of Tenant, Landlord and [Emeritus/EmeriCare] and their respective agents shall make available to the other all records and other materials in their possession reasonably required by the other for use in contesting any third party claim or demand.

(vi) As security for its obligations under this Section 5, on the Effective Date, [Emeritus/EmeriCare] shall provide Tenant with a certificate evidencing that Tenant has been named as an additional insured on any general and professional liability insurance policies then in effect with respect to the Facility and such coverage shall remain in effect and updated certificates shall be provided for the applicable period in which any claims which are the subject of this Section 5 may be brought against Tenant.

(vii) The obligations of Landlord and [Emeritus/EmeriCare] under this Section 5 shall survive the expiration or earlier termination of the Lease Term.

6. **Term.** The term of this Agreement shall commence on the Effective Date and shall continue until the earlier to occur of (i) the issuance of the License, (ii) from and after the first anniversary of the Effective Date, ninety (90) days after Landlord gives notice of termination to Tenant and [Emeritus/EmeriCare], (iii) the sale or other transfer by Landlord of its interest in the Facility, or the direct or indirect sale of all of the membership interests in Landlord to a third party or (iv) at the election of Tenant, upon not less than 60 days' prior written notice to

Landlord and [Emeritus/EmeriCare], as of December 31, 2010 (the "Lease Term"). In the event that the License has not been issued as of the end of the Lease Term, then [Emeritus/EmeriCare] and/or Landlord shall be required to take such action, at their sole cost and expense, as may be necessary prior to the expiration of the Lease Term to either close the Facility and discharge the residents from the Facility in compliance with applicable local, state and/or federal law or to identify and hire a third party acceptable to the Department and to which the Department is prepared to issue a license to operate the Facility effective as of the end of the Lease Term.

7. **Entirety.** This Agreement, including the exhibits hereto, represents the entire and final agreement of the parties hereto with respect to the subject matter hereof and may not be amended or modified except by written instrument signed by the parties hereto. This Agreement shall not be amended or modified without the consent of any lender is and to the extent such consent is required by the terms of the Facility Loan Documents. Neither Landlord nor [Emeritus/EmeriCare] shall have any actual, implied or apparent authority to contractually or otherwise bind Tenant to any contractual or other obligation to any other person and Tenant shall not have any actual, implied or apparent authority to contractually or otherwise bind Landlord or [Emeritus/EmeriCare] to any contractual or other obligation to any other person.

8. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State.

9. **Successors and Assigns.** Tenant shall have no right to assign its rights or obligations under this Lease. Landlord and [Emeritus/EmeriCare] shall have the right to assign their rights and obligations under this Agreement subject to securing any necessary third party consents, including the consent of any lender which may be required under the terms of the Facility Loan Documents; provided that no such assignment shall relieve Landlord or [Emeritus/EmeriCare] from any of its obligations to Tenant hereunder.

10. **Relationship to Facility Loan Documents.** This Agreement and all estates, rights, options, liens and charges therein contained or created under this Agreement are and shall be subject and subordinate to the lien and effect of the Facility Loan Documents. Accordingly, in the event of any conflict between the terms and provisions of this Agreement and the terms of the Facility Loan Documents, the terms and provisions of the Facility Loan Documents shall control in all respects.

11. **Attorneys Fees.** In the event of a dispute between the parties hereto with respect to the interpretation or enforcement of the terms hereof, the prevailing party shall be entitled to collect from the other its reasonable costs and attorneys fees, for services prior to trial or hearing, on trial or hearing and in any appeal therefrom.

12. **Construction.** In the event of a dispute between the parties hereto with respect to the interpretation or enforcement of the terms hereof, no provision shall be construed so as to favor or disfavor either party hereto.

13. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute but one and the same instrument.

14. **Notices.** All notices required to be given under the terms of this Agreement shall be in writing, shall be sent to the parties at the addresses set forth below their signatures and shall be sent by hand delivery, facsimile transmission (with a hard copy to follow by mail) or overnight delivery using a nationally recognized overnight delivery courier service and shall be deemed received upon the actual confirmed receipt or refusal of receipt thereof.

15. **Covenants Regarding License.**

(a) [Emeritus/EmeriCare] hereby covenants and agrees to proceed with all due diligence to secure the License. Further, [Emeritus/EmeriCare] agrees to provide to Tenant, upon request, with written status reports regarding the status of the License application (the "Application").

(b) Tenant further covenants and agrees that in the event, during the Lease Term, Landlord or [Emeritus/EmeriCare] should provide Tenant with documentation reasonably required to be signed by Tenant in order to maintain in effect the license issued to Tenant in connection with its operation of the Facility, Tenant shall execute and return the same to or as directed by Landlord no later than the date specified by Landlord.

16. **Further Assurances.** Each of the parties hereto agrees to execute and deliver any and all further agreements, documents or instruments necessary to effectuate this and the transactions referred to herein or contemplated hereby or reasonably requested by the other party to perfect or evidence their rights hereunder.

IN WITNESS WHEREOF, the parties hereby execute this Agreement as of the day and year first set forth above.

LANDLORD:

By: _____
Its: _____

TENANT:

By: _____
Its: _____

[EMERITUS/EMERICARE]: [EMERITUS CORPORATION/EMERICARE, INC.]

By: _____
Its: _____

EXHIBIT A THE SERVICES

Set forth below is a description of the Services to be provided by [Emeritus/EmeriCare] pursuant to the terms of that Interim Lease and Services Agreement dated as of _____, 20__ (the "Agreement"). Capitalized terms used herein and not otherwise defined will have the meaning ascribed to them in the Agreement.

1. Operational Policies and Forms. [Emeritus/EmeriCare] shall consult with Tenant with respect to the development and implementation of such operational policies and procedures as may be appropriate for the effective operation of the Facility, including but not limited to all policies and procedures necessary to ensure the ongoing licensure of the Facility and compliance with the terms of residency agreements, all of which shall be subject to the final review and approval of Tenant. [Emeritus/EmeriCare] shall also consult with Tenant with respect to all such policies which deal with risk management and personnel matters.

2. Charges. [Emeritus/EmeriCare] shall consult with Tenant with respect to the establishment of the schedules of recommended charges, including all special charges for services rendered to the residents at the Facility.

3. Information and Publicity. [Emeritus/EmeriCare] shall consult with Tenant with respect to the development of any informational material, mass media releases, and other related publicity materials, which are necessary or appropriate for the operation of the Facility. Neither Landlord nor [Emeritus/EmeriCare] shall use the name, logotype, trade dress or other identification of Tenant in any advertising or promotional material without Tenant's prior written consent, which consent may be granted or withheld in Tenant's sole and unfettered discretion; provided, however, nothing herein shall be construed as limiting the rights granted to Landlord and [Emeritus/EmeriCare] under the terms of Section 9.10 of the Agreement of Purchase and Sale dated January ____, 2010 entered into by and between Landlord and Stayton SW Assisted Living, LLC with respect to the Facility and certain other facilities described therein.

4. Regulatory Compliance. [Emeritus/EmeriCare] shall provide all necessary and appropriate assistance to Tenant in its efforts to obtain and maintain all licenses, permits, qualifications and approvals from any applicable governmental or regulatory authority that are necessary for the operation of the Facility in compliance with all applicable laws and regulations and in accordance with all licenses, permits, qualifications and approvals including consulting with Tenant on the development of appeals and plans of correction with respect to any deficiencies which may be cited or civil monetary or other penalties which may be proposed to be imposed, by the applicable governmental authority during the Lease Term. Within 48 hours of receipt thereof, Tenant shall provide [Emeritus/EmeriCare] with copies by fax, overnight mail, email or other comparable means of expedited transmission of any written notice regarding the licensure, occupancy or operation of the Facility which it receives from any governmental authority having jurisdiction over the Facility.

5. Capital Repairs, Replacements and Improvements. [Emeritus/EmeriCare] shall consult with Landlord with respect to the need for, and to the extent agreed upon by Landlord shall undertake, at Landlord's sole expense, all capital repairs, replacements and improvements which may be necessary for the efficient and effective operation of the Facility and its compliance with law. In performing the foregoing repairs, replacements and improvements [Emeritus/EmeriCare] shall use the applicable Facility's on site maintenance personnel as and where possible and shall otherwise contract with qualified third parties to provide the necessary services and shall undertake the same or cause the same to be undertaken in a workman like and lien free manner and without interfering with operations of the Facility.

6. Legal Proceedings. [Emeritus/EmeriCare], in consultation with Tenant but through legal counsel engaged by [Emeritus/EmeriCare], shall coordinate all legal matters and proceedings related to the Facility and shall take any and all steps deemed appropriate by [Emeritus/EmeriCare], after consultation with Tenant, to protect and/or litigate to a final decision in an appropriate court or forum any violation, order, rule or regulation affecting the Facility and its operations or any claim, loss, violation or cause of action relating to the Facility. Tenant promptly notify [Emeritus/EmeriCare] in writing of any written demand letters received by Tenant which threaten litigation related to the Facility or any legal or administrative proceedings that are filed involving the Facility. Tenant shall have the right to approve any legal counsel engaged by [Emeritus/EmeriCare] if and to the extent such litigation involves a claim against Tenant or the Tenant Indemnified Parties for which indemnity is being sought under Section 5 of the Agreement.

7. Personnel. The Administrator/Executive Director of the Facility shall have responsibility and authority for the day-to-day operations of the Facility, shall be accountable to the governing board of Tenant and shall carry out the policies of Tenant as developed by the governing board of Tenant. The Administrator/Executive Director, as well as the other on-site personnel of the Facility, including the business office manager, wellness director and department heads shall be the employees of [Emeritus/EmeriCare] which shall have sole responsibility for all compensation, benefits and conditions of employment of such employees. [Emeritus/EmeriCare] shall make available to such employees health insurance and workers compensation insurance on terms consistent with that offered to other [Emeritus/EmeriCare] employees. [Emeritus/EmeriCare] shall, in consultation with Tenant, coordinate matters pertaining to the employment, supervision, compensation, promotion and discharge of such employees but, to the extent required by applicable law, the ultimate authority for making all personnel decisions, including decisions related to the Administrator/Executive Director, shall remain with Tenant. Any personnel decisions made by [Emeritus/EmeriCare] after consultation with Tenant shall comply with all federal, state, county, municipal and other governmental laws, ordinances, regulations and orders having to do with anti-discrimination, workmen's compensation, employer's liability insurance, social security, unemployment insurance, hours of labor, wages, working conditions, immigration and all other employer-employee related subjects and neither [Emeritus/EmeriCare] nor Tenant shall do any act, nor knowingly permit any act to be done that would constitute a violation of any or all of such laws, ordinances, regulations or orders.

8. Accounting. [Emeritus/EmeriCare] shall provide all necessary and appropriate accounting support to the Facility. All accounting procedures and systems utilized in providing said support shall be in accordance with the operating capital and cash programs developed by [Emeritus/EmeriCare], which programs shall conform to generally accepted accounting principles (“GAAP”) except with respect to the treatment of resident move in fees and shall not materially distort income or loss. [Emeritus/EmeriCare] shall prepare timely and file or cause to be prepared and filed timely all payroll tax returns, sales and use tax returns, real and personal property tax returns and local or state gross receipts and/or business and occupation tax returns and any other tax returns, but specifically excluding Tenant’s local, state or federal income or informational tax returns and state corporate franchise tax returns, which shall be and remain the responsibility of Tenant, and [Emeritus/EmeriCare] shall cause to be paid timely all of the taxes reflected as being due on the returns prepared by [Emeritus/EmeriCare]. Nothing herein shall preclude [Emeritus/EmeriCare] from delegating to a third party a portion of the accounting duties provided for in this Section; provided, that such delegation shall not relieve [Emeritus/EmeriCare] from ultimate liability for the timely and complete performance of the obligations provided for herein or for the expense thereof.

9. Budgets. The Facility shall be operated on a fiscal year of January 1 through December 31. The Facility shall be operated in accordance with the terms of the capital expenditure budget (the “Capital Budget”) and operating budget (the “Operating Budget” and together with the Capital Budget, the “Initial Budgets”) prepared by [Emeritus/EmeriCare] and approved by Landlord, it being understood and agreed that Landlord agrees to fund any needed working capital in the event the Gross Operating Revenues of the Facility are not sufficient to cover the Facility Expenses. The Initial Budgets shall cover the period from the Commencement Date to December 31 of the year in which the Commencement Date occurs. Thereafter, prior to the start of each fiscal year, [Emeritus/EmeriCare] shall prepare and submit to Landlord for its review and approval, an annual Operating Budget and an annual Capital Budget (the “Budgets”). In the event the Budgets have not been agreed upon by the beginning of the fiscal year, the Budgets in effect for the prior fiscal year shall continue in effect until the new Budgets are agreed upon. Except as otherwise provided herein, [Emeritus/EmeriCare] shall ensure that no expenditures will be made during a fiscal year on a basis inconsistent with then approved Budgets without Landlord’s prior approval. Notwithstanding the foregoing, Landlord’s prior approval shall not be required for the following expenditures in excess of the amounts set forth in the Budgets: (a) [Emeritus/EmeriCare], in its reasonable judgment, deems there to be an emergency requiring it to incur unbudgeted expenditures to effectuate immediate action necessary for the protection of the assets of the Facility or to avoid property damage or personal injury or to preserve the well being of residents in the Facility or to avoid impairment of the Facility’s operating licenses, (b) expenditures which would not cause the aggregate amount of the Facility Expenses (excluding the Facility Expenses described in clause (c)) to exceed the Facility Expenses reflected in the Budgets by more than 5% or (c) expenditures for real and personal property taxes and assessments and utilities. [Emeritus/EmeriCare] and the Tenant shall each use diligent efforts to keep the Landlord fully informed regarding all material matters relating to the Facility and its operations and assets (and such other specific matters as the Landlord may reasonably request from time to time) and shall so consult on a monthly basis and at all reasonable times requested by the Landlord. In addition, [Emeritus/EmeriCare] and the Tenant and each shall, and each shall cause any party retained by it or its affiliates to implement

the matters set forth in the Initial Budget or Budget, as the case may be, to periodically consult with the Landlord regarding the implementation of the Initial Budget or Budget, as the case may be.

10. Reports. [Emeritus/EmeriCare] shall deliver or cause to be delivered to Landlord statements and information as follows (all costs and expenses incurred in connection with the preparation of any statements, schedules, computations and other reports required under this Section 10(a) and 10(b) shall be borne by Manager:

(a) Annual financial statements (balance sheet and income statement) in a format acceptable to Landlord within ninety (90) days of the end of the calendar year, audited by the "Facility's Accountants" (i.e., KPMG or another independent nationally recognized accounting firm approved by Landlord). Such audit by the Facility's Accountants may be conducted at a level that consolidates the Facility with other similar properties managed by [Emeritus/EmeriCare] and owned by affiliates of Landlord.

(b) A monthly report for each calendar month, certified to be true, accurate and complete in all material respects, and submitted to Landlord within thirty (30) days of the end of each such calendar month (the "Periodic Report"). Each Periodic Report shall be in accordance with GAAP.

(c) In addition, [Emeritus/EmeriCare] shall prepare and provide to Landlord any reasonable financial information with respect to the Facility which may from time to time be specifically requested by Landlord or required by the terms of the Facility Loan Documents including, but not limited to, within thirty (30) days after the end of each calendar month, [Emeritus/EmeriCare] shall provide Landlord with an unaudited balance sheet for the Facility, dated the last day of such month, and an unaudited statement of income and expenses for such month and for the fiscal year to date relating to the operation of the Facility showing trends, the variance between the actual and budgeted operating results of the Facility for said month and with a rent roll and census report for the month indicating the number of units occupied and the number of units vacant. To the extent in their possession or under their control, Landlord and Tenant shall be required to provide [Emeritus/EmeriCare] with such information with respect to the operations of the Facility as [Emeritus/EmeriCare] may reasonably request in order to prepare the foregoing financial statements. Such monthly reports shall also show summary and itemization of accounts receivable for the Facility and report of collection action(s) taken and status of any collection action(s). The financial statements prepared by [Emeritus/EmeriCare] shall be prepared in accordance with GAAP, consistently applied, except with respect to the treatment of resident move in fees, this Agreement, and the procedures and practices provided for in this Agreement. Notwithstanding any other provision of this Agreement, and without prejudice to the other rights provided to Landlord under this Agreement [Emeritus/EmeriCare] and Tenant each agree to periodically (at least quarterly) provide Landlord with information and reports regarding [Emeritus/EmeriCare]'s and/or the Tenant's operation and management of the Facility and the performance of its duties under this Agreement and with respect to renovations, alterations, general maintenance, repairs and development activities that [Emeritus/EmeriCare] and/or Tenant has engaged in or intends to engage in with respect to the Facility and its surroundings as set forth in this Agreement.

11. Bank Accounts. [Emeritus/EmeriCare] shall deposit all money received by [Emeritus/EmeriCare] during the Lease Term in the course of consulting with Tenant with respect to the operation of the Facility into one or more depository accounts established by [Emeritus/EmeriCare] in the name of the Facility (the "Facility Bank Account"). In order to enable [Emeritus/EmeriCare] to provide the accounting services contemplated by this Agreement, [Emeritus/EmeriCare] shall thereafter sweep such funds in accordance with its corporate cash management practices into a corporate cash consolidation account from which [Emeritus/EmeriCare] shall pay the Facility Expenses.

12. Supplies and Equipment. [Emeritus/EmeriCare] shall consult with Tenant with respect to the need for, and to the extent agreed upon by [Emeritus/EmeriCare] and Tenant shall purchase, such supplies and equipment which may be necessary for the efficient and effective operation of the Facility and its compliance with law.

13. Collection of Accounts. On behalf and in the name of Tenant, [Emeritus/EmeriCare] shall issue bills and collect accounts and monies owed for goods and services furnished by the Facility during the Lease Term, including, but not limited to, enforcing the rights of Tenant and the Facility as the creditor under any contract or in connection with the rendering of any services.

14. Contracts. If requested by Tenant, [Emeritus/EmeriCare] shall assist Tenant in its efforts to negotiate and enter into contracts to which Tenant may not currently be a party and which [Emeritus/EmeriCare], in consultation with Tenant, determines are necessary in connection with the day-to-day operation of the Facility, including, but not limited to, contracts for water, electricity, natural gas, telephone, sewer, cleaning, trash removal, pest control and extermination, cable, elevator and boiler maintenance, pharmacy services, therapy services and other appropriate ancillary services and contracts for the provision of various services which are designed to identify potential cost savings to the Facility, such as utility and tax bill review services.

15. Insurance. If requested by Tenant or Landlord, [Emeritus/EmeriCare] shall arrange for and maintain all necessary and proper hazard insurance covering the Facility, the furniture, fixtures, and equipment situated thereon and all necessary and proper malpractice and public liability insurance for the protection of Landlord, Tenant, [Emeritus/EmeriCare] and their officers, directors, agents, employees, affiliates and insurers, including, without limitation, the Tenant Indemnified Parties, it being understood and agreed that [Emeritus/EmeriCare] shall have the right to provide such malpractice and public liability insurance through a captive insurance company and to include the Facility in the [Emeritus/EmeriCare] Pooled Self Insurance Program. Any insurance coverage arranged for by [Emeritus/EmeriCare] shall be consistent with the coverage provided by [Emeritus/EmeriCare] to other [assisted living facilities/skilled nursing facilities] which are owned or leased by [Emeritus/EmeriCare] and shall otherwise comply with the requirements of the Facility Loan Documents. Landlord and Tenant shall be listed as an additional insured under all policies provided by [Emeritus/EmeriCare] pursuant to this Section and each shall be provided with a certificate of insurance confirming the same. Neither Tenant nor any of the Tenant Indemnified Parties shall have any rights to the proceeds of any insurance

maintained pursuant to this Section 15 except to the extent the same are used by Landlord and [Emeritus/EmeriCare] to fulfill their indemnity obligations under Section 5 of the Agreement. Landlord and [Emeritus/EmeriCare] shall be jointly and severally liable for any deductible, self-insured retention, co-insurance payment or excess loss or expense over and above available insurance proceeds.

16. Cost Reports. [Emeritus/EmeriCare] shall prepare any cost reports which may be required under Medicare, Medicaid or any other third party payor program in which the Facility may participate and, to the extent any applicable provider agreement is in the name of Tenant, shall submit the same to Tenant to be reviewed, approved, signed and filed by Tenant as and when due.

17. Data Processing. [Emeritus/EmeriCare] shall, at its own expense, directly or through an affiliate, provide the data processing required to maintain the financial, payroll, and accounting records of the Facility.

18. Reporting to Tenant. [Emeritus/EmeriCare] shall, upon written request from Tenant, provide Tenant with copies of any statements or information reasonably necessary for Tenant to perform its obligations under the Agreement, including, without limitation, maintaining the effectiveness of the licenses from the State to operate the Facility as a [skilled nursing/assisted living] facility and reporting to any governmental or taxing authority having jurisdiction over Tenant.

With respect to any obligation imposed on Emeritus/EmeriCare under the foregoing provisions to consult with Tenant or to secure the approval of the Tenant or words of similar import, such obligation shall, whether or not stated above, only apply if and to the extent that Landlord or [Emeritus/EmeriCare] reasonably determine that such consultation, approval or other Tenant involvement is required to ensure that the operation of the Facility pursuant to the terms of this Agreement complies with applicable law, including the laws of the Department taking into account the fact that the Tenant will be the licensee of the Facility during the Lease Term.

EXHIBIT B
FACILITY LOAN DOCUMENTS