

PAUL A. GORDON
PARTNER
DIRECT DIAL (415) 995-5014
DIRECT FAX (415) 995-3430
E-MAIL pgordon@hansonbridgett.com

September 19, 2011

VIA EMAIL AND U.S. MAIL

Wendi A. Horwitz
Deputy Attorney General
California Department of Justice
Office of the Attorney General
300 South Spring St., Suite 1702
Los Angeles, CA 90013

Re: Scripps Kensington

Dear Ms. Horwitz,

This is in reference to your letter to me dated July 13, 2010, conditionally approving the sale from The Episcopal Home Communities (TEHC) to the TAG Medical Investment Group, LLC (TAG) of the Scripps-Kensington continuing care retirement community, which includes the Cummings Care Center skilled nursing facility (SNF). The transaction involved TEHC leasing back the property for a period of 5 years after the sale, during which time it would close down operation of its independent living (IL) and assisted living (AL) facilities, and manage the SNF for TAG.

The transition from TEHC to TAG has gone a lot more quickly than was anticipated in the 5 year leaseback plan. Most Scripps-Kensington residents have moved to other locations and TEHC anticipates that it can be entirely off the campus as of December 15, 2011. TAG has its nursing facility license and wishes to take possession of the rest of the property sooner than originally planned, and TEHC wishes to terminate the lease, be relieved of paying TAG's property taxes as rent and of managing TAG's nursing facility, and receive the purchase price sooner than agreed under the 5 year leaseback plan.

Facilitation of these changes involves a deviation from two of the conditions stated in your letter of July 13, 2010.

Condition II states:

The transaction approved by the Attorney General between the Buyer and Seller consists of the Agreement for Purchase and Sale dated April 8, 2010, Business Sale Agreement dated May 28, 2010, Lease Agreement dated on or about May 28, 2010, Management Agreement dated on or May 28, 2010, and Escrow Agreement dated on the Closing Date of the Transaction, and the Promissory Note and Deed of Trust dated on the Closing Date of the Transaction. Buyer and Seller shall fulfill the terms and conditions of the transaction. Buyer and Seller shall notify the Attorney General in writing of any proposed modification of the

transaction, including a proposed modification or rescission of any of the agreements. Such notification shall be provided at least thirty days prior to the effective date of such modification in order to allow the Attorney General to consider whether the proposed modification affects the factors set forth in Corporations Code section 5917.

Condition IV states:

For five years from the date of the transaction closing, the Buyer and Seller shall operate and maintain the Cummings Care Center at Scripps Kensington as a licensed skilled nursing facility (as defined in California Health and Safety Code Section 1250) and shall maintain the current types and levels of skilled nursing services as currently licensed (99 beds) including, but not limited to, occupational therapy, outpatient services, physician therapy, and speech pathology. For five years from the date of the transaction closing, neither Buyer nor Seller shall place all or any portion of its 99 licensed-bed capacity in voluntary suspension or surrender its license for any of these beds.

Details of the current plan, which have been memorialized in an "Agreement for Early Termination" which is dated September 16, 2011 and enclosed with this letter, are:

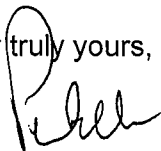
1. TAG will pay TEHC \$10.75 million dollars, for a total price of \$21,500 million dollars, on or before November 15, 2011. TEHC will forego all accrued interest of approximately \$500,000 dollars.
2. TEHC will be entirely off the campus as of December 15, 2011, at which time TAG will take on all responsibilities for the property, including property taxes and the Lease to TEHC will end.
4. TEHC will be released of its responsibilities under the skilled nursing facility Management Agreement as of 12-15-11.
5. TEHC will provide transition assistance to TAG.
6. TAG has its nursing license but wishes to provide assisted living services when they have control of the property and will apply for an RCFE license. TEHC will maintain its RCFE license to operate the IL and AL property until February 29, 2012, or until TAG obtains its license, whichever occurs first.
7. TEHC will continue to restrict the use of sales proceeds to care for residents and development of the Monte Cedro project as set forth in the conditional approval.

In essence, TEHC is asking for approval of a change in the conditions of approval such that: a) TEHC will be relieved of its SNF Management Agreement obligations as of December 15, 2011, and b) TEHC's 5-year Lease of the IL and AL portions of the property will end as of December 15, 2011.

Ms. Wendi A. Horwitz
September 19, 2011
Page 3

Please approve the aforementioned changes to the conditions of approval of TEHC's sale of the Scripps-Kensington to TAG. Please let me know if there is any question.

Very truly yours,

A handwritten signature in black ink, appearing to read "Paul Gordon", written over the closing "yours,".

Paul Gordon

cc: Martha Tamburrano

Enclosure

AGREEMENT FOR EARLY TERMINATION

This agreement is made and entered into as of September 16, 2011 by and between TAG-2 Medical Investment Group, LLC, a California limited liability company ("Buyer" or "TAG-2"), and The Episcopal Home Communities, a California non-profit public benefit corporation ("Seller" or "TEHC").

Reference is made to a certain Agreement for Purchase and Sale dated as of April 8, 2010 (the "Original Agreement"), by and between TAG-2 (as successor-in-interest to TAG Medical Investment Group, LLC, a California limited liability company) and TEHC, as amended by a certain First Amendment to Agreement for Purchase and Sale dated as of July 15, 2010 (the "First Amendment," which together with the Original Agreement are collectively referred to as the "Purchase Agreement"). Capitalized terms not defined herein shall have the same meaning as set forth in the Purchase Agreement. For valuable consideration received, the parties agree as follows:

1. On or before November 15, 2011, TAG-2 shall pay to TEHC the sum of Ten Million Seven Hundred Fifty Thousand Dollars, (the Payment). In consideration of and upon TEHC's receipt of the Payment, (a) all of the principal balance outstanding under the Note and accrued interest thereon shall be deemed paid in full, and the original of the Note shall thereupon be returned to TAG-2 (or the Trustee under the Deed of Trust) for cancellation; and (b) TEHC shall inform the Trustee under the Deed of Trust in writing that all sums secured by the Deed of Trust have been paid, and shall instruct said Trustee in writing to re-convey to TAG-2 the property held under the Deed of Trust. All of the following agreements and conditions are based on receipt of the Payment by November 15, 2011.
2. As of September 1, 2011, Phase I shall be deemed released to TAG-2 (which for calculation of property tax and maintenance purposes, shall include only the Pinney buildings, the two (2) cottages at 1412 S. Marengo and 1416 S. Marengo, and the guest house at 1416 S. Marengo, collectively referred to as the "Phase I buildings"), plus the Bloy Center and the Administration Building, for which TAG-2 shall be responsible for property taxes and all other expenses.

If TEHC has not received the Payment by November 15, 2011, TEHC will calculate property taxes and all other expenses of the Phase I buildings noted above, plus the Bloy Center and the Administration Building. These expenses will be retroactively allocated to TAG-2 (with such allocation commencing on September 1, 2011) based on the formula in the Purchase and Sale Agreement. TAG-2 shall not have the right to continue with its renovations and modifications to the buildings if TEHC has not been paid in full.

3. TEHC residents will all be off the campus as of midnight, December 31, 2011 at which time TAG-2 will take on all responsibilities for the property, including property taxes, and the Lease will terminate effective at midnight on December 31, 2011.
4. The Management Agreement will terminate effective at midnight on December 31, 2011.
5. TEHC will provide training to TAG-2 and its representatives to facilitate the transition of management of the SNF to TAG-2 prior to the termination of the Management Agreement. TEHC will provide transition assistance to TAG-2 through the close of business on December 31, 2011 as follows:
 - i. TEHC will comply with the WARN Act in the lay-off of TEHC employees, which lay-off shall be effective midnight, December 31, 2011. TEHC is solely responsible for the lay-off process. The TEHC Vice President of Human Resources will consult with TAG-2's human resources employee on matters to develop an effective transition, but will not participate in the hiring process which is the responsibility of TAG-2. TEHC will give its employee manual to TAG-2 which can then be modified for its own use.
 - ii. TEHC will assist the property supervisor identified by TAG-2 with an orientation to the campus, copies of operational manual, and a list of service providers who are familiar with the campus.
 - iii. TEHC's Risk Manager will provide access to all insurance policies TEHC has in place and current certificates of insurance, but it will be the responsibility of TAG-2 to select a broker and determine on its own what coverage is needed.
6. TEHC will work with TAG-2 to transfer all accounting activities and bank accounts related to the SNF to TAG-2 no later than December 31, 2011. TEHC will give its Plan of Operations for IL and AL, and existing procedure manuals to TAG-2 which can then be modified for their own use.
7. TEHC will provide transitional support to TAG-2 to make its best efforts to have the operating systems and contracts in place by midnight, December 31, 2011:
 - i. Information technology – email, internet, Kronos time and attendance system, and authentication software.
 - ii. Clinical technology – AccuCare medical records system.
 - iii. Financial software – AOD accounts receivable, accounts payable, payroll.

8. All transitional costs such as equipment, contract fees, software, and any third-party services will be borne by TAG-2. TEHC shall be responsible for all TEHC personnel costs under the Management Agreement through midnight, December 31, 2011. Notwithstanding the foregoing, should all of the foregoing systems not be transitioned to TAG-2 by December 31, 2011, (a) TAG-2 will continue to diligently work to transition such systems; and (b) TEHC will continue to provide such systems and assistance to TAG-2, and TAG-2 shall compensate TEHC for its services based on cost, for a period not to exceed 45 days.
9. As buildings become vacant, they will be locked, but utilities will not be turned off. With an allocation based on the square footage of the buildings, TAG-2 will assume the cost of utilities for the buildings as they become vacant, and TEHC will continue to pay for the utilities of the buildings it continues to occupy until such date as they become vacant. Any capital expenditures to the buildings that are vacant will be considered the responsibility of TAG-2. Irrigation systems will be kept operational and grounds maintenance will continue at TEHC's expense until the termination of the Lease effective at midnight on December 31, 2011.
10. TEHC remains responsible for the underground storage tank as specified in the Purchase Agreement. TEHC, however, will not be asked to remove the tank.
11. TEHC agrees to reimburse TAG-2 for any services which have been pre-approved by TEHC, provided by TAG-2 to life-care residents or residents with a continuing care contract in the skilled nursing facility that are non-covered services under such residents' respective insurance program (e.g., Medi-Cal, Medicare, etc.). Reimbursement shall be made in full by TEHC to TAG-2, without deduction or setoff, within thirty (30) days following the submission of claim(s) to TEHC for such non-covered services. TEHC shall be the primary payor for such pre-approved, non-covered services. As between TAG-2 and TEHC, TEHC shall remain solely responsible for any and all liabilities and obligations under any such life-care contracts and/or continuing care contracts, and TEHC is not assigning to TAG-2, and TAG-2 does not accept assignment of any obligation or right of TEHC pursuant to any such life-care contracts and/or continuing care contracts. TEHC shall be responsible for transferring residents who have exceeded their bed-hold days. TEHC will coordinate the transfer of such residents who no longer require convalescent or skilled level care and therefore are eligible for discharge from the SNF. *TEHC will also coordinate the transfer of residents who require care that is not usually customarily provided at the Sunny View Care Center*
12. TEHC will work with TAG-2 to receive two estimates for roof repairs on the Administration building and the Pinney buildings. TEHC agrees to share equally in the cost of the repairs, pending receipt of a reasonable estimate approved by TEHC and TAG-2's property supervisor. TEHC will pay only for roof repairs, not replacement, or expenses

which are sufficient to be considered a major capital repair. Roof repairs or replacement for the Sunny View Care Center will be the responsibility of TAG-2.

13. TEHC and TAG-2 have agreed to the following modifications of the agreement for the disposition of antiques, art work, and personal property as follows:
- i. The silver service, which is not listed, remains with TEHC.
 - ii. There are now ten (10) pianos on the campus. Eight (8) pianos, which are on the list will remain with TAG-2, and TEHC will take the KNABE grand piano located in Bloy Center and the Steinway grand piano in Plum-Davis Hall.
 - iii. The outdoor furnishings in the large patio will remain with TEHC.
 - iv. The grandfather clock, which is in Johnson Hall, will stay with TEHC.
 - v. The disposition of the antiques and pieces of art which are identified as an addendum to the Purchase & Sale Agreement other than those items listed above, will remain the property of TEHC.
14. With regards to the chapel, TEHC will proceed with a protocol of de-consecration of the chapel, by which the Diocese releases it from the Diocese. This will occur on October 2, 2011. This does not keep the sanctuary from being a sanctuary for people of all beliefs and creeds.
- TAG-2 wishes for the chapel to remain intact, including the furnishings and stained glass windows, until they have completed their decision-making process on the future use of the building. TEHC agrees to leave the chapel "as is," with the exception of the art which is specified in the agreement, until the time TAG-2 no longer wishes to keep it, or until the pieces identified in the Purchase and Sale Agreement are needed by TEHC, whichever occurs first. In either case, both parties will work together to plan for the transition of the chapel at the appropriate time. TEHC shall repair any damage caused by the removal of such art or antiques, including replacing with industry-grade glass, any stained glass windows that are on the agreed-upon list of art items to be removed. Should TAG-2 wish to upgrade the glass in both the administration building and the chapel, it will do so at its own expense.
15. TAG-2 wishes to provide assisted living services when they have control of the property and are asking TEHC to maintain its license to operate the IL and AL until they are able to obtain their own RCFE license. TAG-2 and TEHC agree to the following:

13

- i. To the extent permitted by the licensing agency, TEHC will retain its RCFE license of the property until February 29, 2012, or until TAG-2 obtains its license, whichever occurs first, which date may be extended by thirty (30) days at the election of TAG-2 in the event of any regulatory delays in obtaining such license.
- ii. TAG-2 will commence its application to apply for a RCFE license no later than October 1, 2011, which the parties acknowledge has commenced.
- iii. Until TAG-2 obtains its RCFE license, from the date of this agreement forward, there will be no new admissions to IL and AL, and no IL or AL services will be provided by either TEHC or TAG-2.
- iv. TAG-2 will indemnify TEHC from all liabilities arising from the operation of the Community after December 31, 2011, including any liability in connection with the use of TEHC's license after December 31, 2011, but prior to TAG-2 obtaining its own license.
- v. TAG-2 will reimburse TEHC for any expenses actually incurred by TEHC after December 31, 2011 (excluding any administrative overhead charges) that are associated with TEHC keeping the license in place until TAG-2 receives its license.
- vi. TEHC will be given unimpeded access to the IL and AL throughout the entire period that its license is in use.

16. TAG-2 and TEHC agree to limit discussions on these matters to the following principals in this order:


Greg Bearce and Mitch Kitayama
Martha Tamburrano and Kenneth Sim, M.D.

17. This agreement is contingent upon (a) the receipt of full Payment by November 15, 2011, and (b) review and approval by the California Attorney General in accordance with Section II of the Attorney General's sale conditions, and if these conditions are not met, both parties will continue to follow the terms of the existing Purchase and Sale Agreement without reference to this Agreement.

[Signatures continued on next page]


Acknowledged and Approved:

The Episcopal Home Communities

By: 
Martha L. Tamburrano
President & CEO

9-14-11
Date

TAG-2 Medical Investment Group, LLC

By: 
Kenneth Sim, M.D.
President

9/16/11
Date

AGREEMENT FOR EARLY TERMINATION
ON 09/15/11
11:21 AM
AS