

Exhibit 7

CONTINUING CARE RESIDENCY CONTRACT
CLASSIC RESIDENCE BY HYATT IN PALO ALTO
PALO ALTO, CALIFORNIA

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CLASSIC RESIDENCE BY HYATT IN PALO ALTO CONTINUING CARE RESIDENCY CONTRACT

This Continuing Care Residency Contract (this "Contract") is made between CC-Palo Alto, Inc., a Delaware corporation (the "Provider"), through its agent, Classic Residence Management Limited Partnership, d/b/a "Classic Residence by Hyatt" ("Classic Residence") and Linda Cork (collectively, "You" or "Resident.") (If more than one Resident signs this Contract, "You" refers to each of You individually and to both of You together.)

RECITALS

- A. The Provider is licensed by the State of California to provide continuing care services at the community known as Classic Residence by Hyatt in Palo Alto, located at 620 Sand Hill Road, Palo Alto, California (the "Community").
- B. Upon completion of construction, the Community is comprised of 388 independent living units; a Care Center with private skilled nursing suites, assisted living residences, and private rooms for memory support; common areas including an indoor pool and spa, library, bank, exercise room, activity rooms, dining venues; and administrative offices.
- C. The land upon which the Community is situated is subject to a ground lease (the "Ground Lease") between Stanford University ("Stanford") as lessor, and the Provider, as lessee. Stanford's sole relationship with the Provider and the Community is as ground lessor of the land on which the Community is located, and Stanford shall have no obligations, duties, or liabilities whatsoever to You or any other residents at any time.
- D. The Provider is solely responsible for providing services to You under this Contract. While the Community is located on land leased from Stanford, the Provider is not in any way affiliated with Stanford or with any religious or charitable entity. Neither Stanford nor any entity related to either Provider or Classic Residence is responsible for the performance of this Contract or payment of any obligation to You under this Contract or any other agreement related to it.

E. The Provider intends that the daily operations for the Community will be budgeted such that Monthly Fees from all residents, along with other revenues, excluding entrance fees, payments for upgrades and one-time payments for an additional parking space, will be sufficient to pay all the Community costs incurred in connection with the operations, maintenance, and services provided at the Community, determined on a long-term, stabilized basis (see **Appendix D**).

F. On the terms set forth in this Contract, the Provider will provide You with independent residential accommodations and assisted living, memory support, and skilled nursing services. This Contract sets forth those services in detail, and provides a statement of Your legal rights and obligations with respect to the Provider. A Resident Handbook, which describes policies and rules for the Community, is attached as **Appendix A**.

1. **ACCOMMODATIONS AT THE COMMUNITY**

1.1 **Your Home**

You have chosen to live in Apartment 404D at the Community ("Your Home"). Your responsibilities with respect to Your Home are described in Section 5 (*Provisions with Respect to Your Home*) and elsewhere in this Contract.

1.2 **Fixtures and Furnishings**

Your Home is furnished with a refrigerator, microwave, range with surface cooking units and oven, garbage disposal, dishwasher, smoke alarm, emergency call system, patio furniture, washer and dryer, and window and floor coverings. These fixtures and furnishings and any additional furnishings supplied by Provider in Your Home are detailed on Your closing statement. All such fixtures and furnishings, Your Home, and the Community are the property of the Provider.

1.3 **Your Furnishings**

The Community's standards regarding furnishing Homes are described in the Resident Handbook (see **Appendix A**). You may furnish Your Home in accordance with these standards. You agree, at the Provider's request and at Your cost, to remove any furnishings or equipment from Your Home that do not meet the Community's standards.

1.4 **Eligibility**

To be eligible to occupy Your Home and receive the services described in this Contract, You must be at least 62 years of age and meet the health and financial criteria established by the Provider at the time You enter into this Contract. The Provider reserves the

right, at its discretion, to modify and vary from these admission criteria, from time to time, in connection with other residents at the Community.

1.5 Term of Contract

This Contract will be in effect for the duration of Your life, provided You comply with Your obligations hereunder and unless this Contract is cancelled or terminated as provided in Section 8 (*Termination of Contract and Refund or Repayment of Entrance Fee*).

2. GENERAL SERVICES

2.1 Services Included in Monthly Fee

You will receive the following services and amenities as part of Your Monthly Fee [defined below in Section 3.3 (*Monthly Fee*)], unless otherwise noted.

2.1.1 Dining Services. The Provider will serve three nutritionally well-balanced meals per day at designated times. Snacks will also be made available daily at locations and times designated by the Provider from time to time. Your cost of these meals and snacks depends upon the dining service program You select. The Provider offers three dining service programs at the Community as described in **Appendix B**. Your Monthly Fee covers the meal program that You have selected in **Appendix B** for Your individual dining needs. Additional meals will be charged to You separately (see **Appendix C** for a Schedule of Fees for Optional Services). In addition, the Provider will accommodate customary and reasonable special diets that are prescribed by Your personal physician as a medical necessity for an additional fee. All meals will be served in the dining venue(s) described in **Appendix B**. You may change Your dining service program only once during the Provider's fiscal year (ending 12/31), by giving at least sixty (60) days prior written notice.

2.1.2 In-Home Meal Delivery. During Your temporary illness, after notice to and authorization from the Wellness Center Coordinator, meals will be delivered to Your Home, without a delivery charge. There will be a charge for all other meal deliveries to Your Home (see **Appendix C**).

2.1.3 Housekeeping. The Provider will perform weekly light housekeeping services for Your Home as part of Your Monthly Fee.

2.1.4 Laundry. The Provider will launder Your bed linens weekly as part of Your Monthly Fee.

2.1.5 Activity Programs. The Provider offers various social, cultural, and recreational activities at and away from the Community, some of which may involve an extra charge. These activity programs are offered with the intention that some of them may meet the spiritual, physical, social, or intellectual interests of residents. You are welcome to participate in these activities as You wish.

2.1.6 General Observation. The Provider will make reasonable efforts to remain generally aware of Your health condition and functional status to help You recognize and attempt to respond to Your dietary and social needs, and needs for special services.

2.1.7 Transportation. Your Monthly Fee includes scheduled transportation services to local destinations as determined by the Provider and scheduled transportation to Your appointments with professionals offering medical, dental, and other health care services within the local area and within designated times.

2.1.8 Community Areas. The Provider maintains a variety of recreational amenities at the Community for use by residents.

2.1.9 Parking. One car per Home may be kept at the Community; however, this right is not assignable. The Provider may make additional parking spaces available for an extra one-time fee and an additional monthly fee, from time to time established by the Provider, space permitting. If you have an additional parking space, such extra fee may be modified, from time to time, upon thirty (30) days' advance notice to You. Parking will be on a valet basis.

2.1.10 Storage. Limited storage space is available within each Home. The Provider may make additional storage spaces available for an extra charge, space permitting. Such extra charge may be modified, from time to time, upon thirty (30) days' advance notice to You.

2.1.11 Utilities and Insurance. Electricity, water, sewer, trash/garbage disposal, heating and air conditioning, liability and casualty insurance for the Community (to the extent commercially available), and basic cable television services are included in Your Monthly Fee.

2.1.12 Maintenance. The Provider will perform maintenance of buildings and grounds, including routine maintenance and repairs of Your Home. Your Monthly Fee does not include the cost of maintenance and repairs of Your Home made necessary by causes other than ordinary wear and tear, and those costs, if any, will be charged to You separately. You are also responsible for maintaining or arranging for the maintenance and repair of Your personal property.

2.1.13 Emergency System. Your Home is equipped with an emergency call system.

2.1.14 Long-Term Care. The Provider offers a long-term care program, which includes assisted living, memory support, and skilled nursing care, as described in Section 4 (*Long-Term Care*). The charges You will pay for long-term care services and supplies are set forth in Section 4.2 (*Cost of Long-Term Care Services*).

2.1.15 Taxes. The Provider will annually estimate the real estate taxes, special taxes or assessments, and any other taxes that it believes may be levied by the City of Palo Alto, County of Santa Clara, or State of California on the Community. These taxes will be included in the determination of Your Monthly Fee.

2.1.16 Operating Costs. Residents of the Community are responsible for payment of all costs of operating the Community, except for interest payments pursuant to Section 10.8 (*Possible Imputed Interest Tax Liability*). Such operational costs are intended to be paid from Monthly Fees of all residents [see Section 3.3.2 (*Calculation of Monthly Fees*) and Section 3.3.3 (*Operating Costs*)].

2.2 Services Not Included in Monthly Fee

You will pay an additional charge, referred to throughout this Contract as “Miscellaneous Expenses,” for optional services offered by the Provider that are not covered by Your Monthly Fee. [See Section 2.1 (*Services Included in Monthly Fee*).] See **Appendix C** for a Schedule of Fees for Optional Services.

2.2.1 Meals. You will be charged for snacks and any additional meals not included in the dining service program You selected in **Appendix B**. You will also be responsible for paying for Your guests’ meals, in-home delivery meals not covered by Your Monthly Fee, and any special diet that Your physician orders. [See Section 2.1.1 (*Dining Services*) and Section 2.1.2 (*In-Home Meal Delivery*).]

2.2.2 Special Services. Upon Your request and subject to availability, additional housekeeping, guest accommodations, special activities, home health care, and other special services will be offered for an extra charge.

2.2.3 Personal Property and Liability Insurance. Your Monthly Fee will not include the cost of insuring Your personal property or liability insurance for damage or injury that You or Your guests or invitees cause to the Community or individuals. [See Section 5.2 below (*Damage to Home or Community*).]

2.2.4 Other Optional Services. The Provider may offer additional (optional) services in the future.

2.2.5 Health Care. Your Monthly Fee will not include physician-care, home health care, hospital care, or rehabilitative services. [See Sections 4.1.7 (*Physician Care*), 4.1.8 (*Home Health Care/Private Aides*), 4.1.9 (*Hospital Care*), 4.1.10 (*Specialized Rehabilitative Services*), and 4.4 (*Excluded Services*) below.]

2.2.6 Changes in Scope of Optional Services. The nature and scope of all Optional Services under this Contract and the charges for the Optional Services may be adjusted from time to time, upon thirty (30) days written notice to You.

3. FEES

Occupancy of Your Home, use of the accommodations at the Community, and the right to receive the services described in this Contract are contingent upon Your timely and full payment of the following fees:

3.1 Entrance Fee

You agree to pay the sum of \$ 674,400.00, plus, if applicable, a Second Person Entrance Fee of \$ N/A (collectively, the "Entrance Fee"), in the manner described in this Section 3.1. Any refund or repayment due to You will be paid or allocated as described in Section 8.5. (*Amount and Timing of Refunds or Repayments*), as applicable.

3.1.1 Deposit. You paid a \$ 164,832.00 deposit (the "Deposit") upon Your execution of a Deposit Agreement with Provider. The Deposit will be applied against the amount of the Entrance Fee.

3.1.2 Balance of Entrance Fee. You shall pay the balance of the Entrance Fee prior to occupying Your Home, but not later than thirty (30) days following the date the Provider notifies You that Your Home is available for occupancy. If someone other than the Resident is paying the Entrance Fee, that payor (i.e., the "Transferor") is identified on the signature page of this Contract.

3.2 Processing Fee

You already paid a \$ 250.00 Processing Fee to cover the administrative costs of processing Your application for residence at the Community. The Processing Fee is not refundable or applicable to the Entrance Fee or any other charge.

3.3 Monthly Fee

3.3.1 Amount to Pay. You agree to pay a monthly fee (the “Monthly Fee”) to the Provider, commencing on the thirtieth (30th) day following the date that the Provider notifies You that Your Home is available for occupancy or on the date You first occupy Your Home, whichever is earlier (such earlier date to occur is referred to as the “Occupancy Date”). Your Monthly Fee will be prorated for the first month if the date payment is first due is not the first day of the month. The Monthly Fee for the first year ending on December 31st after the Occupancy Date shall be \$ 3,415.00 for single occupancy of Your Home, and \$ N/A for double occupancy. The Monthly Fees may be adjusted annually by the Provider upon thirty (30) days’ advance written notice. Monthly Fee adjustments shall be based upon (i) the Provider’s prior year per capita costs, economic indicators, and projected costs as determined by the Provider; and (ii) after Provider makes provision for any reserves, any surpluses resulting from Monthly Fees or other revenues collected by the Community, such as reimbursement from any federal health care program or private insurer, all of which shall be applied to the cost of operating the Community.

3.3.2 Calculation of Monthly Fees. Residents’ Monthly Fees are intended to pay all costs of operating the Community; provided that, prior to and including the Initial Minimum Occupancy Level Date (defined below), the Provider will fund any deficit between Monthly Fees collected and the costs of operating the Community, including without limitation the funding of operating and capital reserves and a pro rata share of all expenses (e.g., taxes, insurance, and Base Rent under the Ground Lease) that may accrue as of and prior to the Initial Minimum Occupancy Level Date or that may be allocable to the period up to and including the Initial Minimum Occupancy Level Date, regardless of when such expenses are actually paid. The “Initial Minimum Occupancy Level Date” shall be the last day of the same month in which, for the first time, there are residency agreements in effect for at least eighty percent (80%) of the total number of independent living units in the Community pursuant to which residents are obligated to pay Monthly Fees for that month. After the Initial Minimum Occupancy Level Date, any deficit between Monthly Fees collected and the costs of operating the Community shall be funded by a Shortfall Loan as described in **Appendix D** and in the Provider’s Policies and Procedures for Resident-Funded CCRCs and Shortfall Loans. Entrance fees, payments for upgrades and one-time payments for an additional parking space are not credited toward the costs of operating the Community.

3.3.3 Operating Costs. The costs of operating the Community intended to be paid from residents' Monthly Fees include, but are not limited to: (i) the costs to provide all services and amenities under this Contract and under all other resident contracts at the Community; (ii) the costs of insurance policies, including property, casualty and liability insurance policies; (iii) employee expenses (including salaries, benefits and taxes); (iv) all costs of maintenance, repairs, and replacements of capital items, including furnishings, fixtures, and equipment; (v) operating and capital reserves; (vi) a management fee to Classic Residence or its successor; (vii) Base Rent payments under the Ground Lease for the Community; and (viii) any marketing costs incurred after the later to occur of either (a) the Initial Minimum Occupancy Level Date; or (b) the end of the month in which ninety percent (90%) of the independent living units are subject to a residency contract or reserved with each reservation having a deposit of at least twenty percent (20%) of the then applicable unit Entrance Fee, or both. The Provider will forecast, on an annual basis, anticipated costs of operating the Community and anticipated Monthly Fee revenue for the next year and for future years. Typically, the forecasting occurs in October and the Provider establishes Monthly Fees on or before January 1st of each year for such year.

3.3.4 Capital Item Replacement Reserve. In order to diminish the likelihood of special assessments for replacements of capital items, including furnishings, fixtures, and equipment, the Community will maintain a reserve account ("the Capital Item Replacement Reserve") which will be funded by a portion of all Residents' Monthly Fees, which currently is five percent (5%) of Monthly Fee revenue annually. Additional policies related to the anticipated costs of operating the Community, the Capital Item Replacement Reserve, and the Provider's payment of certain marketing costs and funding of any operating cost deficits after the Initial Minimum Occupancy Level Date via a Shortfall Loan are set forth in further detail in **Appendix D** and in the Provider's Policies for Capital Expenditure Responsibility and Shortfall Loans.

3.3.5 Historic Schedule of Average Monthly Fees. An historic schedule of the average Monthly Fees for the past five (5) years (or such lesser number of years that the Community has operated as a continuing care retirement community) is attached as **Appendix E**.

3.3.6 Payment Procedures. The Provider shall bill You monthly in advance for Your Monthly Fee. You must make payment by the tenth (10th) day of the month in which Your Monthly Fee is due to avoid a late payment charge of \$25.00 per delinquent payment. The late

payment charge is not intended to be a penalty, but is an estimate of, and is intended to defray, the administrative costs of collecting delinquent payments. Any Miscellaneous Expense or payment due that is delinquent more than fifteen (15) days shall bear interest at the lesser of ten percent (10%) or the maximum legal rate from the due date until the date paid.

3.3.7 Credit for Absences. If You give advance written notice to the Provider that You will be absent (including an absence for medical reasons) from the Community for more than fifteen (15) consecutive days, You will receive a credit equal to the Provider's estimate of the direct food costs per meal for the meals You miss under Your meal plan. The credit will begin on the sixteenth (16th) day of Your absence and will continue for the period of Your absence for which You have given notice. The balance of Your Monthly Fee shall remain payable in accordance with the terms of this Contract.

3.4 Fees for Optional Services

You agree to pay an additional charge for all services or supplies You use that are not included in Your Monthly Fee. [See Sections 2.1 (*Services Included in Monthly Fee*) and 2.2 (*Services Not Included in Monthly Fee*) above.] The current fees for such services are included in **Appendix C** in the Schedule of Fees for Optional Services. The Provider will bill You for these additional charges as Miscellaneous Expenses, together with Your Monthly Fee, after they have been incurred. The payment procedures will be the same as for Your Monthly Fee. The Provider may change the pricing of optional services or supplies upon thirty (30) days' advance written notice.

3.5 Upgrades to Your Home

You have paid \$ 2,475.00 for upgrades, special features, and/or modifications to Your Home. [See Section 5.3 (*Alterations*).] Upon cancellation or termination of this Contract by the Provider, a portion of such costs may be refundable, but only on the terms described in Section 8.5.4 (*Payments for Upgrades*).

4. LONG-TERM CARE

4.1 Services

4.1.1 Skilled Nursing. The Provider will provide basic skilled nursing care to You, as needed, in a private room at the Community's Skilled Nursing Facility located in the Care Center. Such services shall include, as needed, all services available in assisted living, together with care planning, medication administration, skin and wound care, incontinence care, arranging for diagnostic and therapeutic services, dietary services, housekeeping services, social

services, and an activity program. If You are admitted to the Skilled Nursing Facility or an outside nursing facility, You agree to sign a separate skilled nursing facility admission agreement in its then-current form (the "SNF Agreement"). The SNF Agreement contains a detailed description of the nursing services covered by Your Monthly Fee and the Optional Services that are available for an additional fee (see Attachment B to the SNF Agreement). By signing the Acknowledgment Form attached to this Contract, You acknowledge that You have received a sample of the Skilled Nursing Facility's current SNF Agreement, which is incorporated by reference into this Contract and made an express part of it.

4.1.2 Assisted Living. The Provider will provide You with assistance, as needed, with such daily activities as bathing, dressing, grooming, and assistance with storage and distribution of medications in a private assisted living apartment at the Assisted Living Center located in the Care Center. (See **Appendix F** for a description of the assisted living services covered by Your Monthly Fee.) Each assisted living apartment will be furnished with window treatments, wall-to-wall carpeting in living and bedroom areas, vinyl flooring in the bathroom, along with a small refrigerator, freezer, microwave oven and sink in the kitchen area. A limited number of two bedroom units are available for an extra charge.

4.1.3 Memory Support. The Provider will provide memory support services, as needed, to residents who have Alzheimer's disease, dementia or other cognitive impairments requiring specialized care. Such services include, as indicated, all services available in assisted living, plus protective supervision and a specialized activity program. (See **Appendix F** for a description of the memory support services covered by Your Monthly Fee.) If You need such services, they will be provided to You in a private room at the Memory Support Center located in the Care Center.

4.1.4 Priority Access and Outside Care. You will receive first priority access to the Care Center, including the Skilled Nursing Facility, Assisted Living Center, and Memory Support Center (collectively referred to hereafter as the "Care Center") over non-residents. If no space is available at the Care Center, You will receive skilled nursing care, assisted living care, or memory support services, as appropriate, at a nearby outside facility with which the Provider has a referral agreement. You will have first priority over non-residents for admission to the Care Center at the Community when space becomes available. Priority for admission to the Care Center among residents will be established upon a first-in-time basis with respect to each type of unit in the Care Center. You agree to move promptly to the Care Center upon the Provider's

notice that a unit at the Care Center is available. [See Section 4.2.2 (*Care at an Outside Facility*).]

4.1.5 Medical Director. The Provider contracts, on a consulting basis, with a physician licensed to practice medicine under the laws of the State of California who serves as Medical Director of the Care Center.

4.1.6 Care Team. The Community has an interdisciplinary team consisting of the Executive Director, Care Center Administrator, Director of Nursing, and the consulting Medical Director (the "Care Team"). The Care Team will monitor care at the Community and participate in decisions regarding Your care and transfer. All decisions regarding Your need for care, the appropriate level of care, the appropriate location for the provision of such care and whether Your transfer from Your Home is temporary or permanent will be made in the reasonable discretion of the Provider in consultation with the Care Team and You and Your physician or personal representative, including a family member of Your choice.

4.1.7 Physician Care. The Provider is not responsible for physician care, and physician services are at Your expense.

4.1.8 Home Health Care/Private Aides. You may arrange for home health care or private duty aide services in Your Home, provided that: (i) such care is consistent with all applicable laws, including California laws and regulations pertaining to assisted living services; (ii) You accept full responsibility for the cost of such home health care or private duty services; (iii) all providers of home health care or private duty aide services agree in writing to adhere to and actually do comply with the Community's home health care/private duty aide policies and procedures (see the Resident Handbook attached as **Appendix A** and the Provider's Policies for Private Duty Aides); (iv) all home health and private duty aides are employed by a licensed agency; (v) You understand and agree that the Provider shall not be liable for any loss, damage, or injury to You, or another resident of the Community, or any other person caused by providers of home health care or private duty services; and (vi) You agree to indemnify and hold harmless the Provider for any loss, damage or injury to You, another resident, or any other person caused by providers of home health care or private duty services.

4.1.9 Hospital Care. At Your request, the Provider will assist You in obtaining access to hospital care, as necessary. Such care shall be at Your expense.

4.1.10 Specialized Rehabilitative Services. At Your request, the Provider will assist You in obtaining specialized rehabilitative services from independent providers, such as

physical therapy, occupational therapy, speech therapy, and audiology. Such care shall be at Your expense.

4.1.11 Care During Absence from the Community. Except when no space is available in the Care Center as set forth in Section 4.1.4 (*Priority Access and Outside Care*), the Provider will not cover the cost of any care or services rendered to You other than at the Community and You must be physically located at the Community in order to receive benefits under this Contract. [See Section 4.2.2 (*Care at an Outside Facility*).]

4.2 Cost of Long-Term Care Services

4.2.1 Continuing Care Plan. When You transfer to the Care Center You will continue paying Your regular Monthly Fee that You paid when living in Your Home [as modified per Section 7.3 (*Temporary/Permanent Transfers*), if applicable], plus a charge for additional meals, depending on the meal plan You selected, at the then-current meal rates. If Your transfer is permanent, You must vacate Your Home according to the terms set forth in Section 7.3.2 (*Permanent Transfers*), and the terms of Section 7.3.3 (*Monthly Fees After Permanent Transfer Within Community*) will apply. You will be responsible for paying the fees for any optional services and supplies that You receive at the Care Center, as well as for any ancillary services, such as medications, therapies, and home health or private duty care, that are not covered by Your Monthly Fee. Once You transfer to the Care Center, basic skilled nursing care, memory support services, assisted living care, the Medical Director's services, and the Care Team services are included as a part of Your regular Monthly Fee. However, if within the twelve (12) months prior to Your transfer to the Care Center, You transferred between independent living homes and the Monthly Fee of Your most recent Home is less than the Monthly Fee for Your former Home, Your "regular Monthly Fee" will be deemed to be the higher of the two previous Monthly Fees.

4.2.2 Care at an Outside Facility. If space is not available at the Care Center and You receive care at an outside facility, You must continue paying Your regular Monthly Fee and the charge (if any) for additional meals to the Provider. If Your transfer is permanent, You must vacate Your Home according to the terms set forth in Section 7.3 (*Temporary/Permanent Transfers*). The Provider will pay the charges for the services You receive at the outside facility providing Your care to the extent that such services would be covered by Your Monthly Fee if You had received the care at the Community. You will be responsible for paying the fees for any services and supplies that You receive at the outside facility and that are not covered by

Your Monthly Fee [see Section 4.2.1 (*Continuing Care Plan*)]. When space becomes available at the Community's Care Center, the Provider will notify You, and You must return to the Community as promptly after the date of the notice as medical circumstances allow in order to continue to receive long-term care benefits under this Contract. The Provider's payment obligation to the outside facility shall end three (3) days after the date You are obligated to return to the Community. All obligations regarding the provision and quality of care at the outside facility shall be the responsibility of that facility and not the Provider, and You agree to hold harmless the Provider for any injury or damage You incur at the outside facility.

4.3 Major Medical Coverage

You agree to enroll, at Your own expense, in (1) Medicare (Parts A and B) or a substitute policy that is acceptable to the Provider; and (2) a Medicare supplemental insurance policy in a form and with an insurer reasonably acceptable to the Provider. At the Provider's request, You agree to provide it with evidence of such coverage. The coverages provided to You under this Contract are supplemental to, and not duplicative of, Medicare and any other public or private benefits for which You may be eligible, and You agree to cooperate with the Provider in seeking payment from such programs, to the extent You are eligible for benefits. If You fail to take action to procure the required coverage, the Provider may purchase such coverage on Your behalf and at Your expense.

4.4 Excluded Services

The following are examples of services that are not included in Your Monthly Fee and are not part of the Provider's obligations under this Contract: (1) care provided by individuals such as physicians, private duty caregivers, chiropractors, or faith healers; (2) ancillary supplies and services (such as prescriptions, bandages, oxygen, respiratory equipment, and personal hygiene products), home health care, and rehabilitation services; (3) acute care; (4) care that the Provider is not licensed or equipped to provide or does not routinely provide; (5) any services or supplies that the Provider determines, in its reasonable discretion, are not medically necessary; (6) treatment of pre-existing conditions that were not disclosed to the Provider; (7) cosmetic surgery or related cosmetic services or products; (8) experimental treatments; (9) organ transplants; (10) medical techniques not approved by the American Medical Association; (11) care provided by dentists, optometrists, podiatrists, or osteopaths; (12) drugs, medicines, vitamins, dental work, eyeglasses, contact lenses, hearing aids, or orthopedic or prosthetic appliances; (13) psychiatric or psychological care or services, including, without

limitation, treatment of mental illness, behavioral disorders, nervous disorders, alcoholism, drug addiction, or chronic substance abuse; (14) care of Alzheimer's disease or other dementias that exceeds the care routinely offered by the Provider; and (15) emergency medical care not covered under this Section 4 (*Long-Term Care*). If You have Medicare or other insurance which covers the excluded services described under this Section 4.4, Provider will cooperate with You in a reasonable manner to file an insurance claim, but You will ultimately remain responsible for the payment of such services.

5. **PROVISIONS WITH RESPECT TO YOUR HOME**

5.1 **Your Housekeeping Responsibilities**

You agree to keep Your Home in a clean and orderly condition.

5.2 **Damage to Home or Community**

The Provider will maintain insurance on the Community, including property damage and business interruption insurance, in amounts and with coverages it shall determine in its reasonable discretion. If all or part of the Community is destroyed or damaged by fire or other loss and in the Provider's reasonable discretion the insurance proceeds are sufficient to rebuild the Community to its previous condition, then the Provider will proceed to have the Community restored, unless then-existing laws or other circumstances would not permit prompt reconstruction and restoration or other circumstances make reconstruction and restoration not feasible. If the Provider proceeds to restore the Community and Your Home is not suitable for occupancy during such restoration, the Provider will pay the costs of renting reasonably comparable or lesser quarters at or near the Community, provided You continue to pay Your Monthly Fees as required by this Section 5.2. During the period of restoration, the Provider will use reasonable efforts to find suitable housing for such period, but if no such housing can be procured by the Provider despite such efforts, the responsibility for locating such housing will be Yours. The Provider cannot guarantee that such temporary alternative accommodations will be located at or near the Community or near any other residents of the Community. Throughout such time and to the extent reasonably practicable, the Provider will continue to furnish You or arrange for You to be furnished with the services that it has agreed to provide to You under this Contract or with appropriate substitutes. You will continue to be responsible for the payment of Your Monthly Fees if temporary accommodations and services are being provided to You. There may be an equitable allocation of Your Monthly Fee as reasonably determined by the Provider. If the casualty insurance proceeds are insufficient to restore the premises or the

Provider determines not to or is otherwise unable to rebuild the Community for any other reason, this Contract shall terminate under [Section 8.4.2.h (*Termination Rights of The Provider*)] as of the date of the Provider's determination not to rebuild the Community. In that case, You shall receive a repayment of Your Entrance Fee in accordance with Section 8.5.2 (*Amount and Timing of Refunds or Repayments*) regardless of the availability of insurance proceeds and without any contingency for entering into a residency contract covering Your former Home with a new resident, within ninety (90) days after the date the Provider determines not to rebuild the Community.

5.3 Alterations

Provider may make any alterations to Your Home to meet legal requirements and may make any alteration to the Community it deems appropriate. You agree not to make any structural alteration to Your Home or the Community. You may make nonstructural alterations, additions or improvements to Your Home, provided You obtain the prior written consent of the Provider. The Provider may condition its consent upon Your prior written agreement that:

(i) such work will be performed by the Provider or under its direction; (ii) You will bear the costs of all labor, materials, plans, permits, approvals and incidental expenses necessary to make such alterations; (iii) if the alterations are other than the Provider's standard or upgrade materials, upon termination of Your occupancy of Your Home for any reason, the Provider may require You, at Your expense, to remove such alterations and to restore Your Home to its original condition (if the Provider performs such restoration, the costs shall be deemed a Miscellaneous Expense hereunder); and (iv) all such work shall be performed diligently and in a first-class, workmanlike and lien-free manner. See Section 8.5.4 (*Payments for Upgrades*) regarding the treatment of any amounts You pay to upgrade Your Home.

5.4 Maintenance, Repairs and Replacement

The Provider will be responsible for maintaining and making all repairs to the Community and replacement of furniture, fixtures, and equipment at the Community (the cost of which repairs and replacements will be included in Community operational costs to be paid from residents' Monthly Fees. (See Section 3.3 (*Monthly Fee*) above and the policies in the Resident Handbook.) However, You will be responsible for reimbursing the Provider directly for the cost of repairing any damage that You cause to the Community, beyond ordinary wear and tear.

5.5 Right of Entry; Licensure

Provider and its agents shall have the right, upon reasonable notice, to enter Your Home to respond to emergencies, perform services, make repairs, display Your Home to prospective residents (for example, if You have given the Provider a notice of cancellation or termination), and for all other lawful purposes. In addition, because each home at the Community is part of a continuing care retirement community that is licensed by the California Department of Social Services as a residential care facility for the elderly, any duly authorized agent of the Department may, upon stating the purpose of his or her visit, enter and inspect any portion of the Community, including Your Home, at any time, without advance notice. The Provider will make reasonable efforts to preserve Your privacy in Your Home.

6. MARRIAGE/DIVORCE; JOINT OCCUPANCY

6.1 Joint Occupancy by Residents

In the event this Contract covers one Resident and You wish to live with another resident of the Community, then Your Monthly Fee will change only if You vacate one of Your Homes and move in with the other resident at the Community. If You move in together, the vacated home must be "made available" to the Provider as described in Section 8.1 (*Cancellation Period/Refund*). Both residents and the Provider will execute an amendment to this Contract and the other applicable residency contract (or, at the Provider's sole discretion, will sign the then-current form of residency agreement for the Community) which acknowledges that one of the homes was surrendered and establishes a new Monthly Fee for the retained home equal to the then-current charge to new residents for double occupancy of the type of home retained. The amendment or new contract will also recite the amount of Entrance Fees previously paid and the timing of the Provider's payment of any refunds or repayments (which as to each resident will be triggered by the date his or her amended residency contract terminates, and not by the date the other resident's contract terminates).

6.2 Occupancy by Resident and Non-Resident

If You wish to live with a person who is not a resident (including a spouse) at the Community, such person must apply for admission to the Community and meet the admission requirements of a new resident. The decision whether or not to accept the applicant will be made by the Provider in its reasonable discretion. If the applicant is not accepted for residency, he/she will be deemed a guest, subject to the then-current Community guest policies and charges. If the applicant is accepted for residency, the applicant, You and the Provider will execute an

amendment to this Contract or enter into a new contract, at the Provider's sole discretion. You and the applicant will pay the then-current Second Person Entrance Fee established by the Provider for a home comparable to Your Home at the same repayment percentage then applicable to entrance fees. You will both be jointly and severally responsible to pay the then-current Monthly Fee applicable to double occupancy of a home comparable to Your Home. The Entrance Fees of each Resident will be treated as a single payment and no refund or repayment of the Entrance Fees, or any portion of such fees, shall be calculated or due until this Contract is terminated with respect to both Residents, unless a repayment is due pursuant to Section 7.4 (*Transfers to a New Home*).

6.3 Divorce or Separation

If Residents covered under this Contract separate or divorce and one person moves out and surrenders the Home to the other Resident, this Contract shall stay in effect for the remaining Resident at the Monthly Fee for single occupancy (based on the selected service package) and the Entrance Fee shall remain on deposit. No refund or repayment will be paid until the last remaining resident terminates this Contract. Any refund or repayment due will be allocated as described in Section 8.5.6 (*Refunds or Repayments to Couples*). Subject to availability and upon paying the then-current Entrance Fee for a new home and executing a separate residency contract similar in form to this Contract, the vacating Resident may move to another home in the Community.

7. TRANSFERS FROM YOUR HOME

7.1 Transfers Generally

You may request a transfer to another home or care setting within the Community. In addition, the Provider reserves the right to substitute Your Home with another comparable home if it is necessary to do so to meet any requirement of law or the lawful order or direction of the Fire Marshal or another authorized public official. You will then pay the then-current Monthly Fee applicable to Your new Home and that fee will be deemed Your "Monthly Fee" hereunder.

7.2 Conditions of Transfers

In addition to Your right to request a transfer, You also may be transferred to an appropriate care setting in the Community or to an outside facility if, in the judgment of the Provider, Your physician, or an appropriate specialist, or a governmental licensing official, in

consultation with the Care Team, You and Your appropriate representative, any of the following circumstances exists:

7.2.1 You become non-ambulatory and Your Home is not otherwise certified for non-ambulatory use (the legal definition of “non-ambulatory” is set forth in Health and Safety Code Section 13131, which is available upon request);

7.2.2 You develop a physical or mental condition that endangers Your health, safety, or well-being or that of another person, or causes an unreasonable and ongoing disturbance at the Community;

7.2.3 You engage in conduct or have a condition that interferes with the peaceful lodging of residents or the administration of the Community or endangers Community property or the property of other residents or staff;

7.2.4 Your condition or needs require that You be transferred to assisted living, memory support, skilled nursing, or another appropriate facility for more efficient or appropriate care or to protect the health of other residents or staff;

7.2.5 You must be transferred because You require care that exceeds the level which lawfully may be provided in Your current Home or that the Provider is unable to or does not routinely provide in Your Home; or

7.2.6 Your transfer to a nursing facility, hospital, or other facility is appropriate, and the Community does not have such facilities available to provide the level of care You require.

7.3 Temporary/Permanent Transfers

7.3.1 Temporary Transfers. If You temporarily transfer outside Your Home, You shall continue to pay Your regular Monthly Fee. You will also be responsible for paying a charge for additional meals outside the meal plan You have selected and for any optional services and supplies and ancillary services You receive that are not covered by Your Monthly Fee [See Section 4.2.1 (*Continuing Care Plan*)]. See Section 4.2.2 (*Care at an Outside Facility*) regarding Your other financial responsibilities when You are transferred outside of the Community. If You occupy Your Home with another Resident who is covered under this Contract and one of You is temporarily transferred outside Your Home, the remaining Resident may continue to occupy Your Home. In that case, there shall be no change in the payment of both Residents' regular Monthly Fee, except that the transferred Resident will also be responsible for paying for additional meals, services and supplies, and ancillary services received

that are not ordinarily covered by the Monthly Fee [See Section 4.2.1 (*Continuing Care Plan*) and Section 4.2.2 (*Care at an Outside Facility*)].

7.3.2 Permanent Transfers. If You (or, if this Contract covers two Residents, both of You) permanently transfer to the Care Center or outside the Community, You must vacate Your Home within thirty (30) days after the date on which You or Your representative sign a document acknowledging consent to the transfer (or, if You do not sign a transfer acknowledgment, thirty (30) days after the date that you transfer). If You do not vacate Your Home within the thirty (30) day period, You will pay double Your Monthly Fee from the 31st day on a pro rata basis until Your Home is vacated. If You occupy Your Home with another Resident who is covered under this Contract and one of You is permanently transferred outside Your Home, the remaining Resident may continue to occupy Your Home. Notwithstanding a permanent transfer, this Contract shall remain in effect until You or the Provider terminate it under Section 8 (*Termination of Contract and Refund or Repayment of Entrance Fee*).

7.3.3 Monthly Fees After Permanent Transfer Within Community. Following the permanent transfer of one or both of You from Your Home to another location at the Community, You will continue to pay Your regular Monthly Fee according to the terms described in Section 4.2.1 (*Continuing Care Plan*), plus any additional expenses required by this Contract, the Skilled Nursing Admission Agreement and other applicable agreements. Your Monthly Fee while residing in the Care Center will be automatically adjusted to the extent that the market rate Monthly Fee for the type of independent living home You occupied prior to Your transfer (as modified by the preceding sentence) increases or decreases from time to time. If You occupy Your Home with another Resident who is covered under this Contract and one of You is permanently transferred outside Your Home, there shall be no change in the payment of both Residents' regular Monthly Fee, except that the transferred Resident will also be responsible for paying for additional meals, services and supplies, and ancillary services received that are not covered by the Monthly Fee [See Section 4.2.1 (*Continuing Care Plan*) and Section 4.2.2 (*Care at an Outside Facility*)]. If You permanently transfer outside the Community, the Provider may terminate this Contract under Section 8.4 (*Termination Rights of The Provider*).

7.4 Transfers to a New Home

You may elect to move from Your Home to a different residence at the Community upon the Provider's approval, which will not be unreasonably withheld, and subject to availability and execution of the Provider's form amendment to this Contract or the Provider's

then-current form of residency agreement for the Community, at the Provider's sole discretion. If the then-current Entrance Fee for the new home at the time of transfer is higher than the Entrance Fee You originally paid for Your Home [see Section 3.1 (*Entrance Fee*)] You will pay to the Provider the difference between these Entrance Fees, which will be added to Your original Entrance Fee pursuant to the amendment to this Contract. For refund and repayment purposes [see Section 8.5 (*Amount and Timing of Refunds or Repayments*)] the additional Entrance Fee amount that You pay at the time You transfer to Your new Home shall be considered to have been paid on the same date that You paid Your original Entrance Fee under Section 3.1 (*Entrance Fee*). If the new Home to which You transfer has a lower Entrance Fee, at the time of transfer, than the Entrance Fee You originally paid for Your prior Home [see Section 3.1 (*Entrance Fee*)], You shall receive a partial prepayment of the Entrance Fee Note [see Section 8.5 (*Amount and Timing of Refunds or Repayments*)] as follows: The difference between the two Entrance Fees shall be calculated. The Provider will prepay the product of the amount of such difference and the Minimum Repayment Percentage (see **Appendix G**), and the balance of such difference shall be deemed earned by Provider and not repayable. Such prepayment shall be due only upon the re-letting of Your prior Home to a new resident and the expiration of the new resident's ninety (90) day cancellation period [see Section 8.1 (*Cancellation Period/Refund*)]. After Your transfer, Your Monthly Fee will be adjusted to the then-current Monthly Fee for Your new Home. Prior to Your transfer, you must pay the transfer fee set forth in **Appendix C** in the Schedule of Fees for Optional Services. Upon the prepayment referred to above, the amount of Your "Entrance Fee Note" [see Section 8.5 (*Amount and Timing of Refunds or Repayments*)] for all purposes thereafter shall be the amount of the lower Entrance Fee of Your new Home.

7.5 Return to Home After Permanent Transfer

If You vacate Your Home pursuant to what was expected to be a permanent transfer [as provided in Section 7.3.2 (*Permanent Transfers*)], and, in the judgment of the Provider, You become able to return to an independent living home at the Community, the Provider will offer You a Home as soon as one becomes available. You will then pay the applicable Monthly Fee for Your new Home. Moving costs shall be Your responsibility.

8. TERMINATION OF CONTRACT AND REFUND OR REPAYMENT OF ENTRANCE FEE

8.1 Cancellation Period/Refund

There shall be a Cancellation Period of ninety (90) days beginning on the "Occupancy Commencement Date" during which You or the Provider may cancel this Contract, with or without cause. The "Occupancy Commencement Date" shall mean that date that is the earlier of (a) the date that You first occupy Your Home or (b) sixty (60) days after the date on which you were first obligated to pay Monthly Fees [See Section 3.3.1 (*Monthly Fee, Amount to Pay*)]. If You cancel this Contract, You will give the Provider a written notice of cancellation. (An unsigned form entitled "Notice of Cancellation" is attached in duplicate to this Contract as **Appendix H.**) If the Provider cancels this Contract without cause pursuant to this Section, it will provide You with thirty (30) days written notice of such cancellation. In the event of cancellation, You shall be entitled to a refund of the amounts You paid under this Contract in accordance with California law, which provides that the Provider may deduct from Your refund the reasonable value of the services rendered. Your Application Processing Fee will not be refunded. The refund shall be made within fourteen (14) days after You "make Your Home available" to the Provider (that is, after You vacate Your Home, remove all Your belongings from it, and restore it to its original clean condition, excepting normal wear and tear). You must make Your Home available to the Provider within twenty (20) days after the date of the Notice of Cancellation.

8.2 Termination After Occupancy

You may terminate this Contract after the Cancellation Period for any reason, upon not less than ninety (90) days written notice to the Provider, sent by certified mail. The termination shall be effective on the date set forth in the termination notice (but not sooner than the ninety-first (91st) day following such notice), provided You make Your Home available to the Provider by that date. If You terminate this Contract under this Section, the repayment provisions set forth below in Section 8.5.2 (*Amount and Timing of Refunds or Repayments*) shall apply.

8.3 Termination Resulting from Resident's Death

If You die during or after the Cancellation Period, this Contract shall terminate immediately and the repayment provisions set forth below in Section 8.5.2 (*Amount and Timing of Refunds or Repayments*) shall apply.

8.4 Termination Rights of The Provider

8.4.1 Resident's Financial Difficulty. After Your initial occupancy of Your Home, the Provider will not terminate this Contract based on Your financial inability to pay

Your Monthly Fee or other charges if the conditions set forth in this Section are satisfied. You may be allowed to remain at the Community, at the reasonable discretion of the Provider, with a portion of Your Monthly Fee and other charges deferred, based on Your ability to pay, provided that: (i) You establish facts that justify deferral of the usual charges; (ii) You have not misrepresented Your income or assets; (iii) You have not impaired Your ability to meet Your financial obligations under this Contract by making gifts or other transfers of Your assets; (iv) the deferral may, in the sole discretion of the Provider, be granted without impairing the Provider's ability to operate on a sound financial basis; and (v) You agree in writing that the amount of any Monthly Fees or other charges deferred under this Section ("Deferred Charges") shall be deemed a loan to You from the Provider with interest on the outstanding amount at a rate of prime plus one percent (1%) per annum or the maximum legal rate, whichever is less, compounded annually. Under these conditions, the Provider will pay the Deferred Charges on Your behalf as and when they become due. The Provider will have a first security interest and lien against Your estate and the portion of Your Entrance Fee which is refundable or repayable hereunder, and the outstanding loan balance and interest shall be deducted when the Provider calculates Your refund or repayment under Section 8.5 (*Amount and Timing of Refunds or Repayments*) below. As a condition to allowing You to remain at the Community, the Provider may require You to execute and deliver upon request promissory notes, security agreements, and any other document to secure or evidence the loan of the Deferred Charges. The Provider reserves the right to terminate or reduce Your deferral if Your financial circumstances improve.

8.4.2 Termination for Just Cause. After the Cancellation Period, the Provider will not terminate this Contract unless it has just cause to do so. Just cause to terminate this Contract shall include, but not be limited to, the following circumstances:

8.4.2.a You fail to pay Your Monthly Fee or any other charges that are due, and You fail to make such payment within ten (10) days after You have received written notice from the Provider of the possibility of termination;

8.4.2.b You fail or refuse to comply with the rules and regulations of the Community;

8.4.2.c Your continued residency at the Community poses a danger to Community property or to the health, safety, or property of Yourself, other residents or staff;

8.4.2.d You refuse to be transferred in accordance with Sections 7.1 (*Transfers Generally*) and 7.2 (*Conditions of Transfers*) of this Contract;

8.4.2.e Your continued residence at the Community interferes with the peaceful lodging of other residents or the administration of the Community;

8.4.2.f You materially breach this Contract, or made a material misrepresentation in Your application to the Community or in this Contract;

8.4.2.g You willfully divest, transfer for less than fair market value, or mismanage a material portion of Your assets that are needed for Your payment of Your Monthly Fee and other charges due under this Contract;

8.4.2.h The Community is damaged or destroyed by casualty and the Contract is terminated pursuant to Section 5.2 (*Damage to Home or Community*) above;

8.4.2.i There is a partial or total condemnation, appropriation or similar taking of the Community or your Home; or

8.4.2.j You permanently transfer outside of the Community or vacate or abandon your residence.

8.4.3 Limitation on Termination. The Provider shall not have good cause for termination under this Section solely on the basis of, and will not retaliate or discriminate against You, if: (i) You (or Your representative) file or lodge a formal or informal complaint with the Department of Social Services, or any other State, county, or city agency, or any elected or appointed government official or other appropriate authority; or (ii) You participate in an organization, affiliation or association of residents or engage in other similar lawful activity. This provision does not limit the rights of the Provider to contest or dispute any such complaint or to otherwise enforce the provisions hereof.

8.4.4 Written Notice and Effect of Termination. Before the Provider terminates this Contract under this Sections 8.4.2.b, d, or f (*Termination for Just Cause*) the Provider will give You ninety (90) days written notice stating the cause for the proposed termination, and during that ninety (90) day period You may cure the basis for the termination. Upon the termination of this Contract under Section 8.4.2, You must make Your Home available to the Provider.

8.4.5 Refund. If the Provider terminates this Contract under this Section 8.4 (excluding Section 8.4.2.h and 8.4.2.i which are addressed in Section 8.5.2), You will be entitled to a refund of the amounts paid under this Contract, minus the reasonable value of the services, care, and residence actually provided to You by the Provider, in accordance with California law. The refund will be made to You within fourteen (14) days after You make Your Home available

to the Provider or within ninety (90) calendar days after the date of the notice of termination, whichever is later. Your Application Processing Fee will not be refunded to You.

8.5 Amount and Timing of Refunds or Repayments

Your Entrance Fee is intended to be a loan to the Provider, with a portion of that loan being repaid to You as determined by the length of time that You are a resident of the Community. At the Closing, the Provider will give You a promissory note which evidences this loan (the "Entrance Fee Note").

8.5.1 Sections 8.1. and 8.4. Refunds of Entrance Fees pursuant to Section 8.1 (*Cancellation Period/Refund*) and Section 8.4 (*Termination Rights of The Provider*), excluding Sections 8.4.2.h and 8.4.2.i, shall be in the amounts and paid within the time periods set forth in those Sections.

8.5.2 Sections 8.2., 8.3., 8.4.2.h and 8.4.2.i When this Contract is terminated pursuant to Section 8.2 (*Termination After Occupancy*), Section 8.3 (*Termination Resulting from Resident's Death*), Section 8.4.2.h, or Section 8.4.2.i, You or Your estate will be entitled to repayment of a portion of Your Entrance Fee (the "Repayment Amount"). Your Repayment Amount shall be calculated as follows: (a) the greater of (i) the amount of Your Entrance Fee Note times the Minimum Repayment Percentage, and (ii) the amount of Your Entrance Fee Note minus the product of the principal amount of the Entrance Fee Note and the Amortization Rate for each Month (see **Appendix G**) from the Occupancy Date; minus (b) all outstanding Monthly Fees, Miscellaneous Expenses, Deferred Charges and other charges owing to Provider. Examples of the application of this Section are set forth on **Appendix G**. Repayments shall be paid to You on the earlier of: (i) fourteen (14) calendar days after the Provider enters into a residency contract covering Your former Home with a new resident who has executed a continuing care residency contract and paid the applicable Entrance Fee for Your former Home; or (ii) twenty five (25) years after the date You make Your Home available to the Provider. However, notwithstanding the forgoing repayment mechanism, (1) repayments upon a termination of this Contract due to a fire or other casualty (See Section 8.4.2.h) shall be paid in accordance with Section 5.2 (*Damage to Home or Community*) above without any contingency for entering into a residency contract covering Your former Home with a new resident and (2) repayments upon termination of this Contract due to a condemnation or appropriation (See Section 8.4.2.i) shall be paid within ninety (90) days after termination of this Contract without

any contingency for entering into a residency contract covering Your former Home with a new resident.

8.5.3 Cancellation of Entrance Fee Note. Upon the receipt of the refund or repayment of Your Entrance Fee as provided under this Contract, Your Entrance Fee Note shall be deemed cancelled and You or Your representative will deliver to the Provider the Entrance Fee Note marked "Cancelled."

8.5.4 Payments for Upgrades. If You paid for any approved alteration, addition, or modification to Your Home [see Sections 3.5 (*Upgrades to Your Home*) and 5.3 (*Alterations*)], and the Provider cancels or terminates this Contract, You may receive a refund of a portion of that amount, which will be amortized at the Amortization Rate (as defined on **Appendix G**) beginning from the date that You paid that amount or the date You first occupy Your Unit, whichever is later. You shall receive the refund of such upgrade amount, if any, at the time You receive a refund of Entrance Fees pursuant to Section 8.1 (*Cancellation Period/Refund*) and Section 8.4 (*Termination rights of The Provider*). Once the amount You paid for any alteration, addition or modification to Your Home has fully amortized, You will receive no refund related to such items. You shall not be entitled to any refund of such upgrade amount if You transfer from Your Home, cancel or terminate this Contract, or upon Your death.

8.5.5 Deductions from Refunds and Repayments. You shall be responsible for continuing to pay Your Monthly Fee, together with such amounts as will cover other expenses incurred by You, and any repairs to or replacement of the Provider's property for damage caused by You, excepting ordinary wear and tear, through the effective cancellation or termination date of this Contract or the date You make Your Home available to the Provider, whichever is later. All outstanding and unpaid Monthly Fees, Miscellaneous Expenses, Deferred Charges, and other charges [see Section 9.7 (*Resident's Personal Obligations*)] will be offset against Your refund or repayment amount due under this Contract.

8.5.6 Refunds or Repayments to Couples. If this Contract covers two Residents and terminates as to only one Resident, then this Contract shall continue in full force as to the remaining Resident, and the Monthly Fee will be adjusted to the amount then charged to a single resident for a home comparable to Your Home. No refund or repayment of the Entrance Fee will be calculated or due until this Contract is terminated with respect to the remaining Resident, except under the circumstances described in Section 6.2 (*Occupancy by Resident and Non-Resident*) above (where a second occupant is admitted to residency after initial occupancy by a

single resident). In the event of termination of this Contract as to both Residents pursuant to this Section, the repayment provision set forth in Section 8.5 (*Amount and Timing of Refunds or Repayments*) that is applicable to the second Resident's termination shall govern. Any refund or repayment due will be allocated one half (1/2) to each of You, unless otherwise agreed to in writing.

9. **RESPECTIVE RIGHTS OF RESIDENT AND THE PROVIDER**

9.1 **Other Residents**

The Provider may enter into continuing care residency contracts, service contracts, or other agreements with other people and entities that contain terms different from those contained in this Contract. Despite any such differences, this Contract sets forth Your rights and obligations with respect to the Provider and the Community.

9.2 **Guests**

The Provider will provide Your family and other guests with opportunities to visit and participate in activities at the Community, if You desire. All guests must abide by all applicable rules contained in the Resident Handbook, including any limitations on the length of stay or frequency of visits. If Your guest exceeds the limitations on the length of stay, he or she must apply and qualify for residency at the Community. [See Section 6.2 (*Occupancy by Resident and Non-Resident*).] You will be responsible for assuring that Your guests abide by these rules and are not disruptive. Your guests may be denied access to the Community if they fail to observe the Resident Handbook rules.

9.3 **Community Policies**

The Provider may adopt policies to preserve the health, safety, and peaceful enjoyment of the Community by all residents, to repair and maintain the building(s) and grounds in a pleasant, clean and orderly condition, to administer services at the Community, and for all other reasonable and lawful purposes. Many of these policies and rules are set forth in the Resident Handbook, which is attached to this Contract as **Appendix A**. The Provider reserves the right to amend its policies from time to time in its reasonable discretion, and You agree to abide by the policies as adopted and amended.

9.4 **No Lease or Assignment**

Your rights and privileges to use and enjoy Your Home and the facilities at the Community and to receive care and services under this Contract are personal, and they may not

be transferred or assigned by You, by any proceeding at law, or otherwise. In addition, You may not lease Your Home to any person or entity.

9.5 Resident's Rights

Residents of the Community have a right of self-organization pursuant to California law. Residents shall also have the right to join in group activities, to use Community amenities for group meetings, and to obtain current copies of legally-required disclosure statements, financial audits and inspections of the Community. The Provider's representative will meet with residents annually (or more frequently if required by the State of California) in a general assembly to discuss the current status of the Community. The Provider will also maintain an internal procedure for addressing residents' concerns. Your rights under this Contract are limited to those rights expressly granted in it and do not include any proprietary interest in the Community, any managerial or other interest in the Provider or any third-party contractor, or any interest in any payments made under this Contract. Attached to this Contract, as **Appendix I**, is a statement of Your statutory rights under California law.

9.6 Mortgage Loans

No debt service of any kind will be included in the Monthly Fees, except for Shortfall Loans, if any, as described in **Appendix D**. The lien and rights of the lender financing the initial construction of the Community will be senior and have priority over Your rights under this Contract, but the loan documents will contain provisions assuring that Your rights to occupy Your Home in accordance with this Contract will not be disturbed. In the event any other mortgage loan encumbers the Community, Your rights under this Contract are senior to and will have priority over the rights of the mortgage lender.

9.7 Resident's Personal Obligations

The Provider will not be responsible for any expenses, debts or obligations incurred by You or on Your account either at the Community or elsewhere. The Provider is likewise not responsible for giving You support, maintenance, care, board, or lodging when You are absent from the Community, except as stated in Sections 3.3.7 (*Credit for Absences*), 4.1.4 (*Priority Access and Outside Care*), and 4.2.2 (*Care at an Outside Facility*).

9.8 Relocation of Personal Property; Restoration of Home

If You transfer or give up Your Home for any reason, You agree to make Your Home available to the Provider as provided in Section 8.1 (*Cancellation Period/Refund*). You or Your legal representative shall pay all expenses (including those incurred by the Provider)

incurred to make Your Home available for occupancy. Upon move-out, the Provider shall have the right to remove and dispose of or store Your property, at Your expense.

10. MISCELLANEOUS

10.1 Insurance

You shall be responsible for maintaining with a reputable insurer, insurance to cover the full replacement value of Your personal property at the Community. You shall also be responsible for obtaining liability insurance for bodily injury or property damage to others caused by You or Your guests, invitees or employees.

10.2 Interruption in Services

An interruption in services or failure to maintain services under this Contract shall not constitute a breach of this Contract, if the interruption is caused by factors beyond the reasonable control of the Provider, including, but not limited to, strikes, lockouts, or other labor disturbances, government orders, acts of terror, embargoes, shortages of labor or materials, inclement weather, fire, flood, earthquake or other casualties, power outages or the conduct of residents. In the event of an interruption in services, the Provider shall use reasonable efforts to restore the services or to provide substitute services.

10.3 Liability for Injury or Damage

You agree to indemnify, defend, and hold the Provider and Classic Residence and their respective partners, affiliates, shareholders, directors, officers, agents, attorneys, and employees and their respective directors, officers, and employees, harmless from all costs and liability for injury or damage caused by Your acts or omissions and those of Your guests, licensees, employees, and invitees, including attorneys' fees and costs.

10.4 Limitation on Liability

Nothing in this Continuing Care Contract limits either the Provider's obligation to provide adequate care and supervision for You as the Resident or any liability on the part of the Provider which may result from the Provider's failure to provide this care and supervision.

10.5 Resident's Representations

By executing this Contract, You represent and warrant, which representations and warranties shall be deemed remade when You take occupancy of Your Home (except as You otherwise notify the Provider in writing prior to taking occupancy), that: (i) You meet all the criteria for residency at the Community and performance of all Your obligations under this Contract; (ii) You have assets and income sufficient under foreseeable circumstances to meet

Your ordinary and customary living expenses incurred after You assume occupancy at the Community; and (iii) all representations made by You or on Your behalf, whether written or verbal, with respect to Your admission to the Community, were true when made.

10.5.1 Changed Circumstances. If Your circumstances (health, financial, or personal status) materially change prior to Your taking occupancy, You must notify the Provider of those changed circumstances prior to occupying Your Home. In such event, the Provider will determine in its discretion whether (i) Your changed circumstances prevent You from being qualified to enter the Community and (ii) to terminate this Contract. If such changed circumstances are health related, the Provider will not terminate this Contract if You begin occupancy in the appropriate care setting within the Community and doing so complies with California law. If Your financial circumstances have changed after the Provider approved You for admission to the Community, the Provider will permit You to move into the Community only if You demonstrate You have (a) total net assets equal to at least one and one-half times the amount of Your Entrance Fee payable under Section 3.1 (*Entrance Fee*); (b) monthly income equal to a minimum of one and one-half times the Monthly Fee payable under Section 3.3 (*Monthly Fee*).

10.5.2 Misrepresentation or Omission. You understand and agree that any material misrepresentation or omission made by You or on Your behalf in connection with the application for residency, including personal data forms and statements of financial condition and health history submitted by You or on Your behalf to the Provider, shall make this Contract voidable at the Provider's option. Your application for admission and all related documents are incorporated by reference into this Contract and made an express part of it.

10.6 Motorized Personal Transportation Vehicles

You may use motorized vehicles approved by the Provider for Your personal transportation, including wheelchairs, carts and scooters, at the Community, provided You agree in writing to adhere to and actually do adhere to the Provider's motorized vehicles policies that are, from time to time, in effect.

10.7 Audited Financial Statement and Disclosure Statement

A copy of the Provider's most recent audited financial statement is attached to this Contract as **Appendix J**. The Provider will make available to You for inspection at the Community, at all reasonable business hours and upon reasonable notice, its current audited

financial statement for the Community. You have also received a copy of a disclosure statement containing general information about the Provider and the Community.

10.8 Possible Imputed Interest Tax Liability

In 1984, Congress passed legislation (Internal Revenue Code Section 7872) that could permit the Internal Revenue Service (“IRS”) to classify the returnable portion of Your Entrance Fee as a below-market interest rate loan to the Provider. In that case, the IRS may impute interest to You and You may be liable for federal and state income taxes as if Your Entrance Fee were an interest bearing loan and regardless of whether You received any interest payments. In such a situation, You would have taxable income to the extent of the imputed interest, with no corresponding deduction or receipt of interest income (except as provided below). However, under Internal Revenue Code Section 7872(g), a limited portion [\$158,100 in 2005] of a returnable Entrance Fee paid to a “qualified continuing care facility” may be exempt from the imputed interest rules. Provider has structured the Community in a manner that is intended to qualify for this limited exemption.

To further mitigate the associated income tax expense of imputed interest You may be deemed to receive because of returnable Entrance Fees that are in excess of any applicable exemption, the Provider will make annual interest payments to You based on Your Repayment Amount (less any prepayments thereof and any exempt amounts) as provided in the Entrance Fee Note. In general, the Entrance Fee Note shall require the Provider to make an annual interest payment in an amount that is intended to reduce or pay the amount of estimated after-tax liability You would incur under then current tax law and regulations if income were imputed to You with respect to the non-exempt repayable portion of Your Entrance Fee. The interest payment amount will be determined annually based on the applicable federal rate on “demand” or short-term loans under Internal Revenue Code Section 7872(f)(2)(B) or its successor provision multiplied by the tax rate reflected on Your then-current federal and state tax returns, or a minimum rate that the Provider will establish if You do not wish or fail timely to disclose Your applicable tax rate. An example of the application of this Section is set forth on **Appendix G**. The Provider may hire a third party to compute the annual interest payments. The annual interest payments made by the Provider and all costs incurred (such as accounting and legal costs) by the Provider in connection with calculation of the annual interest payments and the like, shall be borne solely by the Provider, and none of these costs shall be deemed

operational costs of the Community charged to the residents, whether through Monthly Fees or otherwise.

Since 1984, a moratorium has been in effect on the IRS's enforcement of the imputed interest rules with respect to below-market loans made to continuing care communities that are not "qualified continuing care facilities." The Provider reserves the right to change the structure of the Community by selling or transferring the Care Center assets, including the Skilled Nursing Facility, to an affiliated company and establishing a lease between the affiliate and the Provider. If the Provider enters into such a lease, the lease payments made by the Provider will not be deemed operational costs of the Community for purposes of computing fees to be charged to residents, whether through Monthly Fees or otherwise. If the Provider determines that, after such restructuring of the Community, the Community will no longer be a "qualified continuing care facility" and will be eligible for the moratorium applicable to non-qualified facilities, the Provider will not make any annual interest payments to You. If, after such a restructuring, the IRS adopts regulations that result in the application of the imputed interest rules to non-qualified continuing care communities, then, during the period of time that the Community is a non-qualified continuing care facility, the Provider will indemnify You from any income tax liability on interest income imputed to You and from any penalties assessed against You by the IRS or other taxing authority.

The Internal Revenue Code and Regulations may be amended from time to time and the Provider will not monitor or provide notices to You of any such amendments. You are urged to seek independent tax advice concerning any tax consequences associated with this Contract. In the event that the Internal Revenue Code or implementing regulations are amended so that there is no longer income tax expense associated with imputed interest income applicable to this Contract or the Entrance Fee, the Provider will no longer be obligated to make payments to You under this Section 10.8. or under the Entrance Fee Note and the indemnification referred to in the preceding paragraph will no longer be available for periods of time after the amendment of the Internal Revenue Code or implementing regulations.

10.9 Notices

All notices required or permitted under this Contract shall be delivered to:

CC-Palo Alto, Inc.
c/o Classic Residence by Hyatt
71 S. Wacker Dr.
Suite 900
Chicago, IL 60606

Attention: General Counsel

or to You at Your Home (or, if appropriate, to Your legal representative at the address furnished by You to the Provider). All such notices shall be effective when personally delivered or received.

10.10 Entire Contract

This Contract, including all attached Appendices and documents incorporated by reference, constitutes the entire Contract between You and the Provider and may not be amended unless executed in writing and signed by an authorized representative of the Provider and by You or Your legal representative.

10.11 Severability

If a court deems any term of this Contract invalid, the remainder of this Contract shall remain in full force and effect.

10.12 Waiver of One Breach Not a Waiver of Any Other

The Provider's failure on any occasion to insist upon Your strict compliance with any term of this Contract shall not be deemed a waiver of its right to insist upon Your strict compliance with all terms of this Contract on any other occasion.

10.13 The Provider's Right to Contract for Services

The Provider reserves the right to contract for services, enter into lease arrangements and management agreements, and delegate certain of its responsibilities under this Contract, which may be with affiliates of the Provider (e.g., Classic Residence) (collectively, the "Arrangements"). Notwithstanding the Provider's right to enter into the Arrangements, the Provider shall retain the ultimate responsibility to carry out the provisions of this Contract for You and for the benefit of the Community and its other residents.

10.14 Assignment

This Contract shall be assignable by the Provider if it transfers its interest in the Community. The Provider shall be released from its obligations under this Contract from and after the effective date of such assignment.

10.15 Counterparts

This Contract may be executed in counterparts.

10.16 Natural Disasters

If the Provider is required to evacuate residents because of a threat or occurrence of a natural disaster, Monthly Fees will include any costs for Your transportation and/or lodging that are not reimbursed by insurance.

10.17 Mediation

In the event any dispute arises between the parties under this Contract, either party may request that the dispute be the subject of non-binding mediation. The mediation shall be held in Palo Alto, California and shall be conducted by a mediator selected in accordance with the procedures of the American Arbitration Association ("AAA"). The mediation shall be conducted pursuant to the rules of the AAA and shall be held within 90 days of notice by one party to the other demanding mediation, and stating the general nature of the dispute and the remedy or resolution being requested. Each party shall bear its or their own costs and attorney's fees related to the mediation, and the costs of the mediating entity and mediator shall be split by the parties.

“You, the resident or transferor, may cancel the transaction without cause at any time within ninety (90) days from the date You first occupy Your living unit. See the attached “Notice of Cancellation” form for an explanation of this right.”

For purposes of the foregoing notice, the phrase “date you first occupy Your living unit” shall mean the “Occupancy Commencement Date” as defined in Section 8.1 of this Contract. The Notice of Cancellation form is attached as Appendix H.

RESIDENT:


Signature

Linda Cork
Printed Name

7/29/05
Date

RESIDENT:

Signature

Printed Name

Date

TRANSFEROR (PAYOR), if any:

Signature

Printed Name

Address

Date

THE PROVIDER:

CC-Palo Alto, Inc., a Delaware corporation

By: Classic Residence Management
Limited Partnership, an Illinois
limited partnership

Its: Agent

By:  _____

Stewart A. Ingram, Executive Director

Date: 7-29-05

NOTICE

Date: _____

This is a continuing care contract as defined by paragraph (8) of subdivision (c), or subdivision (l) of Section 1771, of the California Health and Safety Code. This continuing care contract form has been approved by the State Department of Social Services as required by subdivision (b) of Section 1787 of the California Health and Safety Code. The basis for this approval was a determination that the Provider has submitted a contract that complies with the minimum statutory requirements applicable to continuing care contracts. The Department does not approve or disapprove any of the financial or health care coverage provisions of this Contract. Approval by the Department is NOT a guaranty of performance or an endorsement of any continuing care contract provisions. Prospective transferors and residents are strongly encouraged to carefully consider the benefits and risks of this continuing care contract and to seek financial and legal advice before signing.

APPENDIX A

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

RESIDENT HANDBOOK

APPENDIX B

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

DINING SERVICE PROGRAMS

You will receive the following services and amenities as part of Your Monthly Fee:

Dining Services. You may select one of the dining service programs described in a., b., or c. below for Your individual dining needs while residing in Your Home. All meals provided under the dining service program options will be served in the dining venues identified below. Your initials below indicate the dining service program option You have selected. The costs for additional meals and credits described below are based on Provider's estimates for those costs; those costs and credits may change from time to time. In addition, there may also be a meal surcharge when You participate in special brunches or theme events.

Standard Meal Plan:

- a. _____ One main meal per day (either lunch or dinner daily).

Modified Meal Plan:

- b. _____ Twenty-one (21) main meals per month (an aggregate of 21 lunches or dinners). With this option You will receive a credit of Sixty-One Dollars (\$61.00) per person on Your Monthly Fee. Each extra lunch or dinner in excess of twenty-one (21) per person will be charged at the posted rate.

A La Carte Meal Plan:

- c. _____ With this option You will receive a credit of One Hundred Ninety Dollars (\$190.00) per person on Your Monthly Fee. Each meal will be charged at the posted rate.

Dining Venues:

The following dining venues are available at the Community: The Colonnade (a formal dining room), The Club Room (a casual dining room), and The Bistro (a café area).

APPENDIX C**CLASSIC RESIDENCE BY HYATT IN PALO ALTO****SCHEDULE OF FEES FOR OPTIONAL SERVICES**

(Effective 3/1/05)

The fees listed below represent the current fees for these services as of March 1, 2005. The Provider may change these fees upon 30 days' advance written notice.

Meals/Snacks**Additional Resident meals:**

à la carte Continental Breakfast (available only at The Bistro)	Priced per item	
Lunch at The Bistro	Priced per item	
	<u>at The Colonnade</u>	<u>at The Club Room</u>
Lunch	N/A	\$12 per meal
Dinner	\$20 per meal	\$20 per meal
Brunch / Holiday	\$22 per meal	\$22 per meal

Special diets prescribed by physician	Determined case by case
Nutritional supplements	Priced per item
In-home meal delivery	\$5 per meal
Snacks	Priced per item

Guest meals:

à la carte Continental Breakfast (available only at The Bistro)	Priced per item	
Lunch at The Bistro	Priced per item	
	<u>at The Colonnade</u>	<u>at The Club Room</u>
Lunch	N/A	\$14 per meal
Dinner	\$25 per meal	\$25 per meal
Brunch / Holiday	\$28 per meal	\$28 per meal

Guest Services

Guest room	\$120 per night
Roll-away bed (in guest room or resident's Home)	\$15 per night

Housekeeping/Engineering

Additional housekeeping services	\$24 per hour
Heavy housekeeping services	\$36 per hour
Additional engineering/maintenance services	\$48 per hour
Additional laundry services (during your scheduled housekeeping service)	\$5 per pound

Transfer

Transfer to a different independent living Home by personal preference	\$2,000 per move
--	------------------

Transportation

Scheduled transportation if trip is outside scheduled route:

8:30 a.m. to 4:00 p.m. Monday through Friday	\$24 per hour
All other times	\$36 per hour
Cancellation fee	\$15

Miscellaneous

Returned check fee	\$35 per check
Mailbox key replacement fee	\$5 per key
Door lock replacement	\$50 plus labor and materials
Key card replacement fee	\$16 per card

APPENDIX D

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

MONTHLY FEE CALCULATION COMMUNITY OPERATING COSTS

When the Community is opened for operations, the Provider will be responsible for all costs of operating the Community in excess of the Monthly Fees collected from residents (excluding and distinguished from Entrance Fees, payments for upgrades and one time payments for an additional parking space) prior to and including the Initial Minimum Occupancy Level Date (as defined in Section 3.3.2 (*Calculation of Monthly Fees*)). More specifically, the Provider will fund any deficit between Monthly Fees collected and the costs of operating the Community, including without limitation the funding of operating and capital reserves and a pro rata share of all expenses (e.g., taxes, insurance and Base Rent under the Ground Lease) that may accrue during or be allocable to the period prior to and including the Initial Minimum Occupancy Level Date, regardless of when such payments are actually made. After the Initial Minimum Occupancy Level Date, residents' Monthly Fees, when combined with other sources of revenue, but excluding Entrance Fees, payments for upgrades and one time payments for an additional parking space, are intended to pay all costs of operating the Community determined on a long-term, stabilized basis. Provider believes that at the time of achieving that occupancy, the Community is no longer in the startup mode. However, there is no assurance or guarantee that after the Initial Minimum Occupancy Level Date the sum of Residents' Monthly Fees will equal or exceed the costs of operating the Community.

After the Initial Minimum Occupancy Level Date, any deficit remaining at the end of a fiscal year (after first applying any previously established reserves therefor) between Monthly Fees collected from residents during that fiscal year and the costs of operating the Community during that fiscal year will be funded by a loan (the "Shortfall Loan") to the residents from the Provider. Each Shortfall Loan shall be repaid by residents over ten (10) years, commencing with the first month of the fiscal year immediately following the fiscal year in which the shortfall occurred, and will begin accruing interest on the first day of that month. Such interest will be

established for the year of funding at the prime lending rate as of the beginning of the fiscal year (as published in the Wall Street Journal) plus one percent (1%), compounded annually, and will be reset to the prime lending rate plus one percent (1%) as of the beginning of the fiscal year for each subsequent year. The Provider will provide residents with notice of the loan amount(s) and the repayments required. A Shortfall Loan will be a binding obligation of the residents when made, but will not be evidenced by an executed promissory note. The amount, interest rate, loan term, and other terms of the loan shall be as evidenced in and in accordance with the books and records of the Provider.

If the Community generates revenues (excluding Entrance Fees, payments for upgrades and one time payments for an additional parking space) in excess of its operating costs for a fiscal year, such surplus will be applied as a prepayment of outstanding principal under any Shortfall Loan(s). Such prepayment will not change the minimum payments that are due under the ten-year repayment schedule of any Shortfall Loan. If an operating surplus is generated prior to the Initial Minimum Occupancy Level Date, such surplus will be retained by the Provider. If an operating surplus is generated after the Initial Minimum Occupancy Level Date, but there is not a Shortfall Loan to be repaid, such surplus will be retained by the Community and may be used at the discretion of the Provider as a reserve to cover operating deficits or to lower future monthly fees (or some combination thereof).

The operational costs intended to be paid from residents' Monthly Fees include, but are not limited to: (i) the costs to provide all services and amenities under this Contract and under all other resident contracts at the Community; (ii) the costs of insurance policies, including property, casualty and liability insurance policies; (iii) employee expenses; (iv) all costs of maintenance, repairs, and replacements of capital items, including furnishings, fixtures and equipment; (v) operating and capital reserves; (vi) a management fee to Classic Residence or its successor; (vii) Base Rent payments under the Ground Lease for the Community; and (viii) any marketing costs incurred after the later to occur of either (a) the Initial Minimum Occupancy Level Date; or (b) the end of the month in which ninety percent (90%) of the independent living units are subject to a residency contract or reserved with each reservation having a deposit of at least twenty percent (20%) of the then applicable unit Entrance Fee, or both.

Costs of operating the Community include costs of a capital nature that arise after the initial construction and furnishing of the Community is completed. These latter costs are to be paid out of a Capital Item Replacement Reserve that shall be established through an allocation of

a percentage of Monthly Fees charged to residents, which currently shall be 5% of Monthly Fee revenue annually. The Capital Item Replacement Reserve will be held at the Community level and will be invested in government securities or other conservative investment vehicles. No debt service of any kind will be included in the Monthly Fees, except for Shortfall Loans, if any, as described in this **Appendix D**.

The Provider will forecast, on an annual basis, anticipated costs of operating the Community and anticipated Monthly Fee revenue for the next year and for future years. Typically, the forecasting occurs in October and the Provider establishes Monthly Fees on or before January 1st of each year for such year.

APPENDIX E

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

HISTORIC SCHEDULE OF AVERAGE MONTHLY FEES

HOME TYPE	2005	2006	2007	2008	2009
ONE BEDROOM					
TWO BEDROOM					

APPENDIX F

CLASSIC RESIDENCE BY HYATT IN PALO ALTO ASSISTED LIVING AND MEMORY SUPPORT SERVICES

ASSISTED LIVING PROGRAM

The Provider will furnish assisted living services, as needed, for residents who require assistance with activities of daily living. The assisted living services will be provided in the Assisted Living Center. The level of assisted living services that You shall receive will depend on the frequency and intensity of Your care needs and the type of personal care services You require.

In addition to the services described in Sections 1 and 2 of this Contract, You may receive one or more of the following services in the Assisted Living Center without additional charge, as needed:

1. Assistance with showering or bathing, daily dressing, grooming and other personal hygiene activities.
2. Limited incontinence care
3. Assistance with dining, including monitoring and supervision at meal and snack times
4. Walk-along assistance to meals
5. Food tray deliveries, as needed, during a temporary illness
6. Assistance with self-administration of medications, including orders, central storage, and scheduling and distribution of medications
7. Assistance with toilet activities, as needed
8. Supervised assistance with ambulation
9. Nursing interventions and care, including monitoring, evaluation and supervision.
10. Monitoring of Your health status
11. Temporary illness or post hospitalization monitoring
12. Nutritional supervision
13. Weekly clinic programs, offering blood pressure, vital signs measurements and weight checks.
14. Daily tidying of Your Home or assisted living apartment, including trash removal

15. Daily bedmaking.
16. Mail delivery to Your Home or assisted living apartment
17. Escort to recreational, social, or religious activities provided on-site
18. Assistance with accessing higher levels of care as needed and prescribed by Your primary care physician and the Provider's care team.

MEMORY SUPPORT PROGRAM

The Provider's Memory Support Program is designed for residents with mild dementia or cognitive impairment who may benefit from additional structure and supervision and residents who require special care for moderate to severe Alzheimer's disease or another dementia. This program is provided at the Memory Support Center.

Mild Forms of Dementia

For residents with mild dementia or cognitive impairment, the Memory Support Program supplements the Assisted Living Program, as appropriate, with the following services, as needed:

1. Assisted living services described under the Assisted Living Program
2. Activity programs adapted for persons with cognitive impairment.

Moderate to Severe Dementia

For residents who require special care for moderate to severe Alzheimer's disease or related dementias, the Program supplements the Assisted Living Program, as appropriate, with the following services, as needed:

1. Assisted living services described under the Assisted Living Program
2. Wandering bracelet
3. A secure environment
4. A nutritious snack program
5. An activity program specially designed for moderate to severely demented residents.
6. A specially designed secured outdoor activity area
7. Staff specially trained in the care of residents with dementias and related illnesses.

APPENDIX G

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

REPAYMENT AMOUNT AND
IMPUTED INTEREST CALCULATION

A. Repayment Amount Calculation

You have selected the Entrance Fee repayment program that establishes ninety percent (90.0 %) as the "Minimum Repayment Percentage" to be used when calculating any Repayment Amount due to You under this Contract.

The "Amortization Rate" to be used when calculating any Repayment Amount due to You is two percent (2.0 %) for each "Month" after the Occupancy Date, as defined in Section 3.3.1 (*Monthly Fee: Amount to Pay*). To calculate the number of "Months" that have passed since the Occupancy Date, Provider will divide the total number of days from the Occupancy Date through the effective termination date by thirty (30), and any remaining days will be considered an additional "Month."

Your Repayment Amount will be (a) the greater of (i) the amount of Your Entrance Fee Note times the Minimum Repayment Percentage, and (ii) the amount of Your Entrance Fee Note minus the product of the Entrance Fee Note and the Amortization Rate for each Month from the Occupancy Date; minus (b) all outstanding Monthly Fees, Miscellaneous Expenses, Deferred Charges and other charges owing to Provider.

Examples [assuming a 90% Minimum Repayment Percentage and a 2% Amortization Rate]:

1. Resident pays \$500,000 Entrance Fee. Resident terminates the Contract 107 days after the Occupancy Date (i.e., 4 "Months" for purposes of the Repayment Amount under this Contract), owing \$2,000 in unpaid Miscellaneous Expenses:

The Repayment Amount is \$458,000: \$460,000 (\$500,000 reduced by 2% times 4 Months) minus \$2,000.

2. Resident pays \$600,000 Entrance Fee. After 360 days from the Occupancy Date Resident moves to a \$500,000 unit (collecting an Entrance Fee Note prepayment), then terminates 300 days later:

The Repayment Amount is \$450,000: \$500,000 (the amount of the Entrance Fee Note based upon the Entrance Fee for the new Unit (see Section 7.4)) times the 90% Minimum Repayment Percentage.

B. Imputed Interest Calculation

Subject to Section 10.8 of this Contract, You will receive from Provider on the Interest Payment Date (as defined below) in each calendar year, commencing in the calendar year following Your initial occupancy of Your Home and continuing until the Interest Payment Date of the calendar year following the expiration or termination of this Contract, an interest payment for the prior calendar year (the "Prior Year") equal to the product of A times B times C, where: "A" is the excess of (i) Your Entrance Fee Note multiplied by the Minimum Repayment Percentage, over (ii) the exemption for the Prior Year as determined under Internal Revenue Code ("Code") Section 7872(g) or its successor provision; "B" is the average applicable federal rate ("AFR") during the Prior Year as determined under Code Section 7872(f)(2)(B) or its successor provision for "short-term" or "demand" loans; and "C" is the Tax Rate (as defined below) for the Prior Year, as confirmed in a certificate (the "Tax Rate Certificate") signed by You and addressed and delivered to Provider no later than October 15 of each year. For purposes hereof:

"Tax Rate" means the sum of the following two fractions expressed as a percentage: (x) Your California State income tax liability for the Prior Year divided by Your California adjusted gross income for the Prior Year, and (y) Your U.S. federal income tax liability for the Prior Year divided by Your U.S. federal adjusted gross income for the Prior Year; provided, however, that if You fail to deliver Your Tax Rate Certificate on or before October 15th of any year, then the Tax Rate for the Prior Year shall be twenty percent (20%), and for purposes of the Interest Payment Date

determination, You shall be deemed to have delivered the Tax Rate Certificate on October 15th of the calendar year after such Prior Year .

"Interest Payment Date" means April 15, if Your Tax Rate Certificate is delivered to Provider before April 1st of such year or, if Your Tax Rate Certificate is delivered to Provider after April 1st of such year, no later than fourteen days after such delivery.

The amount payable hereunder by Provider on any Interest Payment Date shall be reduced based on the number of days, if any, in the Prior Year that precede the execution or follow the termination of this Contract.

Provider reserves the right, from time to time, to verify Your Tax Rate for any year(s), and You shall furnish Your California and federal income tax returns to Provider for such year(s) as Provider may request. If You fail to furnish Your California and federal income tax returns for any year to Provider, the Tax Rate for such year shall be deemed to have been twenty percent (20%). If it is determined, pursuant to the preceding sentence or by an audit of Your returns, that You received any interest payment(s) greater than You were entitled to receive ("Excess Payment(s)"), You shall pay the amount of such Excess Payment(s) to Provider on demand and any such payments shall be deemed to have been due from the Interest Payment Date(s) until the date of Your repayment to Provider. Any amount You owe pursuant to the preceding sentence shall be deemed a Miscellaneous Expense.

EXAMPLE:

Assume the following:

1. Your average Repayment Amount for the year in question is \$900,000.
2. The average AFR for the year in question is 1.5%.
3. The exempt portion of the returnable entrance fee for the year in question under Section 7872 (g) of the Internal Revenue Code is \$160,000.
4. The Tax Rate is 35%.

The interest payment to be made to You by the Provider on or before the applicable Interest Payment Date of the year following is \$3,885 [i.e., $\$900,000 - \$160,000$) $(.015) (.35)$. = \$3,885.00].

Since 1984, a moratorium has been in effect on the IRS's enforcement of the imputed interest rules with respect to below-market loans made to continuing care communities that are not "qualified continuing care facilities." The Provider reserves the right to change the structure of the Community by selling or transferring the Care Center assets, including the Skilled Nursing Facility, to an affiliated company and establishing a lease between the affiliate and the Provider. If the Provider enters into such a lease, the lease payments made by the Provider will not be deemed operational costs of the Community for purposes of computing fees to be charged to residents, whether through Monthly Fees or otherwise. If the Provider determines that, after such restructuring of the Community, the Community will no longer be a "qualified continuing care facility" and will be eligible for the moratorium applicable to non-qualified facilities, the Provider will not make any annual interest payments to You. If, after such a restructuring, the IRS adopts regulations that result in the application of the imputed interest rules to non-qualified continuing care communities, then, during the period of time that the Community is a non-qualified continuing care facility, the Provider will indemnify You from any income tax liability on interest income imputed to You and from any penalties assessed against You by the IRS or other taxing authority.

The Internal Revenue Code and Regulations may be amended from time to time and the Provider will not monitor or provide notices to You of any such amendments. You are urged to seek independent tax advice concerning any tax consequences associated with this Contract. In the event that the Internal Revenue Code or implementing regulations are amended so that there is no longer income tax expense associated with imputed interest income applicable to this Contract or the Entrance Fee, the Provider will no longer be obligated to make payments to You under Section 10.8. and the indemnification referred to in the preceding paragraph will no longer be available for periods of time after the amendment of the Internal Revenue Code or implementing regulations.

APPENDIX H

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

NOTICE OF CANCELLATION

Your first date of occupancy under this Contract is: _____.

For purposes of this notice, the phrase "Your first date of occupancy" shall mean the "Occupancy Commencement Date" as defined in Section 8.1 of this Contract.

You may cancel this transaction, without any penalty within ninety (90) calendar days from the above date.

If You cancel, any property transferred, any payments made by You under this Contract, and any negotiable instrument executed by You will be returned within fourteen (14) calendar days after making possession of the living unit available to the Provider. Any security interest arising out of the transaction will be cancelled.

If You cancel, You are obligated to pay a reasonable processing fee to cover costs and to pay for the reasonable value of the services received by You from the Provider up to the date You canceled or made available to the Provider the possession of any living unit delivered to You under this Contract, whichever is later.

If You cancel, You must return possession of any living unit delivered to You under this Contract to the Provider in substantially the same condition as when You took possession.

Possession of the living unit must be made available to the Provider within 20 calendar days of Your notice of cancellation. If You fail to make the possession of any living unit available to the Provider, then You remain liable for performance of all obligations under this Contract.

To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice, or any other written notice, or send a telegram to CC-Palo Alto, Inc., c/o Classic Residence by Hyatt, 71 South Wacker Drive, Suite 900, Chicago, IL 60606, Attention: General Counsel, no later than midnight of _____, _____.

I (we) hereby cancel this transaction.

(Date)

(Date)

(Resident or Transferor's Signature)

(Resident or Transferor's Signature)

NOTICE OF CANCELLATION

Your first date of occupancy under this Contract is: _____.

For purposes of this notice, the phrase "Your first date of occupancy" shall mean the "Occupancy Commencement Date" as defined in Section 8.1 of this Contract.

You may cancel this transaction, without any penalty within ninety (90) calendar days from the above date.

If You cancel, any property transferred, any payments made by You under this Contract, and any negotiable instrument executed by You will be returned within fourteen (14) calendar days after making possession of the living unit available to the Provider. Any security interest arising out of the transaction will be cancelled.

If You cancel, You are obligated to pay a reasonable processing fee to cover costs and to pay for the reasonable value of the services received by You from the Provider up to the date You canceled or made available to the Provider the possession of any living unit delivered to You under this Contract, whichever is later.

If You cancel, You must return possession of any living unit delivered to You under this Contract to the Provider in substantially the same condition as when You took possession.

Possession of the living unit must be made available to the Provider within 20 calendar days of Your notice of cancellation. If You fail to make the possession of any living unit available to the Provider, then You remain liable for performance of all obligations under this Contract.

To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice, or any other written notice, or send a telegram to CC-Palo Alto, Inc., c/o Classic Residence by Hyatt, 71 South Wacker Drive, Suite 900, Chicago, IL 60606, Attention: General Counsel, no later than midnight of _____, _____.

I (we) hereby cancel this transaction.

(Date)

(Date)

(Resident or Transferor's Signature)

(Resident or Transferor's Signature)

APPENDIX I

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

STATEMENT OF RESIDENTS' RIGHTS

I. Health and Safety Code Section 1771.7 grants the following rights to residents of continuing care retirement communities:

A. No resident of any continuing care retirement community shall be deprived of any civil or legal right, benefit, or privilege guaranteed by law, by the California Constitution, or by the United States Constitution solely by reason of status as a resident of a community. In addition, because of the discretely different character of residential living unit programs that are a part of continuing care retirement communities, this Section shall augment Chapter 3.9 (commencing with Section 1599), Section 73523 of Title 22 of the California Code of Regulations, and applicable federal law and regulations.

B. All residents in residential living units shall have all of the following rights:

- (1) To live in an attractive, safe and well maintained physical environment.
- (2) To live in an environment that enhances personal dignity, maintains independence and encourages self-determination.
- (3) To participate in activities that meet individual physical, intellectual, social and spiritual needs.
- (4) To expect effective channels of communication between residents and staff, and between residents and the administration or Provider's governing body.
- (5) To receive a clear and complete written contract that establishes the mutual rights and obligations of the resident and the continuing care retirement community.
- (6) To maintain and establish ties to the local community.
- (7) To organize and participate freely in the operation of resident associations.

II. RESIDENTIAL CARE FACILITY FOR THE ELDERLY LAW

Pursuant to Section 87572 of Title 22 of the California Code of Regulations, You shall have personal rights, which include, but are not limited to, the following:

1. To be accorded dignity in Your personal relationships with staff, residents and other persons.
2. To be accorded safe, healthful and comfortable accommodations, furnishings and equipment.
3. To be free from corporal or unusual punishment, humiliation, intimidation, mental abuse or other actions of a punitive nature, such as withholding of monetary allowances or interfering with daily living functions such as eating or sleeping patterns or elimination.
4. To be informed by the Provider of the provisions of law regarding complaints and of procedures to register complaints confidentially, including, but not limited to, the address and telephone number of the complaint receiving unit of the Department of Social Services.
5. To have the freedom of attending religious services or activities of Your choice and to have visits from the spiritual advisor of Your choice. (Attendance at religious services, in or outside the Community, shall be voluntary.)
6. To leave or depart the Community at any time and not to be locked in any room, building or premises at the Community by day or night. (This does not prohibit the establishment of rules applicable to the Community, such as the locking of doors at night, for the protection of residents; nor does it prohibit, with permission of the Department of Social Services, the barring of windows against intruders.)
7. To visit the Community prior to residence, along with Your family and responsible persons.
8. To have Your family or responsible persons regularly informed by the Provider of activities related to Your care or services, including ongoing evaluations, as appropriate to Your needs.
9. To have communications to the Provider from Your family and responsible persons answered promptly and appropriately.
10. To be informed of the Community's policy concerning family visits and other communications with residents as specified in Health and Safety Code Section 1569.313.

11. To have Your visitors, including ombudspersons and advocacy representatives, permitted to visit privately during reasonable hours and without prior notice, provided that the rights of other residents are not infringed upon.

12. To wear Your own clothes; to keep Your own personal possessions, including Your toilet articles; and to keep and be allowed to spend Your own money.

13. To have access to individual storage space for private use.

14. To have access to telephones in order to make and receive confidential calls. The Community may require reimbursement from You for long distance calls.

15. To mail and receive unopened correspondence in a prompt manner.

16. To receive or reject medical care or health-related services.

17. To receive assistance in exercising the right to vote.

18. To move from the Community.

The resident and the resident's legal representative, if applicable, is hereby informed of the appropriate licensing agency to contact regarding complaints:

Department of Social Services
Community Care Licensing Office
111 North Market Street, Suite 350
San Jose, CA 95113
Telephone: (408) 277-1289

By signing below, You acknowledge that You have received a copy of the personal rights delineated above and outlined in Title 22 of the California Code of Regulations at the time of Your admission:

Resident: _____ Date: _____

Resident's Representative: _____ Date: _____

APPENDIX J

CLASSIC RESIDENCE BY HYATT IN PALO ALTO

AUDITED FINANCIAL STATEMENTS

(December 31, 2003; January 31, 2003; and January 31, 2002)

CC-PALO ALTO, INC.

Financial Statements

December 31, 2003 and January 31, 2003

(With Independent Auditors' Report Thereon)

CC-PALO ALTO, INC.

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KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Directors
CC-Palo Alto, Inc.:

We have audited the accompanying balance sheets of CC-Palo Alto, Inc. (the Company) as of December 31, 2003 and January 31, 2003 and the related statements of operations, changes in shareholder's equity, and cash flows for the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CC-Palo Alto, Inc. as of December 31, 2003 and January 31, 2003, and the results of its operations and its cash flows for the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 6, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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100 years
1904-2004

CC-PALO ALTO, INC.**Balance Sheets**

December 31, 2003 and January 31, 2003

Assets	December 31, 2003	January 31, 2003
Current assets:		
Cash and cash equivalents	\$ 5,316	2,431
Total current assets	5,316	2,431
Property and equipment:		
Construction in progress	44,784,612	11,275,531
Property and equipment, net of accumulated depreciation of \$38,998 and \$22,589, respectively	52,536	65,221
Total property and equipment	44,837,148	11,340,752
Other assets:		
Restricted escrow cash	74,812,213	68,355,419
Long-term receivable	783,572	744,030
Deferred compensation, net	139,182	190,220
Costs of acquiring initial continuing care contracts	4,199,695	2,526,145
Deferred financing fees, net	4,631,732	—
Prepaid marketing fees	3,694,892	—
Deposits	1,007,100	1,005,500
Total assets	\$ 134,110,850	84,164,497
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable	\$ 61,198	12,159
Construction costs payable	12,694,653	—
Accrued costs of acquiring initial continuing care contracts	26,580	1,167
Accrued expenses	122,880	64,270
Total current liabilities	12,905,311	77,596
Long-term debt	27,222,771	—
Noncurrent deferred tax liability, net	2,772,096	9,218
Escrow deposits	74,601,877	68,355,419
Total liabilities	117,502,055	68,442,233
Shareholder's equity:		
Common stock, no par value. Authorized, issued, and outstanding 100 shares	—	—
Additional paid-in capital	20,234,499	16,470,072
Accumulated deficit	(3,625,704)	(747,808)
Total shareholder's equity	16,608,795	15,722,264
Total liabilities and shareholder's equity	\$ 134,110,850	84,164,497

See accompanying notes to financial statements.

CC-PALO ALTO, INC.**Statements of Operations****Eleven-month period ended December 31, 2003 and year ended January 31, 2003**

	Eleven-month period ended December 31, 2003	Year ended January 31, 2003
Revenue:		
Interest income	\$ 1,354,729	52,777
Other income	15,770	88,549
	<u>1,370,499</u>	<u>141,326</u>
Expenses:		
Administrative	17,567	235,211
Marketing	354,235	334,225
Interest expense	1,096,506	—
Depreciation	16,409	14,200
	<u>(114,218)</u>	<u>(442,310)</u>
Loss before income tax benefit		
Income tax benefit	33,928	154,808
Net loss	<u>\$ (80,290)</u>	<u>(287,502)</u>

See accompanying notes to financial statements.

CC-PALO ALTO, INC.

Statements of Changes in Shareholder's Equity

Eleven-month period ended December 31, 2003 and year ended January 31, 2003

	Common stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amount			
Balance at January 31, 2002	100	\$ —	—	(298,800)	(298,800)
Contribution from Parent	—	—	16,470,072	—	16,470,072
Tax adjustment	—	—	—	(161,506)	(161,506)
Net loss	—	—	—	(287,502)	(287,502)
Balance at January 31, 2003	100	—	16,470,072	(747,808)	15,722,264
Contribution from Parent	—	—	3,764,427	—	3,764,427
Tax adjustment	—	—	—	(2,797,606)	(2,797,606)
Net loss	—	—	—	(80,290)	(80,290)
Balance at December 31, 2003	100	\$ —	20,234,499	(3,625,704)	16,608,795

See accompanying notes to financial statements.

CC-PALO ALTO, INC.

Statements of Cash Flows

Eleven-month period ended December 31, 2003 and year ended January 31, 2003

	Eleven-month period ended December 31, 2003	Year ended January 31, 2003
Cash flows from operating activities:		
Net loss	\$ (80,290)	(287,502)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	16,409	14,200
Deferred tax liability	2,762,878	6,698
Tax adjustment	(2,797,606)	(161,506)
Interest accrued on escrow deposits	1,096,506	—
Changes in operating assets and liabilities:		
Deposits	(1,600)	—
Accounts payable	49,039	6,393
Accrued expenses	84,023	6,628
Net cash provided by (used in) operating activities	1,129,359	(415,089)
Cash flows from investing activities:		
Construction in progress, net of change in related construction costs payable	(20,042,473)	(7,977,622)
Purchase of property and equipment	(3,724)	(33,600)
Costs of acquiring initial continuing care contracts, net of change in related accrual	(1,622,512)	(1,292,632)
Repayment of long-term receivable, net of change in accrued interest and discount	(39,542)	(40,714)
Funding of prepaid marketing fees	(3,694,892)	—
Net cash used in investing activities	(25,403,143)	(9,344,568)
Cash flows from financing activities:		
Proceeds from long-term debt	27,222,771	—
Funding of restricted escrow cash	(6,456,794)	(66,610,589)
Increase in escrow deposits liability	5,149,952	66,610,589
Contribution from Parent	3,764,427	9,762,088
Payment of deferred financing costs	(5,403,687)	—
Net cash provided by financing activities	24,276,669	9,762,088
Net increase in cash and cash equivalents	2,885	2,431
Cash and cash equivalents, beginning of period	2,431	—
Cash and cash equivalents, end of period	\$ 5,316	2,431
Noncash investing activity:		
Deferred compensation capitalized to costs of acquiring continuing care contracts	\$ 51,038	55,682
Interest paid, net of amount capitalized	—	—
Noncash financing activity:		
Transfer of Due to Parent to additional paid-in capital	\$ —	6,707,984

See accompanying notes to financial statements.

CC-PALO ALTO, INC.

Notes to Financial Statements

December 31, 2003 and January 31, 2003

(1) Purpose and Organization

CC-Palo Alto, Inc. (the Company) is a wholly owned subsidiary of CC-Development Group, Inc. (the Parent). The Company, a Delaware corporation, was incorporated on June 23, 1999 for the purpose of developing, owning, and operating a 494-unit senior living community (the Community) in Palo Alto, California. Construction of the Community began in 2003 with operations expected to commence in 2005.

Effective February 1, 2003 the Company changed its fiscal year to end on December 31 rather than on January 31.

(2) Summary of Significant Accounting Principles

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all investments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Construction in progress represents costs capitalized that were incurred to ready the Community for development. Interest related to long-term debt incurred during construction periods is capitalized and will be amortized on the same basis as the related constructed assets. For the eleven months ended December 31, 2003, the Company capitalized interest of \$245,766. No interest was capitalized for the year ended January 31, 2003. Real estate taxes paid during the construction period are capitalized to construction in progress. As of December 31, 2003, approximately \$37,000 of real estate taxes has been capitalized to construction in progress.

Impairment of Long-lived Assets

Long-lived assets, such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The Company does not believe that there are any factors or circumstances indicating impairment of its property and equipment as of December 31, 2003.

CC-PALO ALTO, INC.

Notes to Financial Statements

December 31, 2003 and January 31, 2003

Restricted Escrow Cash

Restricted cash consists of good faith deposits that are received by the Company upon the commitment of prospective residents to enter into a residency agreement. These funds are placed in an interest bearing escrow account, as required by the Department of Social Services of the State of California, and are available to the Company once certain conditions are met. Each escrow deposit earns interest based on the 30-day average treasury rate for the period beginning with the date of deposit and ending with the date the resident executes their residency agreement or when the deposit agreement is terminated under certain conditions. For the eleven months ended December 31, 2003, the Company had recorded \$1,096,506 of interest expense associated with these deposits.

Costs of Acquiring Initial Continuing Care Contracts

Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts. The Costs will be amortized using the straight-line method over a period of ten years, beginning in the first period in which revenues associated with the Costs are earned.

Deferred Charges

Deferred charges include financing costs paid to obtain construction financing (see note 3). The costs are being amortized over the life of the loan. Amortization was \$771,955 for the eleven months ended December 31, 2003 and was capitalized to construction in progress.

Income Taxes

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of restricted cash held in escrow. The Company's restricted cash is held in a money market account with Union Bank of California. Management believes credit risk related to this restricted cash to be minimal.

Fair Value of Financial Instruments

Fair value is determined by using available market information and appropriate valuation methodologies. Due to their short maturities, the Company's financial instruments are carried at amounts that reasonably approximate fair value. At December 31, 2003, the carrying value of the long-term debt approximates its fair value, as the interest rate associated with the borrowing approximates current market rates.

CC-PALO ALTO, INC.**Notes to Financial Statements****December 31, 2003 and January 31, 2003****(3) Long-term Debt**

On July 2, 2003, the Company entered into an agreement with various banks to borrow up to \$300,000,000. The agreement provides for borrowings from time to time related to the construction of the Community through the maturity date of January 2, 2007. The construction loan requires interest payments at LIBOR plus 2.25% (3.37% at December 31, 2003) every thirty days on the outstanding loan amounts and is collateralized by the leasehold interest in the property, the building, furnishings, and equipment. The interest rate accrued on the construction debt is dependent upon the stage of construction and presales level and has a maximum rate of LIBOR plus 2.25% (3.37% at December 31, 2003). The agreement also requires quarterly commitment fees equal to .5% of the unused loan amount and letter of credit fees equal to the LIBOR margin (2.25% at December 31, 2003) applied against the \$6,000,000 face amount. The agreement contains quarterly covenants related to the number of presales and occupancy, with which the Company is in compliance as of December 31, 2003. As of December 31, 2003, the Company has an available amount to borrow for future construction of approximately \$266,777,000 under the construction loan. The Parent has provided limited guarantees of the Construction loan.

For the year ended December 31, 2003, the Company incurred interest on its long-term debt of \$245,766 and commitment fees of \$313,570, all of which has been capitalized to construction in progress.

(4) Ground Lease

On August 1, 2000, the Company entered into a 75-year ground lease agreement with Stanford University (Lessor). The lease calls for monthly payments of \$125,000 plus annual Consumer Price Index (CPI) increases. The monthly payments for the year ended December 31, 2003 totaled approximately \$739,000 (approximately \$132,000 per month) and is included in construction in progress. The lease payments began with the commencement of the construction of the Community in July 2003. In addition, participating rent of 6% of all gross receipts is payable monthly beginning with the initial occupancy, as defined. In February 2002, the Company paid a \$1,000,000 deposit as required by the ground lease agreement. After initial occupancy, the monthly payments are adjusted every 5 years to reflect increases in CPI; the maximum CPI increase is 7% for a 5-year period. It is anticipated that initial occupancy will be in 2005.

The ground lease also calls for the Company to loan the Lessor \$20,000,000 in the form of a promissory note (Note) upon initial occupancy. The Note is for a period of seventeen years and requires annual payments of principal and interest at a rate of 7.5% per annum. The Note is secured by the participating rent paid to the Lessor.

(5) Income Taxes

The operating results of the Company are included in the Parent's consolidated Federal income tax return. The Company is party to a tax-sharing agreement, which provides that, among other things, the Company shall not be entitled to any reimbursement for utilization of its tax attributes in the consolidated Federal income tax return of the Parent. The Company is required to pay the Parent for any tax liability that may arise from its operations, computed on a separate return basis. For the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003, the Company sustained losses for Federal income tax purposes. For the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003, the current Federal income tax benefit attributable to the Company in the Parent company's consolidated Federal income tax return, as required pursuant to the provision of SFAS No. 109,

CC-PALO ALTO, INC.**Notes to Financial Statements****December 31, 2003 and January 31, 2003**

Accounting for Income Taxes, has been eliminated through an adjustment to shareholder's equity. The adjustment to shareholder's equity was \$2,797,606 and \$161,506 for the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003, respectively.

The Federal income tax benefit (expense) for the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003 is comprised of the following:

	Eleven-month period ended December 31, 2003	Year ended January 31, 2003
Current	\$ 2,796,806	161,506
Deferred	(2,762,878)	(6,698)
	<u>\$ 33,928</u>	<u>154,808</u>

The Company's effective tax rate approximated the U.S. Federal income tax rate of 35%. Temporary differences that give rise to the deferred tax liability result primarily from differences in the financial and tax reporting of amortization expense of costs to acquire initial care contracts. State income taxes are not significant.

Income tax benefit was \$33,928 and \$154,808 for the eleven-month period ended December 31, 2003 and year ended January 31, 2003, respectively, and differed from the amounts computed by applying the U.S. Federal income tax rate of 35% to pretax income from continuing operations as a result of the following:

	Eleven-month period ended December 31, 2003	Year ended January 31, 2003
Computed "expected" tax benefit	\$ (39,976)	(154,808)
Increase (reduction) in income tax benefit resulting from:		
State and local income taxes, net of Federal income tax expense	520	—
Non-deductible meals and entertainment	5,528	—
	<u>\$ (33,928)</u>	<u>(154,808)</u>

CC-PALO ALTO, INC.**Notes to Financial Statements****December 31, 2003 and January 31, 2003****(6) Transactions with Related Parties**

Classic Residence Management Limited Partnership (Classic), an affiliate of the Company, contracts with third parties on behalf of the Company to provide property, health and liability insurance, and various marketing and other services. Classic advances the funds to the third parties and is reimbursed by the Company. Reimbursement to Classic for such advances amounted to \$1,804,409 and \$1,551,948 for the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003, respectively. There is no interest associated with these advances as they are reimbursed on a current basis.

Amounts due to Classic of \$99,824 and \$45,339 at December 31, 2003 and January 31, 2003, respectively, are included in accrued expenses in the accompanying balance sheets.

The Company entered into a marketing agreement dated August 1, 2000 between the Company and Classic, whereby Classic markets the independent living units of the community. The agreement is for a term of fifty-five years. The agreement requires the Company to pay Classic a marketing fee equal to 6% of the resident entrance fee of each independent living unit upon initial occupancy and 3% of the resident entrance fee of each independent living unit subsequent to initial occupancy. The agreement requires that the Company pay Classic \$738,978 per month for twenty-four months as an advance on the marketing fees. For the eleven-month period ended December 31, 2003, \$3,694,892 had been advanced to Classic and is included in prepaid marketing fees.

The Company also entered into a development management agreement dated June 30, 2003 between the Company and Classic whereby Classic manages the development of the Community. The agreement requires the Company to pay Classic a fee of \$10,061,000. The fee is to be paid in twenty-four monthly installments of \$25,000, beginning with the commencement of construction of the community in July 2003. The balance of the fee is to be paid upon the repayment of the construction loan (note 3). For the eleven-month period ended December 31, 2003, \$125,000 has been paid to Classic and is included in construction in progress.

(7) Long-term Receivable

On April 12, 2001, the Company entered into a note agreement (the Note) to loan \$960,000 to a key employee. The stated rate on the Note is 4.4%, the Applicable Federal Rate on the date of the Note. For financial reporting purposes, the Note has been recorded at its fair market value as of the date of the Note, using a rate of 7.31%, which approximates a market rate of interest for a loan of this nature at that date. The difference between the fair market value of the Note and the stated value upon execution of the Note had been recorded as deferred compensation of \$278,382 in 2002. The deferred compensation is being amortized using the straight-line method over the term of the Note. For the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003, deferred compensation of \$51,038 and \$55,682, respectively, has been capitalized to costs of acquiring initial continuing care contracts. The Note is collateralized by a first mortgage on the employee's home, provides for monthly payments of \$2,200, which includes payments of property taxes and insurance, and matures on April 12, 2006, at which time all unpaid principal and interest is due.

CC-PALO ALTO, INC.

Notes to Financial Statements

December 31, 2003 and January 31, 2003

(8) Defined Contribution Plan

The employees of the Company participate in a savings plan (the Plan) administered by Classic. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, for every dollar the employee contributes, the Company may match each participant's contribution in an amount equal to 50% of the participant's deferral, limited to 3% of a participant's salary. The Company may also make discretionary contributions to the Plan. For the eleven-month period ended December 31, 2003 and for the year ended January 31, 2003, the Company recorded contribution expense of \$24,005 and \$33,478, respectively. Discretionary contributions are funded on a current basis.

(9) Commitments and Contingencies

As of December 31, 2003, the Company was committed under the terms of construction contracts to complete the development of the Community at a remaining aggregate cost of \$150,644,642.

CC-PALO ALTO, INC.

Financial Statements

January 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

CC-PALO ALTO INC.

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303 East Wacker Drive
Chicago, IL 60601-5212

Telephone 312 665 1000
Fax 312 665 6000

Independent Auditors' Report

The Board of Directors
CC-Palo Alto, Inc.:

We have audited the accompanying balance sheets of CC-Palo Alto, Inc. (the Company) as of January 31, 2003 and 2002 and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CC-Palo Alto, Inc. as of January 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

May 30, 2003



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

CC-PALO ALTO, INC.

Balance Sheets

January 31, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash and cash equivalents	\$ 2,431	—
Property and equipment:		
Construction in progress	11,275,531	4,524,560
Property and equipment, net of accumulated depreciation of \$22,589 and \$8,389, respectively	65,221	45,821
Total property and equipment	11,340,752	4,570,381
Other assets:		
Restricted escrow cash	68,355,419	879,087
Long-term receivable	744,030	703,316
Deferred compensation, net	190,220	245,902
Costs of acquiring initial continuing care contracts	2,526,145	1,269,880
Deposits	1,005,500	5,500
Total assets	\$ 84,164,497	7,674,066
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable	\$ 12,159	5,766
Construction costs payable	—	226,651
Accrued costs of acquiring initial continuing care contracts	1,167	93,216
Accrued expenses	64,270	57,642
Due to Parent	—	6,707,984
Total current liabilities	77,596	7,091,259
Deferred tax liability	9,218	2,520
Escrow deposits	68,355,419	879,087
Total liabilities	68,442,233	7,972,866
Shareholder's equity:		
Common stock, no par value. Authorized, issued, and outstanding 100 shares	—	—
Capital in excess of par	16,470,072	—
Accumulated deficit	(747,808)	(298,800)
Total shareholder's equity	15,722,264	(298,800)
Total liabilities and shareholder's equity	\$ 84,164,497	7,674,066

See accompanying notes to financial statements.

CC-PALO ALTO, INC.
Statements of Operations
Years ended January 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenue:		
Interest income	\$ 52,777	37,100
Other income	88,549	—
	<u>141,326</u>	<u>37,100</u>
Expenses:		
Administrative	235,211	128,968
Advertising	334,225	172,137
Depreciation	14,200	6,905
	<u>(442,310)</u>	<u>(270,910)</u>
Loss before income tax benefit		
Income tax benefit	154,808	94,819
Net loss	<u>\$ (287,502)</u>	<u>(176,091)</u>

See accompanying notes to financial statements.

CC-PALO ALTO, INC.
Statements of Changes in Shareholder's Equity
Years ended January 31, 2003 and 2002

	Common stock		Capital in excess of par	Accumulated deficit	Total
	Shares	Amount			
Balance at January 31, 2001	100	\$ —	—	(25,110)	(25,110)
Tax adjustment	—	—	—	(97,599)	(97,599)
Net loss	—	—	—	(176,091)	(176,091)
Balance at January 31, 2002	100	—	—	(298,800)	(298,800)
Contribution from Parent	—	—	16,470,072	—	16,470,072
Tax adjustment	—	—	—	(161,506)	(161,506)
Net loss	—	—	—	(287,502)	(287,502)
Balance at January 31, 2003	100	\$ —	16,470,072	(747,808)	15,722,264

See accompanying notes to financial statements.

CC-PALO ALTO, INC.**Statements of Cash Flows**

Years ended January 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Net loss	\$ (287,502)	(176,091)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation	14,200	6,905
Deferred tax liability	6,698	2,520
Tax adjustment	(161,506)	(97,599)
Changes in operating assets and liabilities:		
Security deposits	—	(5,500)
Accounts payable	6,393	70,616
Accrued expenses	6,628	34,714
Net cash used in operating activities	<u>(415,089)</u>	<u>(164,435)</u>
Cash flows from investing activities:		
Construction in progress, net of related construction costs payable	(7,977,622)	(3,394,130)
Purchase of property and equipment	(33,600)	(39,372)
Costs of acquiring initial continuing care contracts, net of change in related accrual	(1,292,632)	(311,973)
Funding of long-term receivable	—	(960,000)
Repayment of long-term receivable, net of change in accrued interest	(40,714)	(21,698)
Funding of restricted escrow cash	(66,610,589)	(879,087)
Increase in escrow deposits liability	66,610,589	879,087
Net cash used in investing activities	<u>(9,344,568)</u>	<u>(4,727,173)</u>
Cash flows from financing activities:		
Contribution from Parent	9,762,088	—
Increase in due from Parent	—	4,891,608
Net cash provided by financing activities	<u>9,762,088</u>	<u>4,891,608</u>
Net increase in cash and cash equivalents	2,431	—
Cash and cash equivalents, beginning of year	—	—
Cash and cash equivalents, end of year	<u>\$ 2,431</u>	<u>—</u>
Non-cash investing activity:		
Deferred compensation capitalized to costs of acquiring continuing care contracts	\$ 55,682	32,480
Non-cash financing activity:		
Transfer of Due to Parent to Parent	6,707,984	—

See accompanying notes to financial statements.

CC-PALO ALTO, INC.**Notes to Financial Statements**

January 31, 2003 and 2002

(1) Purpose and Organization

CC-Palo Alto, Inc. (the Company) is a wholly owned subsidiary of CC-Development Group, Inc. (the Parent). The Company, a Delaware corporation, was incorporated on June 23, 1999 for the purpose of developing, owning, and operating a 494-unit senior living community (the Community) in Palo Alto, California. Construction of the Community is expected to begin in 2003 with operations expected to commence in 2005.

(2) Summary of Significant Accounting Principles**(a) Use of Estimates in Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

The Company considers all investments purchased with a maturity of three months or less to be cash equivalents.

(c) Property and Equipment

Property and equipment is stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Construction in progress represents costs capitalized that were incurred to ready the property for development.

(d) Impairment of Long-lived Assets

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS No. 144 on February 1, 2002. The adoption of SFAS No. 144 did not affect the Company's financial statements.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The Company does not believe that there are any factors or circumstances indicating impairment of its property and equipment as of January 31, 2003.

CC-PALO ALTO, INC.

Notes to Financial Statements

January 31, 2003 and 2002

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*.

(e) *Restricted Escrow Cash*

Restricted cash consists of good faith deposits that are received by the Company upon the commitment of prospective residents to enter into a residency agreement. These funds are placed in an interest bearing escrow account, as required by the Department of Social Services of the State of California and are available to the Company once certain conditions are met.

(f) *Costs of Acquiring Initial Continuing Care Contracts*

Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts. The Costs will be amortized using the straight-line method over a period of ten years, beginning in the first period in which revenues associated with the Costs are earned.

(g) *Income Taxes*

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of restricted cash held in escrow. The Company's restricted cash is held in a money market account with Commonwealth Land Title Escrow Company. Management believes credit risk related to this restricted cash to be minimal.

(3) *Ground Lease*

On August 1, 2000, the Company entered into a 75-year ground lease agreement with Stanford University. The lease calls for monthly payments of \$125,000 beginning with the commencement of the construction of the Community. It is anticipated that the construction of the Community will commence in 2003. In addition, participating rent of 6% of all gross receipts is payable monthly beginning with the Initial Occupancy. In February 2002, the Company paid a \$1,000,000 deposit as required by the ground lease agreement. After initial occupancy, the monthly payments are adjusted every 5 years to reflect increases in the Consumer Price Index (CPI); the maximum CPI increase is 7% for a 5 year period. It is anticipated that initial occupancy, which is defined as the commencement of the Community's operations, will be in the summer of 2005.

CC-PALO ALTO, INC.**Notes to Financial Statements****January 31, 2003 and 2002****(4) Income Taxes**

The operating results of the Company are included in the Parent's consolidated Federal income tax return. The Company is party to a tax-sharing agreement that provides that, among other things, the Company shall not be entitled to any reimbursement for utilization of its tax attributes in the consolidated Federal income tax return of the Parent. The Company is required to pay the Parent for any tax liability that may arise from its operations, computed on a separate return basis. For the years ended January 31, 2003 and 2002, the Company sustained losses for Federal income tax purposes. For the years ended January 31, 2003 and 2002, the current Federal income tax benefit attributable to the Company in the Parent company's consolidated Federal income tax return, as required pursuant to the provision of Statement of Accounting Standards No. 109, *Accounting for Income Taxes*, has been eliminated through an adjustment to shareholder's equity. The adjustment to shareholder's equity was \$161,506 and \$97,599 for the years ended January 31, 2003 and 2002, respectively.

The Federal income tax benefit (expense) for the years ended January 31, 2003 and 2002 is comprised of the following:

	<u>2003</u>	<u>2002</u>
Current	\$ 161,506	97,599
Deferred	<u>(6,698)</u>	<u>(2,780)</u>
	<u>\$ 154,808</u>	<u>94,819</u>

The Company's effective tax rate approximated the U.S. Federal income tax rate of 35%. Temporary differences that give rise to the deferred tax liability result primarily from differences in the financial and tax reporting of depreciation. State income taxes are not significant.

(5) Transactions with Related Parties

Classic Residence Management L.P. (Classic), an affiliate of the Company, contracts with third parties on behalf of the Company to provide property, health and liability insurance and various marketing, and other services. Classic advances the funds to the third parties and is reimbursed by the Company. Reimbursement to Classic for such advances amounted to \$1,551,948 and \$834,761 for the years ended January 31, 2003 and 2002, respectively. There is no interest associated with these advances as they are reimbursed on a current basis.

(6) Long-term Receivable

On April 12, 2001, the Company entered into a note agreement (the Note) to loan \$960,000 to a key employee. The stated rate on the Note is 4.4%, the Applicable Federal Rate on the date of the Note. For financial reporting purposes, the Note has been recorded at its fair market value as of the date of the Note, using a rate of 7.31%, which approximates a market rate of interest for a loan of this nature at that date. The difference between the fair market value of the Note and the stated value upon execution of the Note had been recorded as deferred compensation of \$278,382 in 2002. The deferred compensation is being amortized using the straight-line method over the term of the Note. For the years ended January 31, 2003 and 2002, deferred compensation of \$55,682 and \$32,480, respectively, has been capitalized to costs of

CC-PALO ALTO, INC.

Notes to Financial Statements

January 31, 2003 and 2002

acquiring initial continuing care contracts. The Note is collateralized by a first mortgage on the employee's home; provides for monthly payments of \$2,200, which includes payments of property taxes and insurance; and matures on April 12, 2006, at which time all unpaid principal and interest is due.

(7) Defined Contribution Plan

The employees of the Company participate in a savings plan (the Plan) administered by Classic. The Plan is qualified under Section 401(k) of the Internal Revenue Code for all full-time employees who are 21 years of age with six months of service. The Plan allows eligible employees to defer up to 25% of their income on a pretax basis through contributions to the Plan. In accordance with the provisions of the Plan, for every dollar the employee contributes, the Company may match each participant's contribution in an amount equal to 50% of the participant's deferral, limited to 3% of a participant's salary. The Company may also make discretionary contributions to the Plan. For the years ended January 31, 2003 and 2002, the Company recorded contribution expense of \$40,072 and \$24,793, respectively. Discretionary contributions are funded on a current basis.

**Amendment to Section 8.5.2
of the Continuing Care Residency Contract
for
Classic Residence by Hyatt in Palo Alto**

This Amendment is made between CC-Palo Alto, Inc. (the "Provider"), through its agent, Classic Residence Management Limited Partnership, d/b/a "Classic Residence by Hyatt" and Linda Cork (collectively, "You" or "Resident").

A. On July 29, 2005, You executed a Continuing Care Residency Contract (the "Residency Contract") with Provider to reside and receive services at Classic Residence by Hyatt in Palo Alto, a continuing care retirement community located at 620 Sand Hill Road, Palo Alto, California (the "Community").

B. Section 8.5.2 of the Residency Contract provides that, in certain circumstances, Provider will repay to You a portion of your Entrance Fee known as the Repayment Amount. In the circumstances described in Section 8.5.2 of your Residency Contract, that repayment would be due and payable to You upon the earlier of: (i) re-sale of your Home or (ii) 25 years after the date You make your Home available to Provider.

C. Provider has received approval from the California Department of Social Services to change its form of Continuing Care Residency Contract so that, in Section 8.5.2, the time-frame in clause (ii) above is 10 years rather than 25 years. In addition to changing its form of Continuing Care Residency Contract going forward, Provider is offering this Amendment to those residents who have already signed a Continuing Care Residency Contract to give those residents the option to have the benefit of this change.

Therefore, the parties agree as follows:

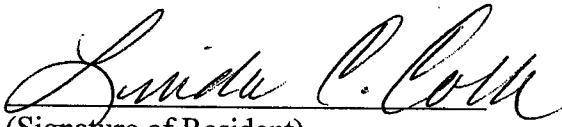
1. Defined Terms. Terms capitalized but not defined herein, will have the meaning set forth in the Residency Contract.
2. Timing of Repayment Pursuant to Subsection 8.5.2. Subsection 8.5.2 of the Residency Contract is hereby deleted and replaced with the following text. To assist the reader, the changed portion of the following text is indicated in bold and underline.

8.5.2 Sections 8.2., 8.3., 8.4.2.h and 8.4.2.i When this Contract is terminated pursuant to Section 8.2 (*Termination After Occupancy*), Section 8.3 (*Termination Resulting from Resident's Death*), Section 8.4.2.h, or Section 8.4.2.i, You or Your estate will be entitled to repayment of a portion of Your Entrance Fee (the "Repayment Amount"). Your Repayment Amount shall be calculated as follows: (a) the greater of (i) the amount of Your Entrance Fee Note times the Minimum Repayment Percentage, and (ii) the amount of Your Entrance Fee Note minus the product of the principal amount of the Entrance Fee Note and the Amortization Rate for each Month (see Appendix G) from the Occupancy Date; minus (b) all outstanding Monthly Fees, Miscellaneous Expenses, Deferred Charges and other charges owing to Provider. Examples of the application of this Section are set forth on Appendix G. Repayments shall be paid to You on the earlier of: (i) fourteen (14) calendar days after the Provider enters into a

residency contract covering Your former Home with a new resident who has executed a continuing care residency contract and paid the applicable Entrance Fee for Your former Home; or (ii) **ten (10)** years after the date You make Your Home available to the Provider. However, notwithstanding the forgoing repayment mechanism, (1) repayments upon a termination of this Contract due to a fire or other casualty (See Section 8.4.2.h) shall be paid in accordance with Section 5.2 (*Damage to Home or Community*) above without any contingency for entering into a residency contract covering Your former Home with a new resident and (2) repayments upon termination of this Contract due to a condemnation or appropriation (See Section 8.4.2.i) shall be paid within ninety (90) days after termination of this Contract without any contingency for entering into a residency contract covering Your former Home with a new resident.

Dated: 9/30/05

RESIDENT(S):


(Signature of Resident)

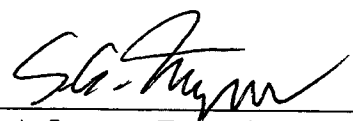
Linda Cork

(Signature of Resident)

(Type Name of Resident)

PROVIDER:
CC-Palo Alto, Inc.

By: Classic Residence Management Limited Partnership
Its: Agent

By: 
Stewart A. Ingram, Executive Director