

## MANAGEMENT AGREEMENT

### Parties

The parties to this Agreement are: THIRD LAGUNA HILLS MUTUAL, a California nonprofit mutual benefit corporation (hereinafter referred to as "Third"), and PROFESSIONAL COMMUNITY MANAGEMENT, Inc., a California corporation, (hereinafter referred to as "Agent").

### Recitals

A. This Agreement relates to a cooperative and condominium housing community known as Leisure World Laguna Woods (hereinafter referred to as "Leisure World") located in the County of Orange, California.

B. Third is the management body of certain condominium housing projects consisting of 6,102 condominiums and located in Leisure World (the "Property").

C. Third desires to contract with Agent for all services necessary in connection with the management, operation and maintenance on the Property for which it is responsible, as provided below, and agent agrees to provide such services.

D. As used in this Agreement:

(a) The term "monthly assessments " shall mean those monthly amounts which members are bound to pay to Third pursuant to the terms of the Declaration of Covenants, Conditions and Restrictions applicable to Third.

(b) The term "gross collections" shall mean all amounts actually collected by Agent, either as carrying charges or otherwise.

### Terms

In consideration of the terms, conditions, and covenants hereinafter set forth, the parties hereto mutually agree as follows:

**ARTICLE 1.** (a) Third hereby appoints Agent and Agent hereby accepts appointment on the terms and conditions hereinafter provided, as the exclusive manager and operator of the real Property of the Mutual located in the County of Orange, State of California, consisting of 6,102 condominiums. Third is one of several housing projects which comprise Leisure World.

(b) Agent, notwithstanding the authority given to Agent in this Agreement, shall confer fully and freely with Third in the performance of its duties as set forth herein. Agent shall encourage wherever possible the principles of cooperative effort among the members of Third consistent with such policy guidance as may be given by Third's board of Directors, and shall attend membership and directors' meetings of Third at any time or times requested by Third.

(c) In order to facilitate efficient operation, Third has fully informed Agent with regard to standards to be kept and furnish Agent a set of community rules and, to the extent

available, a complete set of the plans and specifications of Third. With the aid of such documents and inspections by competent personnel, Agent shall inform itself with respect to the layout, construction, location, character, plan and operation of the lighting, heating, plumbing, and ventilation systems, elevators and other equipment in the project for which Third is responsible.

ARTICLE 2. (a) Agent shall employ in its own name and at its own expense: a General Manager whose appointment shall be subject to prior written approval by Third, who shall maintain an office at Leisure World, devote full time exclusively to performance of services hereunder and under management agreements executed by other corporations which now or hereafter own or manage real property in Leisure World, and not be a member of Third nor occupy a dwelling unit in Leisure World.

(b) Agent and those of its employees, including the General Manager, who handle or are responsible for handling Third's money or other personal property shall furnish a fidelity bond, at the expense of Third, in an amount and written by a company acceptable to Third.

ARTICLE 3. Under the personal and direct supervision of a General Manager, Agent shall render services and perform duties as follows:

(a) On the basis of an annual operating budget and plan of operation as hereinafter described, Agent shall hire or retain in its own name (except as Third and Agent otherwise may agree in writing from time to time) all employees and independent contractors necessary to render services and perform duties as set forth below. Salaries of said employees payable by Agent, and salary related expenses incurred by Agent in connection with employment of said employees, may be paid directly by Agent out of the bank accounts of Third as provided in (k) below. Nothing contained in this Agreement shall create any employer-employee relationship between Third and any employee of Agent. In addition to salary related expenses noted above and any other indemnification provisions herein, Third agrees to indemnify Agent for all costs and obligations Agent incurs on behalf of Agent's employees at the Property, including but not limited to, such benefits as health/life insurance, contributions to 401(k) and other retirement plans, benefits negotiated under collective bargaining agreements, pension plans, workers compensation insurance, etc.

(b) Cause Agent and all persons or firms hired or retained under this Article 3 who handle money or other personal property of Third to furnish a fidelity bond for the benefit of Third as provided in Article 2 above.

(c) Coordinate the plans of members for moving their personal effects into the Project or out of it with a view towards scheduling those movements so that there shall be a minimum of inconvenience to other members.

(e) Maintain cordial and businesslike relations with the members of Third whose requests and complaints with regard to services provided by Agent hereunder shall be courteously received, recorded and acted upon in a timely manner and the member and Third notified as appropriate. Requests involving any material change in the nature and extent of services shall, after thorough investigation, be reported to Third with appropriate recommendations.

(f) Request and collect, (including the institution of such legal action as necessary with prior consent of Third), receive and receipt for any and all money which at any time may be or become due to Third. As a standard practice, Agent shall furnish Third with an itemized list of all delinquent accounts, together with information as to efforts to collect same, concurrently with monthly financial statements.

(g) Cause the Property to be maintained in a condition satisfactory to Third consistent with the provisions of the then current operating budget and operating plan contained therein as approved by Third. For any one item of repair or replacement, the expense incurred shall not exceed the sum of \$7,500, unless provision has been made for same in the then current budget, or unless specifically consented to by Third; however, emergency repairs, involving manifest danger to life or Property, or immediately necessary for the preservation and safety of the Property, or for the safety of the members, or required to avoid the suspension of any necessary services to Third, may be made irrespective of the cost limitation imposed by this paragraph. Notwithstanding the foregoing authority, if at all possible, Agent, immediately upon learning of the need for any emergency repairs, shall confer with Third regarding every such expenditure and in any event file with Third a report regarding same at the earliest moment. Unless included in the then current budget, Agent shall not incur liabilities (direct or contingent) which at any time shall exceed the aggregate of \$15,000, or which shall mature more than one year from the creation thereof, without first obtaining the consent of Third. Repair and replacement does not include additions to the physical property.

(h) Take such action as may be necessary to comply promptly with any and all orders or requirements affecting the Property issued or imposed by any federal, state, county, or municipal authority or other regulatory body having jurisdiction thereover, subject to the same limitation contained in Paragraph (g) of this Article in connection with repairs and replacements. Agent shall promptly notify Third in writing of all such orders and notices of requirements not later than the next Board meeting of Third from the time of their receipt. Agent, however, shall not take any action under this Paragraph so long as Third is contesting, or has affirmed its intention to contest any such order or requirement, except at the direction of Third.

(i) When the current operating plans or capital budget have been approved by Third, and in furtherance of and accordance with said plans and budget make contracts, place orders for and purchase water, electricity, gas, fuel, telephone, cable, and communications systems, and vermin extermination services, equipment, tools, appliances, materials and supplies and such other goods and services as may be necessary to operate, maintain and improve the Property properly and to provide all services appurtenant thereto. When and as directed by Third, Agent shall conduct negotiations on behalf of Third for acquisition or disposition of real property and make contracts for improvements of real property now or hereafter owned by Third. All property, real or personal, purchased at the expense of Third shall be the property of Third. All such contracts, orders and purchases shall be subject to the limitations set forth in Paragraph (g) of this Article. In exercising the authority set forth in this Paragraph (i), Agent shall secure for and credit to Third any discounts, commissions, or rebates obtainable. Any interest of Agent or of any of its officers, directors or employees in any contract, order or purchase proposed to be made on behalf of Third shall be disclosed to Third prior to obligating Third therefor. When and as directed by Third, Agent shall provide construction management or supervision on behalf of Third.

(j) Obtain and keep in force all forms of insurance, as recommended by an established insurance broker and/or insurance analyst, required to protect Third adequately, including but not limited to worker's compensation insurance, insurance against liability arising out of death, personal injury, property damage, acts and omissions of officers and directors, operation of motor vehicles, boiler insurance, fire insurance with extended coverage, insurance against loss arising out of burglary and theft, and such other insurance as may be authorized by Third. All insurance obtained for the benefit of Third shall be placed with such companies, in such amounts, and with such beneficial interests appearing therein as shall be acceptable to Third. Agent shall investigate promptly and make full written reports to Third as to all accidents or claims for damage relating to the ownership, operation and maintenance of the Property, including any damage or destruction to the Property, and the estimated cost of repair, provided that no report shall be made if the estimated cost of repair is less than \$10,000, and shall cooperate and make any and all written reports required by any insurance company in connection therewith.

(k) From the moneys collected and deposited in the separate bank accounts as provided in Article 5, cause to be disbursed regularly and punctually all sums due and payable by Third, including costs and expenses authorized to be incurred by Agent under the terms of this Agreement, amounts payable by Agent for salaries of Agent's employees and salary related expenses incurred by Agent in connection with employment of its employees pursuant to Paragraph (a) above, and Agent's fees. After such disbursement, any balance remaining in such accounts may be disbursed, transferred or invested from time to time in accordance with the operating budget or otherwise as directed by Third in writing.

(l) Prepare for execution and filing of all forms, reports, and returns required by law in connection with unemployment insurance, worker's compensation insurance, disability benefits, social security taxes and any other taxes now or hereafter in effect, and also comply with any requirements relating to the employment of personnel, all with respect to personnel of Agent employed pursuant to Paragraph (a) above.

(m) Maintain a comprehensive system of office records, books and accounts in a manner satisfactory to Third which shall be subject to examination at all reasonable hours by persons authorized by Third. As a standard practice, Agent shall submit to Third, not later than the twentieth day following the end of the accounting period, a balance sheet, operating statement, a monthly comparison of amounts of income and expenses to amounts of same projected in the budgets and such other information as may be requested by Third from time to time. Annual financial statements shall be prepared by Agent and shall be examined and reported upon by a firm of certified public accountants approved by Third. Agent shall cause an annual financial report to be prepared and certified by a certified public accountant approved by Third, based upon examination of the books of account and records of Third, which report shall be submitted to Third together with such other reports and supplementary information as may be required by Third.

(n) At least two and one-half months before the beginning of each fiscal year of Third, submit an operating budget setting forth an itemized statement of the anticipated receipts (including a schedule of monthly charges to be collected from members) and disbursements for said fiscal year and taking into account the condition of Third. Each budget, containing a plan of operation and justifying the estimates made in every important particular, shall be approved by Third. Unless approved by Third, the plan of operation as submitted by Agent shall not include any material change in the type or extent of services to be rendered. Following such

approval, copies of the instrument of approval shall be furnished to Third. The operating budget shall serve as a supporting document for the schedule of monthly charges to be collected from Third's Members for the applicable fiscal year, shall constitute a major control under which Agent shall operate, and there shall be no substantial variance therefrom, except such as may be consented to by Third. By this it is meant that no expenses may be incurred or commitments made by Agent in connection with the maintenance and operation of Third in excess of the amounts allocated to the various classifications of expense in the approved operation budget without the prior consent of Third, except that, if necessary because of an emergency or lack of sufficient time to obtain such prior consent, an overrun may be experienced, provided it is brought promptly to the attention of Third in writing.

(o) At all times during the term of this Agreement, operate and maintain Third and provide the services appurtenant thereto according to the highest standards achievable consistent with the overall plan of Third.

(p) Secure full compliance with such rules and regulations as may be promulgated by Third from time to time with respect to the use of Third and the common area and the services provided in connection therewith and, to this end, see that all members and other affected persons are informed with respect thereto.

(q) Except as otherwise directed by Third, invest moneys of Third in securities which are a direct obligation of or are guaranteed by the United States of America.

(r) Carry out and perform all of the obligations as are reasonable, necessary and proper in the discharge of Agent's duties under this agreement.

ARTICLE 4. (a) The overhead expenses of Agent shall be paid by Agent without right of reimbursement. Said expenses shall include:

(i) Salary and salary related expenses of the General Manager.

(ii) Salaries, salary related expenses, office expenses and other expenses of officers and employees of Agent who are not employed exclusively in work for Leisure World.

(b) Everything done by Agent under the provisions of Article 3 shall be done at the expense of Third.

(c) Agent shall not be required to make any advance to or for the account of Third or to pay any sum, except out of moneys held or provided pursuant to this Agreement, nor shall Agent be obliged to incur any liability or obligation under this Agreement without assurance that the necessary moneys for the discharge thereof will be provided.

ARTICLE 5. Agent shall establish and maintain bank accounts for deposit of moneys of Third for deposit of moneys of Third in a bank or banks whose deposits are insured by the Federal Deposit Insurance Corporation. All bank accounts shall be held by Agent as agent of Third and in a manner and form to indicate the custodial nature of said accounts satisfactory to Third. Moneys of Third shall not be commingled with moneys of Agent. Moneys of Third may be commingled with moneys of United Laguna Hills Mutual, Golden Rain Foundation of Laguna Woods, and Laguna Hills Mutual No. Fifty. Agent shall draw on said accounts for any payments required to be made by Agent to discharge any liabilities or obligations incurred pursuant to this

Agreement, and for the payment of Agent's fees, all of which payments shall be subject to the limitations of this Agreement.

ARTICLE 6. (a) Agent shall be paid, as its sole compensation for all services performed hereunder, a fee payable in advance on the first day of each month in an amount, exclusive of all surcharges, determined on the basis of the total number of dwelling units in Third under management by Agent as of the last day of the preceding month as follows:

(b) Said fee shall consist of a monthly charge in the amount of \$1.06 per dwelling unit.

(c) Said fee shall be adjusted annually for each succeeding year beyond 2002 by the same percentage as the All Urban Consumer Price Index (CPI) of the United States Bureau of Labor Statistics for the Los Angeles-Long Beach-Anaheim Metropolitan Area. Such annual re-computation shall be based on the July to June CPI increase or decrease, but not to exceed eight percent (8%). Should the variation in the CPI exceed eight percent (8%), the fee set herein shall be reopened automatically and subject to re-negotiation, and in this event the fee shall be increased no less than eight percent (8%). Such fee adjustments shall be budgeted and become effective as of January 1 of the succeeding year.

ARTICLE 7. (a) The minimum term of this Agreement shall commence on January 1, 2002 and remain in effect until December 31, 2006, unless sooner terminated pursuant to paragraph (b) or (c) of this Article. That minimum term shall be automatically renewed upon the same terms and subject to the same conditions for additional and successive one-year terms unless either party elects not to renew by delivering written notice of such election to the other party at least ninety (90) days prior to the expiration of the then-current term. Notwithstanding this minimum term and minimum termination notice period, the parties agree that in the interest of efficient community management and the complexity of transition to any other managing agent they generally expect: (1) that the term of this agreement will last until December 31, 2006 and (2) that either party will provide to the other at least one hundred eighty (180) days notice before the effective date of any notice of termination of this agreement."

(b) Any party not in default under this Agreement may elect to terminate this Agreement, without cause, upon not less than ninety (90) days prior written notice to the other party with a copy of such notice to each of the consenting parties. Such termination shall become effective as of 11:59 p.m. on the date specified in the written notice or, if no such date is specified, on the last day of the month in which the expiration of the ninety (90) days occurs.

(c) Upon the occurrence of any of the following events, either party may elect to terminate this Agreement, upon written notice to the other party, effective as of the date on which such election is made.

(i) Either Third or Agent admits its inability to pay its debts as they mature, or makes an assignment for the benefit of its creditors, or applies for or consents to the appointment of any receiver, trustee or similar officer for itself or for all or a substantial part of its property.

(ii) Either Third or Agent files a petition in bankruptcy or for an arrangement or for reorganization pursuant to the Federal Bankruptcy Act or any similar law,

federal or state, or the adjudication of Third or Agent as a bankrupt or insolvent by a decree of a court of competent jurisdiction.

(iii) The creditors of Third or Agent file a petition in bankruptcy against Third or Agent or for the reorganization of Third or Agent pursuant to the Federal Bankruptcy Act or any similar law and the same is not discharged within sixty (60) days after the date of filing.

(d) Upon any termination under this Article, Third and Agent shall account to each other with respect to all matters outstanding as of the date of termination, and an audit of the books of account and records of Third shall be conducted, at the expense of Third, by a certified public accountant who shall furnish a financial report to Third and such other reports and supplementary information as may be required by Third. On the effective date of any termination hereunder, or sooner if Third so directs, Agent shall deliver to Third all property (including, without limitation, automobiles and office furnishings and equipment and all property acquired as listed in Article 3(i)), books and records in Agent's possession or under its control relating to the management and operation of the property.

ARTICLE 8. (a) This Agreement shall inure to the benefit of and constitute a binding obligation upon the contracting parties, their respective successors and assigns, provided that Agent shall not assign this Agreement, or any interest therein, without prior written approval of Third.

(b) This Agreement shall constitute the entire Agreement between the contracting parties, and no variance or modification thereof shall be valid and enforceable, except by supplemental agreement in writing, executed and approved into the same manner as the Agreement.

(c) Third hereby agrees to defend, indemnify and hold harmless Agent and its employees, agents, officers and directors against any and all claims, suits, damages including attorneys' fees arising out of the performance of this Agreement with respect to Agent's management of property for those acts performed within the scope of its authority. This indemnification shall survive expiration or termination of this Agreement. Third shall not be liable to Agent for reimbursement for actions involving willful misconduct or gross negligence.

(d) Should legal action or arbitration be necessary to enforce or interpret any of the provisions of this Agreement, the prevailing party in such action or arbitration shall be entitled to all costs and reasonable attorneys' fees incurred therein.

(e) For the convenience of the parties, this Agreement has been executed in several counterparts, which are in all respects similar and each of which shall be deemed to be complete in itself so that any one may be introduced in evidence or used for any other purpose without the production of the other counterparts.

(f) Neither party shall be liable for any breach of this Agreement caused by fire flood, war, riot, strike or other events or acts beyond the control of the party or parties affected thereby. Third and Agent agree to adopt and enforce reasonable rules to prevent members and Directors of Third from interfering with work of Agent. Third agrees to provide policy direction through Agent's General Manager and Senior Management as assigned by the General Manager.

(g) If any part, clause or phrase hereof is ruled invalid or unenforceable by any court having competent jurisdiction hereover, then the balance of this Agreement shall remain in full force and effect in all its remaining provisions without being impaired or invalidated in any way. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Dated: 9/26/01

THIRD LAGUNA HILLS MUTUAL

By Raymond J. Wellison  
President

PROFESSIONAL COMMUNITY MANAGEMENT, INC.

By [Signature]  
President

ATTEST

[Signature]  
Corporate Secretary