

## MANAGEMENT AGREEMENT

This Agreement is entered into by and between Third LAGUNA HILLS MUTUAL, a California nonprofit mutual benefit corporation (hereinafter referred to as "**Mutual**"), and PROFESSIONAL COMMUNITY MANAGEMENT OF CALIFORNIA, INC., a California corporation (hereinafter referred to as "**Agent**"), with reference to the following recitals.

A. This Agreement relates to certain condominium housing projects owned and operated by Mutual located within the private community commonly known as Laguna Woods Village (hereinafter referred to as "**LWV**"), in the City of Laguna Woods, County of Orange, California.

B. Mutual desires to contract with Agent for services necessary in connection with the management, operation and maintenance of its property under the sole direction of its Board of Directors in accordance with Mutual's Articles of Incorporation and Bylaws, the C,C,&R'S, (collectively, the "**Governing Documents**"), as provided below, and Agent desires to provide such services.

C. As used in this Agreement:

(a) The term "**Affiliate**" shall mean, with respect to Agent, any person or entity which controls, is controlled by, or is under common control with, Agent, or beneficially owns ten percent (10%) or more of Agent.

(b) The term "**Assessments**" shall mean those amounts which members are bound to pay to Mutual pursuant to the terms of their respective Occupancy Agreements.

(c)

(d) The term "**GRF**" shall mean Golden Rain Foundation of Laguna Woods, the California nonprofit mutual benefit corporation which currently is Trustee under the Trust Agreement and is responsible for the maintenance and repair of community facilities or the provision of non-Trust related services.

(e) The term "**Gross Collections**" shall mean those amounts actually collected by Agent on behalf of the Mutual, either as Assessments or otherwise.

(f) The term "**Mortgagee**" shall mean a holder of a Mortgage.

(g) The term C,C,&R's shall mean the Declaration of Covenants, Conditions & Restrictions, otherwise known as the "Declaration" or the "CC&Rs", describes the rights and obligations of the membership to the association, and the association to the membership. This includes maintenance responsibilities and restrictions on the use of property.

(h)

NOW THEREFORE, In consideration of the terms, conditions, and covenants hereinafter

set forth, the parties hereto mutually agree to the foregoing and as follows: ✓

ARTICLE 1 Appointment and Acceptance

(a) Mutual hereby appoints Agent and Agent hereby accepts appointment on the terms and conditions hereinafter provided, as the exclusive managing agent for the real property and personal property formerly owned by predecessor mutual housing corporations ("**Mutuals**") of Mutual, located in the City of Laguna Woods, State of California.

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

(c) In order to facilitate efficient operation, Mutual shall inform Agent with regard to standards to be kept and furnish Agent a set of community rules. With the aid of such documents, the Governing 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, lifts, and other mechanical equipment in the Project for which Mutual is responsible.

ARTICLE 2. Duties and Services.

(a) General Manager. Agent shall employ in its own name and at its own expense a General Manager whose appointment shall be made by Agent and approved by Mutual in writing. The General Manager shall maintain an office at LWV and shall 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 LWV. The General Manager shall not be a member of Mutual nor occupy a dwelling unit in LWV. Under the personal and direct supervision of the General Manager, Agent's employees shall render services and perform the duties as managing agent as set forth in this Article 2. Agent will cause to be employed whatever personnel are required to perform the services specified in this Agreement. Any and all expenses incurred by PCM, Inc. are for the benefit of LWV and are to be reimbursed by LWV corporations.

(b) General Duties.

(i) Agent shall provide or cause to be provided services and personnel required to manage the Project at all times in the manner consistent with the terms and conditions of this Agreement and the provisions of the Governing Documents. Agent will use commercially reasonable efforts to manage the Project consistent with the Governing Documents and will consult with and keep Mutual advised, through its Board of Directors (the "**Board**"), as to all major policy matters affecting the Project. Agent shall have all reasonable discretion, subject to the terms of this Agreement and the Budget then in effect, with respect to the direction, supervision and management of the Project. Subject to the limitations set forth in paragraph (h) below.

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

(c) Specific Duties. While the following enumeration of duties is not to be construed in any way as limiting the duties of Agent, Agent shall perform the following duties:

(i) Administrative Duties.

(1) Agent shall compile and maintain a current and accurate list of members of Mutual (the "Register"), setting forth the name, mailing address and telephone number of each member, make such record changes as are appropriate in connection with all transfers of resident memberships, and make such Register available to Mutual and any member in accordance with the Governing Documents and state laws.

(2) Agent shall maintain cordial and businesslike relations with the members of Mutual, courteously receive, record and act in a timely manner upon requests and complaints with regard to services provided by Agent hereunder and notify the member and Mutual as appropriate. Requests involving any material change in the nature and extent of services shall, after thorough investigation, be reported to Mutual with appropriate recommendations for approval by Mutual. Members of the Mutual will not perform the work of the Agent.

(ii) Fiscal Duties.

(1) Budget. Agent shall, not less than one hundred and fifty days (150) days before the beginning of each fiscal year of Mutual, prepare and submit an operating budget and reserves expenditures and funding plan to the Board for its consideration and adoption for the forthcoming fiscal year in sufficient detail as determined by the Board (the "Budget") setting forth an itemized statement of the anticipated receipts (including a schedule of monthly charges to be collected) and disbursements for said fiscal year and taking into account the condition of the Project. Each such budget, containing a plan of operation and justifying the estimates made in every important particular, shall be approved by Mutual in a timely manner that allows Agent to comply with this requirement. Unless approved by Mutual, the plan of operation as submitted by Agent shall not include any material change in the type or extent of services to be rendered. The Budget shall serve as a supporting document for the schedule of monthly charges to be collected 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 Mutual. Notwithstanding any other provision of this paragraph, the plan of operation insofar as it relates to facilities and services to be provided by GRF shall be determined by GRF in accordance with that certain Trust Agreement entered into between Mutual and GRF and in accordance with the Bylaws of GRF, and the Budget shall include Mutual's share thereof.

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(2) LWV Communication. Prior to the adoption of the final draft of the proposed GRF Budget and Assessments, a formal meeting shall be held with representatives of GRF and the Corporate Members to review together the budget needs of each Corporation for the purpose of reaching, in a cooperative manner the final GRF Budget.

(3) Assessments.

(A) Recommendation. Agent shall make recommendations to the Board as to what the aggregate amount of the Assessments shall be for each forthcoming Fiscal Year, based upon the Budget it has submitted to the Board for such forthcoming Fiscal Year. Agent shall also make recommendations to the Board when it believes that it would be in the best interests of Mutual for Mutual to impose special assessments, specifying in connection therewith the purpose of the recommended Assessments and the amount of money which Mutual would need to raise through any such Assessments.

(B) Levy, Collection and Enforcement. Agent shall request and will cause to be collected (including the institution of such legal action as necessary with prior consent of Mutual) and received and collect receipts for any and all money which at any time may be or become due to Mutual, including without limitation levying, collecting and enforcing payment of Assessments. As a standard practice, Agent shall furnish Mutual with an itemized list of all delinquent accounts, together with information as to efforts to collect same, concurrently with monthly financial statements.

(4) Bank Accounts. Unless otherwise directed by the Mutual, Agent shall establish the bank accounts for deposit of monies of Mutual in a bank or banks whose deposits are insured by the Federal Deposit Insurance Corporation. All bank accounts shall be managed by Agent as agent of Mutual and in a manner and form to indicate the custodial nature of said accounts satisfactory to Mutual. Monies of Mutual shall not be commingled with monies of Agent or any other party, including without limitation other corporations which own or manage real property in LWV. Agent shall keep accurate books and records reflecting the amount of moneys collected from each Member. Except as otherwise directed by Mutual, Agent shall invest monies of Mutual in securities which are a direct obligation of or guaranteed by the United States of America in accordance with the Investment Policy as adopted by the Mutual.

(5) Disbursements. Agent shall disburse from the bank accounts of Mutual any and all amounts required for the payment of all Mutual expenses, including without limitation, all sums due and payable by Mutual, including costs and expenses authorized to be incurred by Agent under the terms of this Agreement, taxes and assessment, fire and other hazard insurance premiums, interest on the mortgage, amortization of the principal of any Mortgage, Mutual's share of the amounts payable by Agent for salaries of Agent's identity of interest company's (i.e., PCM, Inc) employees and salary related expenses incurred by Agent in connection with employment of its (PCM Inc's) employees as provided in this Agreement; and Agent's fees. After such disbursement in the order specified herein, any balance remaining in such accounts may be disbursed, transferred or invested from time to time in accordance with the Budget or otherwise as directed by Mutual in writing. The parties hereto agree that all revenues collected accrue to the benefit of Mutual and that from those revenues Agent is entitled to no amounts except for specific reimbursement of costs and expenses authorized to be incurred under the terms of this Agreement.

(6) Financial Statements. Agent shall cause to be prepared financial statements required by the Governing Documents and state laws and distribute copies to

each Member in the manner and at the time provided for in the Governing Documents and state laws. ✓

(7) Books and Records. Agent shall keep and maintain or cause to be kept and maintained comprehensive and adequate books and records in a manner satisfactory to Mutual and to the Consenting Parties reflecting the results of administering and managing the Project. These books of accounts and other records relating to the Project shall be available to Mutual and the Consenting Parties at all reasonable times for examination, audit, inspection and transcription. With the exception of January and February (for the months ending December 31<sup>st</sup> and January 31<sup>st</sup>) of each year, Agent shall prepare no later than the twentieth day following the end of the month, interim preliminary financial statements including a balance sheet, operating statement, a monthly comparison of amounts of income and expenses to amounts of same projected in the Budget and such other information and in such forms as may be requested by Mutual from time to time, as of the end of the preceding month. Agent shall cause an annual financial report to be prepared and certified by a certified public accountant approved by Mutual, based upon examination of the books of account and records of Mutual, which report shall be submitted to Mutual together with such other reports and supplementary information as may be required by Mutual.

(8) Insurance. At the direction of the Mutual, Agent shall procure and keep in force in the name of Mutual all insurance required by the provisions of the Governing Documents and state law and shall administer all such insurance and claims made under such insurance policies.

(9) Professionals. Agent may cause to be engaged on behalf of the corporation such legal, accounting, and other professional services as are necessary or proper for the operation of the Project, the administration of Mutual, and/or the enforcement of the Governing Documents, and, subject to the Budget, Mutual shall be responsible for the fees and expenses related thereto.

(10) Liens and Encumbrances. Agent shall cause to be paid the amount necessary to discharge any lien or encumbrance against the Project, if deemed appropriate by the Board.

(iii) Physical Duties.

(1) Inspections. At the direction of the Mutual, Agent shall make regular inspections of the Project and render reports and make recommendations to the Board concerning the condition of this property not less than annually.

(2) Repair and Maintenance of Project. Agent shall cause the Project to be repaired, maintained, furnished, and refurnished in accordance at all times with the highest standards achievable, consistent with the overall plan of Mutual, its Budget, and the interests of the Consenting Parties. In connection with the foregoing and in response to the directive of the Mutual, Agent may recommend reserves on behalf of the Mutual for anticipated costs, including but not limited to, the costs of acquisition and replacement of equipment and to acquire and pay for equipment, materials, supplies, furniture, labor, and services which the Board

deems necessary or proper for the maintenance and repair of the Project. For any one item of repair or replacement, the expense incurred shall be in accordance with the Budget or with specific consent of the Mutual; however, emergency repairs, involving manifest danger to life or property, or immediately necessary for the preservation and safety of the Project, or for the safety of the members, or required to avoid the suspension of any necessary services to Mutual, may be made irrespective of the cost limitation imposed by this paragraph. Notwithstanding the foregoing authority, if at all possible, Agent shall confer immediately with Mutual regarding every such expenditure and in any event file with Mutual a written report regarding same.

(3) Community Services. On behalf of Mutual, Agent shall, on behalf of the Mutual, place orders and purchase water, electricity, gas, fuel, telephone, 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 Project properly and to provide all services appurtenant thereto. When and as directed by Mutual, Agent shall conduct negotiations on behalf of Mutual for acquisition or disposition of real property and make contracts for improvements of real property now or hereafter owned by Mutual, subject to the review and approval of Mutual, and shall regularly report to Mutual the status of these negotiations. All property, real or personal, purchased at the expense of Mutual shall be the property of Mutual. All such contracts, orders and purchases shall be subject to the limitations set forth in paragraph (h) of this Article. In exercising the authority set forth in this paragraph, Agent shall secure for and credit to Mutual 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 Mutual shall be disclosed to Mutual prior to obligating Mutual therefor. When and as directed by Mutual, Agent shall provide construction management or supervision on behalf of Mutual.

(4) Insurance. As directed by Mutual, Agent shall obtain and keep in force all forms of insurance, as recommended by an established insurance broker and/or insurance analyst, required to protect Mutual 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 Mutual. All insurance obtained for the benefit of Mutual shall be placed with such companies, in such amounts, and with such beneficial interests appearing therein as shall be acceptable to Mutual. As directed by the Mutual, Agent shall investigate promptly and make full written reports to Mutual as to all accidents or claims for damage relating to the ownership, operation and maintenance of the Project, including any damage or destruction to the Project, and the estimated cost of repair, and shall cooperate and make any and all written reports required by any insurance company in connection therewith.

(5) Other Entry Rights. Pursuant to the Governing Documents and state laws, Agent or its agents shall enter into any dwelling unit at any time in the event of any emergency involving illness or potential danger to life or property, if, in Agent's discretion, Agent or its agents could assist in alleviating such emergency. Any such right of entry shall be exercised in such a manner as to avoid any unreasonable or unnecessary interference with the possession, use and/or enjoyment of the Member or his or her invitees of the dwelling unit in question.

(6) Inventory. As directed by Mutual, Agent shall cause an inventory of all property of Mutual to be taken not less frequently than annually.

(d) Enforcement Duties. Agent shall enforce the provisions of the Governing Documents and make every attempt to secure full compliance with such rules and regulations as may be promulgated by Mutual from time to time with respect to the use of the Project and the services provided in connection therewith and, to this end, see that all members and other affected persons are informed with respect thereto. was noted

(e) Member Relations. Agent shall maintain a customer service quality check program to insure that services are being delivered to the members in accordance with the terms and spirit of this Agreement and shall periodically brief Mutual, or upon request by the Board, on the results of this program.

(f) Employee Incentive Plan. Unless terminated by either party, for each year of this agreement, Agent shall maintain an annual incentive plan (the "Plan") for all operations conducted for Mutual. The purpose of the Plan is to recognize and provide a monetary reward for eligible employees of Agent who through their ingenuity, creativity and effort create and implement operations, programs, or undertakings that yield actual and quantifiable financial savings or revenue increases for Mutual, which, but for that ingenuity and effort, would not otherwise have been realized by Mutual. The amount of the award will be 30% of the combination of cost savings and revenue increase, but in no event more than \$120,000. This maximum amount of \$120,000 shall be inclusive of any allocation by GRF from a similar award. The Plan will be administered exclusively by Agent. From time to time as savings are materializing during the year, agent will advise Mutual of actions or potential actions on the part of employees which might qualify for an award. Within 60 \_\_\_ days from the end of each year that the Plan is in effect and operational, Agent will report on the Plan to Mutual and provide it with a written report of the results of the Plan for that year. The report shall include a description of each operation, program or undertaking approved for inclusion in the Plan, the amount of savings or revenue realized for each and the total amount paid out under the incentive program for that year. If an employee-generated operation, program, or undertaking as described above, entitles that employee(s) of Agent to compensation under the Plan, that compensation shall be paid only in the first year of realized savings, notwithstanding that savings may or will continue in subsequent years.

(g) Other Duties. Except as limited by Paragraph (h) below, Agent shall do all other things or acts, within the scope of its authority as manager of the Project, as it deems necessary, desirable, helpful and/or proper in connection with the administration and management of the Project and take such action as may be necessary to comply promptly with any and all orders or requirements affecting the Project issued or imposed by any federal, state, county, or municipal authority or other regulatory body having jurisdiction thereover. Agent shall promptly notify Mutual in writing of all such orders and notices of requirements not later than the next Board meeting of Mutual from the time of their receipt. Agent, however, shall not take any action under this Paragraph so long as Mutual has affirmed in writing its intention to contest any such order or requirement, except at the direction of Mutual. Nothing herein shall require Agent to make any additional improvements to the Project not authorized in the Budget or an amendment thereto.

(h) Limitation on Powers of Agent. Notwithstanding the powers and duties of Agent as set forth in Sections this Article 2, Agent shall not enter into any contract:

(i) with a third party whereby such third party will furnish goods or services to the Project or Mutual for a term longer than one (1) year, unless the contract is terminable by any party thereto at the end of any one (1) year period, or unless such a contract has been authorized by the affirmative vote or written consent of the Board.

(ii) except in the case of emergencies, in the name of Mutual for goods or services not contemplated by the Budget or for amounts in excess of those specified in the Budget, unless the Board shall consent thereto in writing; or

(iii) any Affiliate of Agent, unless such a contract has been authorized by the affirmative vote or written consent of the Board.

(iv) Agent has identity of interest companies such as real estate sales, escrow. Agent will maintain a professional and "arms length" relationship with its identity of interest companies whenever Agent is conducting business on the behalf of Mutual. Agent shall comply at all times with its fiduciary duties as agent of Mutual when dealing with its Affiliates or other identity of interest companies.

(i) Employees. On the basis of the Budget and plan of operation as hereinafter described, Agent shall hire or retain in its own name or identity of interest company (except as Mutual and Agent otherwise may agree in writing from time to time) all employees necessary to render services and perform duties as provided in this Agreement. Mutual's share of salaries of said employees payable by Agent, and Mutual's share of reasonable salary related expenses incurred by Agent in connection with employment of said employees, may be paid directly by Agent in accordance with the Budget out of the bank accounts of Mutual as provided in this Agreement. Nothing contained in this Agreement shall create any employer-employee relationship between Mutual and any employee of Agent. In addition to salary related expenses noted above and any other indemnification provisions herein, Mutual agrees to reimburse Agent for all reasonable costs and pay all reasonable obligations Agent incurs on behalf of Agent's employees at the Project, 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, incentive plans, workers compensation insurance, etc., as provided in the Budget in accordance with the terms of this Agreement. Agent shall cause any and all persons or firms hired or retained to provide services under this Agreement who handle money or other personal property of Mutual to furnish a fidelity bond for the benefit of Mutual as provided in paragraph (b)(ii) above.

(i) Independent Contractor. It is expressly agreed that Agent is acting as an independent contractor in performing its duties pursuant to this Agreement. Accordingly, Agent and Mutual agree and recognize that each of the following shall define and govern their relationship for the Term of this Agreement, notwithstanding any separate obligation of Mutual to reimburse or pay the cost of expenses provided in this Agreement:

(1) Agent's Methods. Agent will determine the method, details, and means of performing the duties. Nothing in this Agreement shall be construed to interfere

with or otherwise affect the rendering of duties by the Agent in accordance with its independent and professional judgment. Agent shall perform its duties in accordance with all requirements of applicable law and substantially in accordance with generally accepted practices and principles of its trade.

(2) Licenses. Agent and its employees will maintain all licenses required by law for the performances of any services it may perform under this Agreement including, to the extent applicable a valid driver's license, a business license and a contractor's license.

(ii) Salary Expense Controls. At the discretion of Mutual, Agent shall arrange a meeting with all LWV corporations' boards of directors, to explain the range of salaries and benefits for each group of employees, Agent's competitive position as to hiring and retaining employees most beneficial to Agent's performance of its duties hereunder. Individual salaries will not be discussed.

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(j) Except as set forth in Article 4 below, all services performed by Agent under the provisions of this Article 2 shall be at the expense of Mutual.

(k) Agent shall not be required to make any advance to or for the account of Mutual or to pay any sum, except out of monies 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 monies for the discharge thereof will be provided.

(l) A performance evaluation of Agent and review of the Management Agreement may be conducted in September of each year by the Presidents of the four LWV corporations and shall be based on the goals and objectives set forth by the Mutual.

ARTICLE 3. Harassment Policy: Agent shall maintain adequate policies and training to prevent unlawful discrimination and harassment of and by its employees and agents.

ARTICLE 4. Overhead. The overhead expenses of Agent shall be paid by Agent without right of reimbursement. Said expenses shall include.

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

(b) Salaries, salary related expenses, office expenses and other expenses of officers and employees of Agent who are not employed exclusively in work for Mutual and the other LWV corporations.

ARTICLE 5. Fee. 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 Mutual under management by Agent as of the last day of the preceding month as follows:

(a) Said fee shall consist of a monthly charge in the amount of \$1.80 per dwelling unit.

(b) Said fee shall be adjusted annually for each succeeding year by the same percentage as the All Urban Consumer Price Index (CPI) of the United States Bureau of Labor Statistics for the Los Angeles-Riverside-Orange County 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-negotiations. Such fee adjustments shall be budgeted and become effective as of January 1 of the succeeding year.

ARTICLE 6. Term. The term of this Agreement shall commence on January 1, 2007, and remain in effect until December 31, 2011, unless sooner terminated pursuant to this Article. The term of this Agreement shall be automatically extended until December 31, 2012, upon the same terms and subject to the same conditions, unless either party elects not to renew by delivering written notice of such election to the other party no later than June 30, 2011.

(a) Any party not in default under this Agreement may elect to terminate this Agreement, without cause, upon not less than one hundred eighty (180) 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 one hundred eighty (180) days occurs

(b) 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 Mutual 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 Mutual 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 Mutual or Agent as a bankrupt or insolvent by a decree of a court of competent jurisdiction.

(iii) The creditors of Mutual or Agent file a petition in bankruptcy against Mutual or Agent or for the reorganization of Mutual 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.

(iv) This Agreement may be terminated, with or without cause, upon written notice to Mutual and Agent. Such termination shall become effective at 11:59 p.m., which date shall be at least thirty (30) days after the date on which such notice is given.

(c) Upon any termination under this Article, Mutual 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 Mutual shall be conducted, at the expense of Mutual, by a certified public accountant who shall furnish a financial report to Mutual and such other reports and

supplementary information as may be required by Mutual. On the effective date of any termination hereunder, or sooner if Mutual so directs, Agent shall deliver to Mutual all property (including, without limitation, automobiles and office furnishings and equipment and all property acquired pursuant to this Agreement), books and records in Agent's possession or under its control relating to the management and operation of the property.

ARTICLE 7. Miscellaneous.

(a) Subordination. This Agreement shall inure to the benefit of and constitute a binding obligation upon the contracting parties, their respective successors and assigns; and to the extent that it confers rights, privileges, and benefits upon the Consenting Parties, the same shall be deemed to inure to their benefit.

(b) Merger/Amendment. This Agreement shall constitute the entire agreement between the contracting parties and supersedes all prior agreements between the parties hereto respecting such matters, and no variance or modification thereof shall be valid and enforceable, except by supplemental agreement in writing, executed and approved in the same manner as this Agreement.

Indemnification. Mutual 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. Mutual shall not be liable to Agent for reimbursement for actions involving willful misconduct or gross negligence.

(c) Section Headings. The section headings herein contained are for the purposes of identification only and shall not be considered in construing this Agreement

(d) Attorney Fees and Expenses. 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 expenses, including without limitation, expert witness fees and reasonable attorneys' fees incurred therein.

(e) Singular and Plural. The singular number includes the plural whenever the context so requires.

(f) Severability. 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.

(g) Force Majeure. Neither party shall be liable for any delay or other inability to perform this Agreement attributable to and during a Force Majeure Event. The parties acknowledge that the effects of a Force Majeure Event may exist and continue for a period of time that exceeds the precipitating Force Majeure Event. "**Force Majeure Event**" shall mean any act occasioned by a cause beyond the reasonable control of Agent or Mutual, including (but not limited

to) acts of God, fire, explosion, casualties, war, insurrection, strikes, lockouts, riot, mob violence, sabotage, inability to procure labor, equipment, facilities, materials or supplies in the open market, civil unrest and governmental actions, travel advisories issued by governmental authorities, revolution, insurgency, terrorism, sabotage, hurricanes, earthquakes or other natural catastrophes and any other causes, whether similar or dissimilar to the foregoing, that threaten public safety generally. Mutual and Agent agree to adopt and enforce reasonable rules to prevent any Member, Qualifying Resident, Co-Occupant or guest (as defined in the Bylaws) and directors of Mutual from unreasonably interfering with work of Agent conducted pursuant to and in accordance with this Agreement.

(h) Governing Law. This Agreement shall be governed by the laws of the State of California.

(i) Third Party Beneficiaries. The provisions of this Agreement are solely for the benefit of the parties hereto and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies under or by reason of this Agreement.

(j) Assignment. Neither party may sell, transfer or assign any of its interest in this Agreement without the prior written consent of the other party. Subject to the foregoing, this Agreement will inure to the benefit of, and be binding upon, any permitted successors and assigns of the parties

(k) No Partnership. This Agreement does not and shall not be construed to create a partnership, joint venture or any other relationship between the parties hereto except the relationship of providing management services specifically established hereby.

(l) Counterparts. For the convenience of the parties, this Agreement may be 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. Immediately following endorsement of the parties hereto, counterparts will be furnished to the parties and the Consenting Parties so that each may be advised of the rights, privileges, and benefits which this Agreement confers.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Dated: February 27, 2007

THIRD LAGUNA HILLS MUTUAL

THIRD LAGUNA HILLS MUTUAL

By: [Signature]

By: [Signature]

Print name: JIM MATSON  
Its: President

Print name: ISABEL MUENICHOW  
Its: Secretary

THIRD LAGUNA HILLS MUTUAL

By: [Signature]

Print name: RICHARD MOOS  
Its: Treasurer

PROFESSIONAL COMMUNITY MANAGEMENT  
OF CALIFORNIA, INC.

By: [Signature]

Print name: Russell L. Divero  
Its: CEO

Approved as to Form:

ATTEST

THIRD LAGUNA HILLS MUTUAL

By: [Signature]

Print name: William R. Hart  
Its: Corporate Counsel