

MANAGEMENT AGREEMENT

Parties

The parties to this Agreement are: THE UNITED LAGUNA HILLS MUTUAL, a California nonprofit corporation (hereinafter referred to as "Owner"), 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. Owner owns and operates certain cooperative housing projects located in Leisure World.

C. The development of Leisure World has been financed in part by mortgage loans made by United California Bank (and its successors) as originating mortgagee which are now held by several institutions ("mortgagees") and which are insured by the Federal Housing Administration (sometimes hereinafter referred to as "FHA"), now known as the Department of Housing and Urban Development or HUD.

D. Owner desires to contract with Agent for all services necessary in connection with the management, operation and maintenance of its property, as provided below, and Agent agrees to provide such services.

E. As used in this Agreement:

(a) The term "mortgage" shall mean the deed of trust and initial beneficiary, by and between Owner, as trustor, and United California Bank, as trustee, which is insured by HUD pursuant to the authority contained in Section 213 of the National Housing Act and the regulations promulgated thereunder and which relates to one of the HUD projects identified on Exhibit A.

(b) The term "mortgagee" shall mean a holder of a mortgage.

(c) The term "consenting parties" shall mean (1) the mortgagee, as herein defined, and (2) the HUD acting through its Commissioner of his duly authorized representatives.

(d) The term "occupancy agreements" shall mean those certain forms of agreement between Owner and its members (and any renewals thereof) under the terms of which said members are entitled to enjoy possession of their respective dwelling units.

(e) The term "monthly assessments" shall mean those monthly amounts which members are bound to pay to Owner pursuant to the terms of their respective occupancy agreements.

(f) The term "gross collections" shall mean those monthly amounts actually collected by Agent, either as monthly assessments or otherwise.

Terms

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

ARTICLE 1. (a) Owner hereby appoints Agent and Agent hereby accepts appointment on the terms and conditions hereinafter provided, as the exclusive managing agent for the real property now owned by the predecessor mutual housing corporations of owner, located in the City of Laguna Woods, State of California. Attached as Exhibit A to this agreement is a schedule of all HUD project numbers, former Mutuals and dwelling units covered by this Agreement. (Collectively, these projects are referred to as the "Project").

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

(c) In order to facilitate efficient operation, Owner shall inform 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 plans and specifications of the Project as finally approved by HUD. 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, if any, and other mechanical equipment in the project for which Owner 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 Owner, 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 Owner 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 Owner's money or other personal property shall furnish a fidelity bond, at the expense of Owner, in an amount and written by a company acceptable to Owner, the Mortgagees and HUD.

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 Owner 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 Owner as provided in (k) below. Nothing contained in this Agreement shall create any employer-employee relationship between Owner and any employee of Agent. In addition to salary related expenses noted above and any other indemnification provisions herein, Owner 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 Owner to furnish a fidelity bond for the benefit of Owner as provided in Article 2 above.

(c) Administer all services and operate the Property in accordance with the purpose for which held, all pursuant to the then current budget and plan of operations. Agent shall cause an inventory of all property of Owner to be taken not less frequently than annually.

(d) Maintain a current list of members of Owner and make such record changes as are appropriate in connection with all transfers of resident memberships. . Agent shall process rentals and leases of any part of the property so as to assure that all requirements of Owner are met and complied with, and Agent shall arrange for execution of any permits or leases as may be required to conduct business by Owner. Agent has identity of interest companies such as real estate sales and escrow firms. Agent will maintain a professional and "arms length" relationship with its identity of interests companies whenever Agent is conducting business on the behalf of Owner.

(e) Maintain cordial and businesslike relations with the members of the Owner 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 Owner notified as appropriate. Requests involving any material change in the nature and extent of services shall, after thorough investigation, be reported to Owner with appropriate recommendations.

(f) Request and collect (including the institution of such legal action as necessary with prior consent of Owner), receive and receipt for any and all money which at any time may be or become due to Owner. As a standard practice, Agent shall furnish Owner 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 Owner consistent with the provisions of the then current operating budget and operating plan contained therein as approved by Owner. 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 Owner; 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 the Owner, 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 Owner regarding every such expenditure and in any event file with Owner a report regarding same. 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 Owner and to the extent required, by HUD. 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 having jurisdiction thereover, and orders of the Insurance Services Office or other similar regulatory bodies, subject to the same limitation contained in Paragraph (g) of this Article in connection with repairs and replacements. Agent shall promptly notify Owner in writing of all such orders and notices of requirements not later than the next Board meeting of Owner from the time of their receipt. Agent, however, shall not take any action under this Paragraph so long as Owner is contesting, or has affirmed its intention to contest any such order or requirement, except at the direction of Owner.

(i) When the current operating plans or capital budget have been approved by Owner, 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 Owner, Agent shall conduct negotiations on behalf of Owner for acquisition or disposition of real property and make contracts for improvements of real property now or hereafter owned by Owner. All property, real or personal, purchased at the expense of Owner shall be the property of Owner. 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 Owner 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 Owner shall be disclosed to Owner prior to obligating Owner therefor. When and as directed by Owner, Agent shall provide construction management or supervision on behalf of Owner.

(j) Obtain and keep in force all forms of insurance, as recommended by an established insurance broker and/or insurance analyst, required to protect Owner 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 Owner. All insurance obtained for the benefit of Owner shall be placed with such companies, in such amounts, and with such beneficial interests appearing therein as shall be acceptable to Owner and to the consenting parties. Agent shall investigate promptly and make full written reports to Owner 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 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 Owner, including costs and expenses authorized to be incurred by Agent under the terms of

this Agreement, the single aggregate payment required to be made monthly to the mortgagee, including the amounts due for HUD mortgage insurance premiums, taxes and assessment, fire and other hazard insurance premiums, interest on the mortgage, amortization of the principal of the mortgage, and the amount specified in the Regulatory Agreement for allocation to the Reserve for Replacement; 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 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 operating budget or otherwise as directed by Owner 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 Owner and to the consenting parties and essential accordance with the HUD Uniform System of Accounts. The records, books and accounts shall be subject to examination at all reasonable hours by persons authorized by Owner and of the consenting parties. As a standard practice, Agent shall submit to Owner, 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 Owner from time to time, as of the end of the preceding accounting period as established by Agent. Agent shall cause an annual financial report to be prepared and certified by a certified public accountant approved by Owner, based upon examination of the books of account and records of Owner, which report shall be submitted to Owner together with such other reports and supplementary information as may be required by Owner.

(n) At least two and one-half months before the beginning of each fiscal year of Owner, submit an operating 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 Property. Each such budget, containing a plan of operation and justifying the estimates made in every important particular, shall be approved by Owner and submitted thereafter to HUD in final form at least one month prior to the commencement of the fiscal year for which applicable. Unless approved by Owner, 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 Owner. The operating 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 Owner and to the extent required by HUD. The operating budget is distinguished from the capital budget of Owner established pursuant to the Trust Agreement and other agreements referred to above. Capital expenditures shall be made pursuant to said capital budget and agreements. Notwithstanding any other provision of this paragraph, the plan of operation insofar as it relates to facilities and services to be provided by Golden Rain Foundation of Laguna Woods shall be determined by Golden Rain Foundation of Laguna Woods in accordance with that

certain Trust Agreement entered into between Owner and Golden Rain Foundation of Laguna Woods and in accordance with its Bylaws.

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

(p) Secure full compliance with such the terms and conditions of their respective occupancy agreements and rules and regulations as may be promulgated by Owner from time to time with respect to the use of the Property 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 Owner, invest moneys of Owner in securities which are a direct obligation of or guaranteed by the United States of America.

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 at and for the benefit of Leisure World.

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

(c) Agent shall not be required to make any advance to or for the account of Owner 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 in the name of Owner for deposit of moneys of Owner in a bank or banks whose deposits are insured by the Federal Deposit Insurance Corporation. Moneys of Owner shall not be commingled with moneys of Agent. Moneys of Owner may be commingled with moneys of Third Laguna Hills Mutual, Laguna Hills Mutual No. Fifty, and Golden Rain Foundation of Laguna Woods. 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 of owner 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 2001 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 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. The term of this Agreement 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 one hundred eighty (180) days prior to the expiration of the then current term.

(b) 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.

(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 Owner 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 Owner 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 Owner or Agent as a bankrupt or insolvent by a decree of a court of competent jurisdiction.

(iii) The creditors of Owner or Agent file a petition in bankruptcy against Owner or Agent or for the reorganization of Owner 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) This Agreement may be terminated, with or without cause by HUD or the mortgagee upon written notice to Owner and Agent. Such termination shall become effective at 11:59 p.m. on the date specified in the written notice from HUD, which date shall be at least thirty (30) days after the date on which such notice is given. No liability shall be incurred by HUD in the event of such a termination.

(e) Upon any termination under this Article, Owner 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 Owner shall be conducted, at the expense of Owner, by a certified public accountant who shall furnish a financial report to Owner and such other reports and supplementary information as may be required by Owner. On the effective date of any termination hereunder, or sooner if Owner so directs, Agent shall deliver to Owner 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 is made subject and subordinate to all rights of HUD as insurer of the mortgage, 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, but without a liability to either, in same manner and with the same force and effect as though the mortgagees and HUD were signatories to this agreement.

(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 in the same manner as this Agreement.

(c) Owner 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. Notwithstanding the above, Owner 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. Immediately following endorsement of the consenting parties, counterparts will be furnished to the consenting parties so that each may be advised of the rights, privileges, and benefits which this agreement confers.

(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. Owner and Agent agree to adopt and enforce reasonable rules to prevent members and Directors of United from interfering with work of Agent. Owner provides business and operational policy to Agent through the General Manager.

Maybe

(g) A performance evaluation of Agent and review of the Management Agreement shall be conducted in September of each year by the Presidents of the four Corporations (United, Third, Fifty, and GRF).

(h) 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: September 11, 2001

UNITED LAGUNA HILLS MUTUAL

By John C. Johnson
President

By Elizabeth C. M. [unclear]
Secretary

PROFESSIONAL COMMUNITY MANAGEMENT, INC.

By [Signature]
President

Approved as to Form:

Corporate Counsel

ATTEST

Carl A. Roman
Corporate Secretary