

#10

**BAYWOOD SKILLED NURSING FACILITY
EMPLOYEE AND FACILITY LEASE AGREEMENT**

THIS MANAGEMENT SERVICES AGREEMENT (the "Agreement") is made and entered into effective as of the 15th of January, 1998, by and between Eden Medical Center, a California nonprofit corporation ("EMC") and Eden Hospital Health Services Corporation, a California nonprofit corporation ("EHHSC").

RECITALS

A. EMC leases and operates Baywood Skilled Nursing Facility ("Baywood SNF"), which is licensed and operated as part of Eden Medical Center, a general acute care hospital.

B. EHHSC owns and operates a retirement community known as Baywood Court, which is also the location of Baywood SNF.

C. EMC desires to purchase selected services from EHHSC on an independent contract basis and thereby to benefit from EHHSC's experience, skills, supervision and personnel in developing and operating Baywood SNF, and EHHSC desires to provide such services under the terms hereinafter set forth.

D. The parties desire to enter into this Agreement in order to provide a full statement of their respective responsibilities hereunder during the term of this Agreement.

FOR AND IN CONSIDERATION of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows:

1. Obligations of EHHSC. EMC hereby contracts with EHHSC for the provision of various services to assist in the operation of Baywood SNF and EHHSC hereby accepts full responsibility for such operational assistance as set forth herein; provided, however, EMC shall retain ultimate responsibility for patient care operations of Baywood SNF. Such ultimate responsibility shall include, without limitation, the ability to control the patient care operations of Baywood SNF as necessary in order to comply with applicable patient safety, licensure, reimbursement and accreditation, laws, regulations and standards.

(a) Operation of Baywood SNE. EHHSC shall provide the following services in connection with the operation of Baywood SNF:

(1) General administrative expertise, consultation and support as requested by EMC;

(2) EHHSC shall supervise and coordinate the provision of non-physician health care services by appropriately licensed personnel to patients of Baywood SNF;

(3) EHHSC shall use its best efforts to ensure that the standards of patient care at Baywood SNF are maintained, at a minimum, at prescribed levels of care, including, without limitation, provision of the following services: (i) nursing care; (ii) recreation and activities programs; (iii) administrative support; (iv) maintenance of plant; (v) housekeeping; and (vi) other services that may be reasonably required by EMC;

(4) EHHSC shall cooperate with EMC in assuring Baywood SNF's compliance with (i) all federal, state and local statutes, rules and regulations applicable to licensure, accreditation, and certification for participation in Medicare, Medi-Cal and other government payment programs and (ii) contractual obligations with other third party payors;

(5) EHHSC shall establish staffing schedules for all non-physician personnel of Baywood SNF so as to maintain a full and competent staff at all levels of operation;

(6) EHHSC shall inspect, evaluate and maintain in a safe and efficient manner all equipment necessary for the operation of Baywood SNF.

(7) EHHSC shall exercise diligence in controlling the costs of operating Baywood SNF. EHHSC shall participate, as requested by EMC, in the preparation of the operating and capital budgets of Baywood SNF, including, without limitation, projections of revenues and expenditures, although it is understood by the parties hereto that EMC shall have no control or authority over the setting of wages, salaries or fringe benefits for EHHSC employees. EHHSC shall use its best efforts to perform all of its obligations under this Agreement in accordance with the budget for Baywood SNF as established by EMC. Any expenditures in excess of budget must be approved by EMC; and

(8) EHHSC will provide public relations, as necessary and appropriate, relating to Baywood SNF and its operation.

(b) Activities. EHHSC shall provide all necessary training and

continuing education to maintain the quality of the services provided in Baywood SNF and to ensure Baywood SNF's compliance with the requirements of all accrediting bodies during the term of this Agreement. EHHSC shall require all employees, independent contractors and other non-physician personnel to participate in EMC-sponsored inservice educational seminars and programs relevant to their respective areas of patient care service. EHHSC shall also establish a performance improvement program, utilization review program and program evaluation standards to assure the consistency, medical necessity and quality of all patient care services provided in Baywood SNF by EHHSC and its non-physician personnel and shall ensure that they are consistent with, and integrated into, EMC's performance improvement and utilization review programs. EHHSC shall additionally participate in EMC's overall patient care performance improvement program and utilization review program in accordance with EMC policies and shall provide EMC all necessary reports relating to performance improvement and utilization review.

(c) Preparation of Payroll. EHHSC shall be responsible for processing all payrolls and depositories as well as for preparing all payroll tax returns with respect to its employees working at Baywood SNF.

(d) Representation of EMC. EHHSC shall assist and/or represent EMC, as appropriate, in any inspection, audit or review of Baywood SNF by or on behalf of any governmental agency or the JCAHO.

2. Personnel.

(a) EHHSC shall provide or arrange for the provision of all other non-physician personnel necessary for the operation of Baywood SNF, including, without limitation, administrative and management personnel, RNs, LVNs, Aides, dietary staff, social worker, activity therapist and custodial personnel, but specifically excepting the Director of Nursing, Skilled Nursing Administrator, physical therapists, occupational therapists, speech therapists, respiratory therapist, and pharmacist:

(b) All personnel employed by, contracting with or otherwise engaged by EHHSC to provide services to Baywood SNF hereunder shall at all times comply with all:

(1) Governmental or professional association licensing requirements;

(2) Applicable provisions of the Bylaws and Rules and Regulations of the Eden Medical Staff; and

(3) General patient care rules and regulations of EMC.

(c) EHHSC shall establish all personnel policies, including without limitation, policies regarding the hiring and firing of all employees, retention and termination of independent contractors and other non-physician personnel provided by EHHSC to provide services in Baywood SNF. For good cause, as discussed below, EHHSC shall remove and replace any employee, independent contractor or other non-physician personnel within the (10) days after written demand for such removal by EMC. Good cause for such removal shall exist when, in the reasonable judgement of EMC, such person is incapable of fulfilling the duties assigned under this Agreement and is thereby either endangering EMC patients or the licensure or accreditation of EMC.

(d) EHHSC shall negotiate and enter into independent contracts for portable X-ray and optical services as well as the services of a dentist, podiatrist and such other personnel and consultants as may be appropriate for the operation of Baywood SNF; provided, however, EMC shall have the right to approve all such independent contracts (but not any employee contracts); and provided further that the podiatrist and dentist must be a member in good standing of the medical staff of EMC. All allied health professionals must also be credentialed by the EMC medical staff.

3. Obligations of EMC.

EMC shall provide the following items and personnel for the performance of the obligations of EHHSC hereunder:

(a) The Skilled Nursing Administrator who shall be responsible for the day-to-day operation and administration of Baywood SNF;

(b) The Director of Nursing of Baywood SNF who shall be responsible for the supervision and training of the nursing professionals at Baywood SNF. The Baywood SNF Director of Nursing shall report to the Skilled Nursing Administrator (EMC Senior Vice President/Patient Care Services) and participate in coordination of nursing services at EMC;

(c) EMC will be responsible for patient accounting, pharmacy, medical supplies, therapy services and data processing.

(d) EHHSC shall cooperate and coordinate with EMC as appropriate to fully integrate the patient care operations of Baywood SNF into the operation of EMC as a skilled nursing department. This cooperation and coordination shall include, without

limitation, the areas of (i) accounting and bookkeeping services, (ii) performance improvement and utilization review, (iii) general administration, (iv) compliance with federal and state licensing provisions and laws, (v) compliance with accreditation standards, and (vi) such other areas as are appropriate for full integration of Baywood SNF into EMC.

4. Compensation for EHHSC Services.

(a) EHHSC shall receive from EMC as compensation for all services provided by EHHSC hereunder, amounts equal to, on a semi-monthly basis, its payroll for all of its employees, independent contractors and other personnel, performing direct services at or for Baywood SNF.

(b) Twice each month during the term hereof, EHHSC shall submit to EMC all payroll information for the relevant semi-monthly period reasonably required by EMC to make payment as provided above. EMC shall present to EHHSC a check payable to EHHSC or shall otherwise arrange for transfer of funds in a mutually acceptable manner, representing all compensation payable to EHHSC pursuant to the payroll information thus submitted promptly thereafter.

(c) EMC will reimburse EHHSC expenses directly associated with SNF operations, including but not limited to, utilities and food services.

5. Term.

The term of this Agreement shall commence at 12:01 a.m. on January 15, 1998 (the "Commencement Date") and shall remain in full force and effect until 12:00 midnight on December 31, 2001 (the "Initial Term"), and shall be automatically renewed for additional one (1) year periods (the "Renewal Terms") thereafter unless terminated as provided below; provided, however, that upon ninety (90) day's written notice prior to any annual renewal date, either party may serve notice of its intention to renegotiate the terms of this Agreement. If EMC and EHHSC fail to reach an agreement satisfactory to both parties within sixty (60) days after written notice of such request for renegotiation, either party may terminate this Agreement upon thirty (30) day's prior written notice.

6. Termination.

The provisions of Paragraph 5 of this Agreement notwithstanding, this Agreement may be terminated prior to the expiration of its Initial Term or any Renewal Term.

(a) Termination Upon Thirty Days' Notice. In the event of breach of the Agreement, either party may terminate this Agreement upon giving the other party thirty (30) days' prior written notice.

7. Insurance.

(a) For the term of this Agreement, the following insurance coverages shall be procured and maintained by EHHSC from financially responsible insurance companies approved to conduct business in the State of California and acceptable to EMC:

(1) General Liability Insurance with limits of coverage of not less than Five Hundred Thousand Dollars (\$500,000.00) per occurrence and Five Hundred Thousand Dollars (\$500,000.00) in the annual aggregate and an umbrella insurance policy with limits of coverage of not less than Five Million dollars (\$5,000,000.00) per occurrence and Five Million Dollars (\$5,000,000.00) in the annual aggregate; and

(2) Workers' Compensation insurance, including Employers' Liability Insurance with limits of not less than Three Million Dollars (\$3,000,000.00) covering liability that EHHSC may incur, and which is in full compliance with California statutory requirements.

(b) All such policies shall name EMC as an additional insured. EHHSC shall provide EMC with certificates evidencing the foregoing insurance coverages upon request by EMC; provided, further, that such certificates shall indicate that EMC shall be given at least thirty (30) days prior written notice of cancellation, termination or modification of such policies.

8. Indemnification.

(a) EHHSC shall indemnify, defend, and hold harmless, EMC, its officers, agents and employees from and against any and all liability, suits, claims, losses, damages, costs and expenses whatsoever, including but not limited to, attorney's fees and court costs, arising from any act or omission of EHHSC, its agents or employees, during the performance of any of the activities provided for in this Agreement.

(b) EMC shall indemnify, defend, and hold harmless, EHHSC, its officers, agents and employees from and against any and all liability, suits, claims, losses, damages, costs and expenses whatsoever, including but not limited to attorney's fees and court costs, arising from any act or omission of EMC, its agents or employees, during the

performance of any of the activities provided for in this Agreement.

9. Status of EHHSC.

(a) In the performance of this Agreement, it is mutually understood and agreed that EHHSC, its employees and independent contractors, and any other EHHSC affiliated personnel who perform services for EMC hereunder, are at all times acting and performing as independent contractors with, and not employees of, EMC. The sole interest and responsibility of EMC is to assure that the services covered by this Agreement shall be performed and rendered in a competent, efficient and satisfactory manner.

(b) EHHSC shall be fully responsible for compliance with state and federal laws pertaining to employment taxes, Workers' Compensation, unemployment compensation and other employment related statutes, and EHHSC's employees, independent contractors, or other affiliated personnel shall not have any claim under this Agreement or otherwise against EMC for vacation pay, sick leave, retirement benefits, Social Security benefits, Workers' Compensation benefits, disability or unemployment insurance benefits, or other employee benefits of any kind. It is further understood and agreed that the legal relationship between EHHSC and its employees, independent contractors, and other affiliated personnel shall not cause any of them to become or be treated as an employee of EMC. EHHSC shall indemnify and hold harmless EMC from any and all loss or liability, if any, arising with respect to any of the foregoing benefits or withholding requirements.

10. Access to Books and Records.

(a) EHHSC shall make this Agreement and the books, documents, and records of EHHSC available to the Secretary of Health and Human Services, to the Comptroller General, or their duly authorized representatives to the extent required by Section 952 of the Omnibus Budget Reconciliation Act of 1980. EHHSC shall notify EMC in writing of any such request for access to such documents and shall provide EMC with copies of such request and all materials described in such request within ten (10) days after EHHSC's receipt of such request.

(b) EHHSC further agrees that, if any of its duties hereunder are carried out through a subcontractor related to EHHSC within the meaning of Section 952 of the Omnibus Budget Reconciliation Act of 1980, if such subcontract has a value or cost of Ten Thousand Dollars (\$10,000.00) or more over a 12-month period, EHHSC shall obtain the written undertaking of such subcontractor that the subcontractor shall make the

subcontract, as well as its books, documents, and records, available to the extent required by Section 95 of the Omnibus Budget Reconciliation Act of 1980, and that such subcontractor shall notify EMC of any such request for access to such documents and shall provide EMC with copies of such request and all materials described in such request within ten (10) days of such subcontractor's receipt of such request.

11. Medical Records.

EHHSC shall cooperate and participate as appropriate with the Director of EMC's Medical Records Department in the preparation and filing of medical records.

12. Inability to Perform.

In addition to any other provision contained herein, the parties agree that EMC's obligations under this Agreement, including, but not limited to, its obligations pursuant to Paragraph 3 hereof, shall immediately cease if EMC is unable to operate Baywood SNF due to physical disasters, governmental acts, labor difficulties or strikes, or other circumstances beyond the control of EMC.

13. Assignment.

(a) EHHSC shall not assign, sell, encumber, pledge, hypothecate or otherwise transfer this Agreement or any interest herein without obtaining the prior written consent of EMC.

(b) EMC shall not assign, sell, encumber, pledge, hypothecate or otherwise transfer this Agreement or any interest herein without obtaining the prior written consent of EHHSC.

14. No Determination.

The parties hereto shall not discriminate against any person on the grounds of race, color, national origin, religion, sex, age or handicap in discharging their duties and responsibilities under this Agreement.

15. Waiver of Breach.

No assent or waiver, express or implied, of any breach of any one or more of the covenants, conditions or provisions hereof shall be deemed a waiver of any other covenant, condition, or provision hereof, or a waiver of any subsequent breach of the

same covenant, condition, or provision.

16. Captions.

The captions used herein as headings of the various paragraphs hereof are for convenience only, and the parties agree that such captions are not to be construed to be part of this Agreement or be used in determining or construing the intent or context of this Agreement.

17. Notices.

Any and all notices, demands, requests, and any other communication required or permitted to be served on or given by either party to the other shall be in writing and delivered personally or by deposit in the United States mail, first class, postage prepaid, certified or registered mail, return receipt requested, addressed to the party to whom it is to be given at the address hereinafter set forth:

If to EMC:	20103 Lake Chabot Road Castro Valley, CA 94546-5367 Attention: George Bischaney, CFO
If to EHHSC:	20103 Lake Chabot Road Castro Valley, CA 94546-5367 Attention: Margaret Green, Administrator

or such other address as the parties shall inform each other of in writing.

18. Governing Law.

This Agreement, all of its terms and conditions, and all of the legal relations between the parties hereto created hereunder, shall be determined in accordance with, and governed by, the laws of the State of California.

19. Severability.

If any part or parts of this Agreement are held to be invalid, the remaining parts of the Agreement shall continue to be valid and enforceable as to the parties hereto.

20. Counterparts.

This Agreement may be executed in counterparts, each of which shall be

deemed to be an original, and all of such counterparts shall together constitute one and the same agreement.

21. Third Party Beneficiaries.

Nothing contained in this Agreement shall inure to the benefit of any person or entity not a party hereto, nor shall any such person or entity have or gain any rights or privileges under this Agreement or by reason of it.

22. Entire Agreement.

This Agreement contains the sole and entire agreement between the parties, and shall supersede any and all other agreements between the parties, either oral or in writing, between the parties hereto with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year hereinabove first written.

EDEN MEDICAL CENTER,
a California nonprofit corporation

By: 

Title: Chief Financial Officer

EDEN HEALTH SERVICES CORPORATION
A California nonprofit corporation

By: _____

Title: _____

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EDEN MEDICAL CENTER,
a California nonprofit corporation

By: _____

Title: _____

EDEN HEALTH SERVICES CORPORATION
A California nonprofit corporation

By: Margaret A. Green

Title: Administrator/CEO