

SUPERIOR COURT OF CALIFORNIA
COUNTY OF HUMBOLDT

This Class Settlement Agreement and Release (the “Settlement Agreement”) is entered into as of September 7, 2010 (the “Settlement Date”), subject to the approval of the Court, by and among: (i) Plaintiffs Vinnie Lavender by and through her Conservator; Wanda Baker; Walter Simon; and Jacquelyn Vilchinsky (collectively, the “Named Plaintiffs,” and, together with the Class (as defined below), the “Plaintiffs”); and (ii) Defendants Skilled Healthcare Group, Inc. (“SKH”); Skilled Healthcare, LLC; Granada Healthcare and Rehabilitation Center, LLC; Eureka Healthcare and Rehabilitation Center, LLC; Pacific Healthcare and Rehabilitation Center, LLC; Seaview Healthcare and Rehabilitation Center, LLC; St. Luke Healthcare and Rehabilitation Center, LLC; Bay Crest Care Center, LLC; Brier Oak on Sunset, LLC; The Earlwood, LLC; Royalwood Care Center, LLC; Sycamore Park Care Center, LLC; Villa Maria Healthcare Center, LLC; Valley

1 Healthcare Center, LLC; Willow Creek Healthcare Center, LLC; Alta Care Center, LLC; Anaheim
2 Terrace Care Center, LLC; Carehouse Healthcare Center, LLC; Devonshire Care Center, LLC;
3 Elmcrest Care Center, LLC; Montebello Care Center, LLC; Alexandria Care Center, LLC; Hancock
4 Park Rehabilitation Center, LLC; and Sharon Care Center, LLC (collectively, the “Defendants,”
5 and, together with the Plaintiffs, the “Parties,” or singularly, a “Party”) by and through their
6 respective counsel of record.¹

7 **I. RECITALS**

8 A. On May 4, 2006, Plaintiffs filed a Class Action Complaint in the above captioned
9 proceeding, which was amended by the Second Amended Class Action Complaint, filed in the
10 above captioned proceeding by Plaintiffs on April 16, 2008 (collectively, the “Plaintiffs
11 Complaint,” and together with all alleged causes of action therein, the “Plaintiffs’ Action”). By
12 order dated June 23, 2008, Plaintiffs’ Motion for Class Certification was granted.

13 B. On May 25, 2006, Intervenor, the Humboldt County District Attorney’s Office, (the
14 “Intervenor”) filed a Complaint in Intervention in the above captioned proceeding (the “Intervenor’s
15 Complaint,” and, together with all alleged causes of action therein, the “Intervenor’s Action”). The
16 Intervenor’s Complaint and the Plaintiffs’ Complaint are collectively referred to herein as the
17 “Complaints,” and the Intervenor’s Action and the Plaintiffs’ Action are collectively referred to
18 herein as the “Related Actions”).

19 C. The Plaintiffs’ Complaint seeks relief on behalf of Plaintiffs and two classes
20 (Facility Resident Class and Family Member Class) and one subclass (Facility Resident Private Pay
21 Subclass) (collectively, the “Class” or “Settlement Classes”) comprised of current and former
22 residents of the Defendant Facilities, or any Defendant Facility (as defined below), during the period
23 beginning September 1, 2003, and ending on the Settlement Date,² and their family members.

24

25 ¹ Concurrently herewith, Defendants have entered into the *Settlement Agreement and Release with*
26 *the People of the State of California, by and through Intervenor, the Humboldt County District*
27 *Attorney’s Office* (the “Intervenor Settlement Agreement”).

28 ² As set forth in **Section III.A** below, the relevant period for all persons who resided at St. Luke
(as defined below) runs from December 15, 2003 through and including the Settlement Date.

1 Members of the Class are collectively referred to herein as the “Class Members.” The Intervenor’s
2 Action seeks relief on behalf the People of the State of California for alleged violations of California
3 Business and Professions Code (“B&P Code”) § 17200, *et seq.*, for alleged unlawful business
4 practices, including relief under B&P Code sections 17203, 17206 and 17206.1. The Plaintiffs do
5 not include persons that elected to “Opt Out” of these proceedings during the prior class notice
6 period, as more specifically identified on Exhibit A to the *Declaration of Rianne Cozzi Re: Resident*
7 *Opt-Out List* filed with the Court on or about February 23, 2010.

8 D. The Defendants are 22 separately licensed facilities, located in California (each a
9 “Defendant Facility”), SKH and Skilled Healthcare, LLC.

10 E. Throughout the Related Actions, the Defendants, and each of them, have denied and
11 they continue to deny each and every cause of action, claim and contention alleged against them by
12 the Plaintiffs and Intervenor in the Related Actions and under the Complaints filed therein.

13 F. Plaintiffs’ case was tried to a jury in the Superior Court of California for the County
14 of Humboldt, Judge W. Bruce Watson, presiding. On July 6, 2010, the jury returned a verdict on
15 liability and damages under Health & Safety Code section 1430, subdivision (b)³ (subsuming
16 theories of liability under sections 1276.5 and 1599.1), and under the Consumer Legal Remedies Act
17 (CLRA). The approximate total of damages awarded was \$676.8 million.

18 G. The trial is incomplete. Remaining to be tried to or determined by the court are
19 (1) equitable statutory claims, including restitution and other civil remedies sought by Intervenor;
20 and (2) punitive damages.

21 H. On July 25, 2010, the Parties began mediation before retired San Francisco Superior
22 Court Judge Daniel Weinstein and certain of his colleagues, at JAMS in San Francisco, California.
23 The Parties met in person with the mediator and conducted numerous additional conferences by
24 phone. In addition to the sessions with Judge Weinstein and/or his colleagues, the Parties and their
25 counsel engaged in many additional conference calls, and other communications intended to further

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28 ³ All statutory references are to the Health & Safety Code, unless otherwise specified.

1 the process of the global resolution of the Related Actions (the “Settlement”). Negotiations were at
2 arms length, hard fought, and frequently acrimonious.

3 I. On August 13, 2010, the Parties reached an agreement regarding certain significant
4 elements of a potential Settlement. The Parties conducted further negotiations over other terms of
5 the Settlement, as reflected herein.

6 J. Plaintiffs, Intervenor and the Public Prosecutors⁴ (if applicable), have agreed to
7 settle the Related Actions pursuant to the provisions of this Settlement Agreement and the
8 Intervenor Settlement Agreement, respectively, set forth in detail below and in the Intervenor
9 Settlement Agreement, considering, among other things:

10 1. The substantial benefits to the Class, Intervenor and the Public Prosecutors
11 under the terms of this Settlement Agreement and the Intervenor Settlement Agreement;

12 2. The attendant expense, risks, difficulties, delays, and uncertainties of the
13 continuation of trial, post-trial proceedings, and appeals; and

14 3. The Defendants’ financial condition and the risk the Class and/or Intervenor
15 could obtain little or no relief if the proceedings did not resolve promptly.

16 K. Plaintiffs, Counsel to the Class (“Class Counsel”), Intervenor and the Public
17 Prosecutors agree that this Settlement Agreement and the Intervenor Settlement Agreement provide
18 fair, reasonable, and adequate relief to the Class and Intervenor in the circumstances presented, and
19 that settlement on the agreed terms, set forth below and in the Intervenor Settlement Agreement, is
20 in the best interests of the Settlement Classes and Intervenor described below and in the Intervenor
21 Settlement Agreement.

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23
24 As used herein, the term “Public Prosecutors” means: (i) the Office of the Attorney General of
25 the State of California (the “Attorney General”), or alternatively; (ii) the District Attorney’s
26 Offices for the Counties of Orange, Riverside, Los Angeles, Fresno or Santa Barbara
27 (collectively, the “District Attorneys”), or any of the District Attorneys or the Attorney General,
as the case may be, which acknowledge and agree to the terms, conditions and obligations
provided for in the Intervenor’s Settlement Agreement. Participation by the Public Prosecutors
is not required to bind Defendants, Plaintiffs or the Intervenor to the terms of the Settlement.

1 L. Class Counsel and Intervenor, after consultation with relevant experts, have
2 carefully evaluated and compared the strengths, weaknesses, and relative merits of the claims of the
3 Settlement Classes and Intervenor and have developed a distribution plan for division of the
4 economic relief that recognizes, to the extent possible based on the available data and the
5 uncertainties of litigation, the relative value of those claims.

6 M. The Parties mutually seek to compromise and settle any and all past, present, future
7 and potential claims, controversies, disputes and issues arising out of, or directly or indirectly related
8 to or arising from the matters that were alleged or asserted, or could have been alleged or asserted in
9 the Plaintiffs' Action, unless as otherwise provided by this Settlement Agreement. This Settlement
10 Agreement is entered into without the admission of any wrongful conduct, wrongdoing or liability
11 by the Defendants, or any of them.

12 N. The Parties are willing to enter this Settlement Agreement only upon the assurance
13 that each Party is authorized to enter this Settlement Agreement and is willing to comply with the
14 terms, conditions and obligations hereunder.

15 O. The Parties acknowledge and agree that the Settlement has an estimated value of not
16 less than \$62.8 million (the "Estimated Settlement Value"), consisting of the Settlement Funds (as
17 defined below) and the Estimated Injunction Costs (as defined below).

18 **NOW, THEREFORE**, in light of the foregoing Recitals, and for good and valuable
19 consideration, receipt of which is acknowledged, the Parties hereby agree as follows:

20 **II. SETTLEMENT RELIEF**

21 A. An Injunction, as set forth below in **Section II.E** hereof.

22 B. A payment by Defendants in the aggregate amount of \$50 million consisting of (1) a
23 payment in the amount of \$45 million (the "Class Settlement Payment") to the Class Escrow
24 Account (as defined below) pursuant to **Section II.C** hereof, to establish a settlement fund (the
25 "Class Settlement Fund"); and (2) a separate payment in the amount of \$5 million (the "Additional
26 Settlement Payment," and, together with the Class Settlement Payment, the "Settlement Payments")
27 to the Additional Escrow Account (as defined below) pursuant to **Section II.C** hereof, to establish a

1 settlement fund (the “Additional Settlement Fund,” and, together with the Class Settlement Fund,
2 the “Settlement Funds”), which shall be inclusive of:

3 1. Settlement payments to Class Members;

4 2. Notice costs, claims administration costs (including the costs of identifying
5 Class Members), and taxes or tax administration costs related to interest earned on the
6 Settlement Funds (collectively, the “Administration Costs”);

7 3. Service Payments (as defined below) to the Named Plaintiffs; and

8 4. Reasonable attorneys’ fees and litigation costs (the “Attorneys’ Fees and
9 Costs”) in an amount to be determined by the Court and which the Defendants will not
10 oppose for the purposes of Settlement Approval; and

11 5. The Initial Additional Payment (as defined below) and the Final Additional
12 Payment (as defined below), to the extent funds are available, all pursuant to **Section II.F**
13 hereof.

14 C. **Creation of the Settlement Funds:**

15 1. The Class Settlement Payment shall be deposited via wire transfer into a
16 designated escrow account (the “Class Escrow Account”), thereby establishing the Class
17 Settlement Fund, within five (5) business days after (a) the Parties execute this Settlement
18 Agreement, and (b) the Intervenor and the Defendants execute the Intervenor’s Settlement
19 Agreement, and shall be disbursed from the Class Escrow Account as provided for in the
20 Class Escrow Agreement substantially in the form attached as Exhibit A hereto (the “Class
21 Escrow Agreement”) by the escrow agent designated in the Class Escrow Agreement (the
22 “Class Escrow Agent”), but no amounts whatsoever (except disbursements to the Settlement
23 Administrator as provided in this **Section II.C.1** and **Section II.C.7** below, and
24 disbursements to the Defendants in the event of a Termination as provided in **Section II.C.3**
25 below) shall be disbursed prior to the ninety-fourth (94th) calendar day after the latest to
26 occur of: (x) the execution by (i) all Parties of this Settlement Agreement; and (ii) the
27 Intervenor and the Defendants of the Intervenor’s Settlement Agreement; (y) the receipt of
28 the Class Settlement Payment into the Class Escrow Account in collected funds; and (z) the

1 entry of the Preliminary Approval Order (as defined herein). The Preliminary Approval
2 Order shall include and constitute approval of execution of the Class Escrow Agreement by
3 all parties thereto, and the Class Escrow Agreement shall be legally valid, binding and
4 enforceable obligations of the parties thereto irrespective of whether a Termination (as
5 defined below) occurs, whether a Final Approval Order (as defined below) is entered, or
6 whether the Effective Date (as described below) occurs, if ever. The Class Escrow Account
7 is, and is intended by the parties thereto to be, an escrow, with the funds therein to be held by
8 the Class Escrow Agent until the happening of the contingencies and/or the satisfaction of
9 the conditions specified in the Class Escrow Agreement, then to be disbursed pursuant
10 thereto. The deposit of the Class Settlement Payment into the Class Escrow Account by
11 Defendants is, and is intended by Defendants to be, an irrevocable relinquishment of any
12 right of possession or control of the funds so deposited, and Defendants' only right to
13 disbursement of funds in the Class Escrow Account shall be as provided in the Class Escrow
14 Agreement and Section II.C.3 hereof. Upon receipt of the Class Settlement Payment into
15 the Class Escrow Account, there shall be an immediate disbursement to the Settlement
16 Administrator in the amount of \$50,000 for initial Administration Costs.

17 2. The Additional Settlement Payment shall be deposited via wire transfer into a
18 designated escrow account (the “Additional Escrow Account,” and together with the Class
19 Escrow Account, the “Escrow Accounts”), thereby establishing the Additional Settlement
20 Fund, within five (5) business days after (a) the Parties execute this Settlement Agreement,
21 and (b) the Intervenor and the Defendants execute the Intervenor’s Settlement Agreement,
22 and shall be disbursed from the Additional Escrow Account as provided for in the Additional
23 Escrow Agreement substantially in the form attached as Exhibit B hereto (the “Additional
24 Escrow Agreement,” and together with the Class Escrow Agreement, the “Escrow
25 Agreements”) by the escrow agent designated in the Additional Escrow Agreement (the
26 “Additional Escrow Agent”), but no amounts whatsoever shall be disbursed prior to the
27 ninety-fourth (94th) calendar day after the latest to occur of: (x) the execution by (i) all
28 Parties of this Settlement Agreement; and (ii) the Intervenor and the Defendants of the

1 Intervenor's Settlement Agreement; (y) the receipt of the Additional Settlement Payment
2 into the Additional Escrow Account in collected funds; and (z) the entry of the Preliminary
3 Approval Order (as defined herein). The Preliminary Approval Order shall include and
4 constitute approval of execution of the Additional Escrow Agreement by all parties thereto,
5 and the Additional Escrow Agreement shall be legally valid, binding and enforceable
6 obligations of the parties thereto irrespective of whether a Termination (as defined below)
7 occurs, whether a Final Approval Order (as defined below) is entered, or whether the
8 Effective Date (as described below) occurs, if ever. The Additional Escrow Account is, and
9 is intended by the parties thereto to be, an escrow, with the funds therein to be held by the
10 Additional Escrow Agent until the happening of the contingencies and/or the satisfaction of
11 the conditions specified in the Additional Escrow Agreement, then to be disbursed pursuant
12 thereto. The deposit of the Additional Settlement Payment into the Additional Escrow
13 Account by Defendants is, and is intended by Defendants to be, an irrevocable
14 relinquishment of any right of possession or control of the funds so deposited, and
15 Defendants' only right to disbursement of funds in the Additional Escrow Account shall be
16 as provided in the Additional Escrow Agreement and **Section II.C.3** hereof.

17 3. Upon the occurrence of a Termination, the Defendants will be entitled to
18 receive a disbursement from the Escrow Accounts of the entire amount of the Settlement
19 Funds (including any accumulated interest), other than amounts previously disbursed, as
20 provided for in the Settlement Agreement, for Administration Costs (the "Reimbursement").
21 The Reimbursement shall be made by the Escrow Agents no later than five (5) business days
22 following the receipt from Defendants' counsel of certification in writing (i) confirming the
23 occurrence of a Termination; and (ii) providing instructions for the payment of the
24 Reimbursement. Concurrently with the transmittal of such certification to the Escrow
25 Agents, Defendants' counsel shall transmit a copy of such certification to Class Counsel via
26 email and overnight delivery. In the event that Defendants receive the Reimbursement,
27 Defendants shall pay upon demand all Administration Costs incurred by the Settlement
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1 Administrator prior to the Termination or reasonably necessary for the Settlement
2 Administrator to wind up after the Termination, to the extent not theretofore paid.

3 4. From and after the Effective Date (as defined below), if it occurs, Defendants
4 shall have no right to receive any disbursement from the Escrow Accounts or the Settlement
5 Funds. All amounts then on deposit in the Escrow Accounts shall be disbursed by the
6 Escrow Agents to or for the account of the Settlement Administrator (as defined below),
7 pursuant to the Escrow Agreements no later than five (5) business days following the receipt
8 from Class Counsel of certification in writing (i) confirming the occurrence of the Effective
9 Date; and (ii) providing instructions for the disbursement of all amounts then on deposit in
10 the Escrow Accounts to or for the account of the Settlement Administrator. Concurrently
11 with the transmittal of such certification to the Escrow Agents, Class Counsel shall transmit
12 a copy of such certification to Defendants' counsel via email and overnight delivery. Upon
13 receipt of such amounts by the Settlement Administrator, all such amounts shall be held and
14 disbursed in accordance with Sections II.C.5, II.C.6, II.D, II.F, VI.D, IX.H and IX.I
15 hereof.

16 5. Amounts, if any, in the Class Settlement Fund received by the Settlement
17 Administrator not used for other purposes permitted in this Settlement Agreement (the
18 "Unused Funds") shall be donated, by way of an award in the nature of *cy pres* to one or
19 more charitable or non-profit organizations (the "Proposed Cy Pres Recipients"). The
20 Proposed Cy Pres Recipients shall be selected by Class Counsel, subject to approval of
21 Defendants, which approval will not be unreasonably withheld. In the event that Defendants
22 do not approve selection of any of the Cy Pres Recipients within five (5) business days of
23 receiving the proposal, the Parties will submit the dispute to Judge Daniel Weinstein of
24 JAMS, who will have sole authority, after appropriate consultation with the Parties, to make
25 a binding decision on whether the objectionable Cy Pres Recipient(s) is an appropriate
26 recipient of the Unused Funds.

27 6. Amounts in the Additional Settlement Fund received by the Settlement
28 Administrator shall be retained by the Settlement Administrator in a segregated account and

1 used solely to fund the payments contemplated by **Section II.F** hereof; provided, however,
2 that in the event that the amounts in the Class Settlement Fund received by the Settlement
3 Administrator are not sufficient to make all settlement payments to Class Members, then the
4 Settlement Administrator shall first use amounts in the Additional Settlement Fund for such
5 purpose, and then apply all remaining amounts to fund the payments contemplated by
6 **Section II.F** hereof.

7. The Class Settlement Fund shall be a “Qualified Settlement Fund” within the
8 meaning of Treasury Regulation Section 1.468B-1, and the Defendants and the Settlement
9 Administrator agree to treat the Class Settlement Fund as being at all times a “Qualified
10 Settlement Fund.” The Defendants and Settlement Administrator shall timely make such
11 elections, file such returns and take all other actions as are necessary (i) to comply with and
12 satisfy the requirements of Section 468B of the Internal Revenue Code of 1986, as amended
13 (“IRC”), and Treasury Regulation Sections 1.468B-1 through 1.468B-5, and (ii) to ensure
14 that the Class Settlement Fund constitutes and is treated as a “Qualified Settlement Fund”.
15 Settlement Administrator agrees to make the “relation-back election” (as defined in Treasury
16 Regulation Section 1.468B-1) back to the earliest permitted date. The elections and other
17 actions referenced in this **Section II.C.7** shall be made in compliance with the procedures
18 and requirements contained in Treasury Regulation Sections 1.468B-1 through 1.468B-5.
19 For the purposes of IRC Section 468B and the regulations promulgated thereunder, the
20 “settlement administrator” shall be Settlement Administrator. Settlement Administrator has
21 obtained an “employer identification number” for the Class Settlement Fund and shall timely
22 and properly file all information and other tax returns necessary or advisable with respect to
23 the Class Settlement Fund (including during the time that it is in the Class Escrow Account,
24 and including, without limitation, the returns described in Treasury Regulation
25 Sections 1.468B-2(k) and (l). All such returns (as well as the elections), shall reflect that all
26 federal and state taxes (including any interest or penalties) arising with respect to the income
27 earned by the Class Settlement Fund (including during the time that it is in the Class Escrow
28 Account) shall be paid out of the Class Settlement Fund, and, during the time that the Class

1 Settlement Fund is in the Class Escrow Account, the Settlement Administrator is authorized
2 to instruct the Class Escrow Agent to make disbursements therefrom to the Settlement
3 Administrator as necessary to timely pay all such taxes. Settlement Administrator shall
4 prepare and deliver, timely and properly, the necessary documentation for signature by all
5 necessary parties and thereafter shall cause the appropriate elections and filings to occur.

6 **D. Distribution Plan:**

7 1. The funds to be made available from the Class Settlement Fund for payment
8 to the Class Members (the “Class Settlement Amount”) shall equal the amount of the Class
9 Settlement Fund, *less* the Initial Additional Payment, the Administration Costs, the Service
10 Payments, and the Attorneys’ Fees and Costs.

11 2. Class Counsel shall obtain entry of the Preliminary Approval Order (as
12 defined herein) and approval of this Settlement Agreement at the Final Approval Hearing for
13 a Distribution Plan to distribute the Class Settlement Amount, to the extent that claims are
14 made in accordance with the claims administration process set forth in **Section IX** below, as
15 follows: (a) approximately 91.43% of the Class Settlement Amount shall be paid to the Class
16 Members that comprise the Facility Resident Class (as defined below), or if such Class
17 Members are deceased, to their heirs, assigns or legal successors that make timely claims;
18 (b) the balance of approximately 8.57% of the Class Settlement Amount shall be paid to the
19 Class Members that comprise the Private Pay Subclass (as defined below) of the Facility
20 Resident Class and the Family Member Class (as defined below).

21 3. To the extent feasible, the Distribution Plan shall provide that the payments
22 made to specific Class Members shall reasonably reflect the duration of the Class Member’s
23 stay at any Defendant Facility and the percentage of days when such Defendant Facility(ies)
24 fell below 3.2 NHPPD during the year(s) of the Class Member’s stay(s).

25 **E. Implementation of Injunction:**

26 1. The Parties agree to the entry, effective as of the Effective Date, if it occurs,
27 by the Court of the *Stipulation for Entry of Injunction* (the “Injunction”) in the form attached
28 hereto as Exhibit C.

1 2. Defendants represent that the estimated costs of compliance with the terms of
2 the Injunction are approximately \$12.8 million (the “Estimated Injunction Costs”). Plaintiffs
3 hereby agree and acknowledge that for purposes of calculating the Estimated Injunction
4 Costs and the Actual Injunction Costs (as defined below), Defendants shall include any and
5 all anticipated costs to develop, implement, monitor and report pursuant to the terms of the
6 Injunction, which shall include, but shall not be limited to costs attributable to (i) enhanced
7 reporting requirements; (ii) implementing advanced staffing tracking systems; (iii) fees and
8 expenses paid to the Auditor (as defined in the Injunction) and Special Master (as defined in
9 the Injunction); and (iv) increased labor and labor related expenses; (v) lost revenues
10 attributable to admission decisions based on compliance with the terms and conditions of the
11 Injunction. Defendants shall provide a sworn declaration that supports the Estimated
12 Injunction Costs and agree that such declaration may be filed in support of the Parties’
13 request for Court approval of this Settlement Agreement pursuant to **Section VI** hereof.

14 3. On or before the date that is three (3) months from the end of the term of the
15 Injunction, Defendants shall provide the Auditor with documentation sufficient to determine
16 the actual costs and expenses incurred by Defendants in compliance with the terms of the
17 Injunction (the “Actual Injunction Costs”). Defendants hereby agree that if the Actual
18 Injunction Costs are less than \$9.6 million (the “Minimum Injunction Costs”), Defendants
19 shall remit the amount by which the Actual Injunction Costs are less than the Minimum
20 Injunction Costs, if any, to the Class Settlement Fund to be treated as Unused Funds as
21 contemplated by **Section II.C.5** hereof; provided, however, that to the extent that any
22 Defendant Facility does not operate or is no longer operated by an affiliate of SKH during
23 any portion of the term of the Injunction, the Minimum Injunction Costs shall be reduced by
24 the amount of Estimated Injunction Costs attributable to such Defendant Facility for the
25 period of time that such Defendant Facility was not in operation or was no longer operated
26 by an affiliate of SKH.

1 **F. Remedial Payments:**

2 1. (a) On the Effective Date, if it occurs, remedial payments shall be made from
3 the Additional Settlement Fund to the Humboldt County Treasurer-Tax Collector on behalf
4 of The People of the State of California in the amount of \$1.0 million payable at the same
5 time that distributions commence to the Class Members (the “Initial Additional Payment”),
6 for purposes of reimbursement to the Humboldt County District Attorney’s Office for
7 litigation efforts in prosecuting this case and restitution and other civil remedies. (b) On the
8 second anniversary of the Effective Date, if it occurs, provided that no actions described in
9 Section II.F.2 below have been filed by the Office of the Attorney General of the State of
10 California, or any of the District Attorney’s Offices for the Counties of Orange, Riverside,
11 Los Angeles, Fresno or Santa Barbara, an aggregate amount of \$4.0 million (constituting
12 additional remedial payments for restitution and other civil remedies) (the “Final Additional
13 Payment”) shall be distributed from the Additional Settlement Fund as follows: (i) \$1.0
14 million to the Humboldt County District Attorney’s Office pursuant to Business and
15 Professions Code 17206(b); (ii) \$500,000 to the Office of the Attorney General of the State
16 of California; (iii) \$500,000 (plus any interest accumulated on the Final Additional Payment,
17 if any) to the California District Attorney’s Association; and (iv) \$400,000 to each of the
18 District Attorney’s Offices for the Counties of Orange, Riverside, Los Angeles, Fresno and
19 Santa Barbara.

20 2. In the event that the Office of the Attorney General of the State of California,
21 or any of the District Attorney’s Offices for the Counties of Orange, Riverside, Los Angeles,
22 Fresno or Santa Barbara institute a separate action(s) seeking restitution and other civil
23 remedies for violations under Health & Safety Code section 1430, subdivision (b)
24 (subsuming theories of liability under sections 1276.5 and 1599.1) based on claims or
25 allegations that occurred during the Class Period under B&P Code sections 17200, *et seq.*,
26 for alleged unlawful business practices, including, but not limited to, relief under B&P Code
27 sections 17203, 17206 and 17206.1, except for matters involving the conduct at Eureka
28 Healthcare and Rehabilitation Center, LLC, which was the subject of a search warrant by the

1 Department of Justice served on the Northern California regional offices of Skilled
2 Healthcare, LLC, on or about April 14, 2009, the entire amount of the Final Additional
3 Payment (including any accumulated interest thereon, if any) shall be paid from the
4 Additional Settlement Fund to the Defendants within three (3) business days of written
5 request to the Settlement Administrator by counsel to the Defendants accompanied with a
6 copy of the complaint filed in any such action.

7 3. In the event that the Office of the Attorney General of the State of California,
8 or alternatively, each of the District Attorney's Offices for the Counties of Orange,
9 Riverside, Los Angeles, Fresno and Santa Barbara, acknowledges and agrees to the terms,
10 conditions and obligations provided for in the Intervenor's Settlement Agreement by their
11 respective (a) counterpart execution in the space provided in the Intervenor's Settlement
12 Agreement; and (b) delivery of same to the attention of the counsel to the Defendants
13 (original by mail and a copy by facsimile), prior to the ninety-fourth (94th) calendar day after
14 the latest to occur of: (x) the execution by (i) all Parties of this Settlement Agreement; and
15 (ii) the Intervenor and the Defendants of the Intervenor's Settlement Agreement; (y) the
16 receipt of the Settlement Payments into the Escrow Accounts in collected funds; and (z) the
17 entry of the Preliminary Approval Order (as defined herein), then the Additional Prosecutor
18 Payment shall instead be payable from the Additional Settlement Fund on the Effective Date,
19 if it occurs. In such event, the payments described in **Section II.F.1(b)** above shall be made
20 and **Section II.F.2** above shall not be effective.

21 **III. SETTLEMENT CLASSES**

22 A. **Class Definitions:** For the purpose of the definition of the Settlement Classes, the
23 “Class Period” is, except as set forth immediately below with respect to persons who resided at St.
24 Luke (as defined below), September 1, 2003, through and including the Settlement Date. The
25 Settlement Classes consist of two classes and a subclass, namely: (1) the “Facility Resident Class”
26 with a “Private Pay Subclass,” and (2) the “Family Member Class,” as those terms are defined
27 below; provided, however, that the Settlement Classes shall exclude all persons identified on
28 Exhibit A to the *Declaration of Rianne Cozzi Re: Resident Opt-Out List* filed with the Court on or

1 about February 23, 2010, unless any such person: (i) resided at a Defendant Facility from
2 April 2, 2009 through and including the Settlement Date; or (ii) are related to any person referenced
3 in the immediately preceding subparagraph (i) by blood, marriage or legal relationship and paid
4 monies to the Defendants, or any of them, for services rendered at a Defendant Facility from
5 April 2, 2009, through and including the Settlement Date.

6 **Class 1: FACILITY RESIDENT CLASS**

7 The Facility Resident Class consists of all persons who resided at a Defendant Facility from
8 September 1, 2003 through and including the Settlement Date, with the exception of St. Luke
9 Healthcare and Rehabilitation Center (“St. Luke”), which consists of all persons who resided at St.
10 Luke from December 15, 2003 through and including the Settlement Date.

11 **Class 1A: PRIVATE PAY SUBCLASS**

12 The Private Pay Subclass is a subclass of the Facility Resident Class and consists of all
13 persons who are members of the Facility Resident Class and who made payments to the Defendants,
14 or any of them, through private pay funds and/or privately-acquired insurance during the Class
15 Period.

16 **Class 2: FAMILY MEMBER CLASS**

17 The Family Member Class consists of all persons who are related to any Facility Resident
18 Class member by blood, marriage or legal relationship and paid monies to the Defendants, or any of
19 them, for services rendered at a Defendant Facility to any Facility Resident Class member during the
20 Class Period.

21 **IV. RELEASE BY PLAINTIFFS**

22 A. On the Effective Date, if it occurs, except for the obligations arising under this
23 Settlement Agreement and as necessary to enforce the terms of this Settlement Agreement, the
24 Plaintiffs, and each of them, on behalf of themselves and on behalf of each of their respective
25 former, present and future joint ventures, partnerships, partners, principals, agents, employees,
26 predecessors, successors, assigns, heirs, estates, executors, trustees, administrators and
27 representatives, hereby fully and forever waive, relinquish, release and discharge the Defendants,
28 and each of them, and each of their former, present and future joint ventures, partnerships, parent

1 and subsidiary affiliate corporations, related companies by common ownership, partners, principals,
2 agents, employees, stockholders, officers, directors, managers, predecessors, successors, assigns,
3 heirs, estates, executors, administrators, representatives and attorneys (which foregoing entities and
4 individuals are collectively referred to herein as the “Defendant Released Parties”), of and from,
5 without limitation, any and all claims, demands, controversies, damages, actions, causes of action,
6 debts, liabilities, rights contracts, costs (including attorneys’ fees, costs and litigation expenses),
7 indemnities, obligations and losses of every kind or nature whatsoever, including, without
8 limitation, in contract, in tort, statute (including, but not limited to Health and Safety Code
9 section 1430(b) claims based on violations of Health and Safety Code section 1276.5 or Health and
10 Safety Code section 1599.1(a) (collectively, the “1430(b) Claims”), or RICO claims), regulation, or
11 common law, whether in arbitration, regulatory, administrative, or judicial proceedings, whether as
12 individual claims or as part of a class of claims or claims on behalf of the general public or a subset
13 thereof, whether at this time known or unknown, anticipated or unanticipated, direct or indirect,
14 fixed or contingent, liquidated or unliquidated, which may presently exist or may hereafter arise or
15 become known, for or by reason of any act, omission, event, transaction, matter or cause whatsoever
16 during the Class Period, directly or indirectly related to or arising from the matters that were alleged
17 or asserted, or could have been alleged or asserted in the Plaintiffs’ Action; provided, however, that
18 no Plaintiff, or any of them, is waiving any claim for personal injuries, emotional injuries, physical
19 injuries, or wrongful death (collectively, the “Personal Injury Claims”); provided further, however,
20 that no Plaintiff may assert a 1430(b) Claim, including, but not limited to a 1430(b) Claim for
21 damages or injuries, against the Defendant Released Parties, which arose prior to the Settlement
22 Date, whether associated with a Personal Injury Claim or any other claim whatsoever (collectively,
23 the “Released Claims”). Except with respect to any Released Claim, the Plaintiffs, and each of
24 them, shall be entitled to assert any other claim or allegation in connection with any Personal Injury
25 Claim.

26 B. Without limiting the foregoing and except as excluded by the proviso in the
27 immediately preceding paragraph A, the Released Claims specifically extend to claims that the
28 Plaintiffs do not know or suspect to exist in their favor as of the date the Final Approval Order is

1 entered by the Court. Plaintiffs, on behalf of themselves individually and in their representative
2 capacities acknowledge, and all Plaintiffs are deemed to acknowledge that they are aware that any of
3 them may hereafter discover facts in addition to, or different from, those facts which they now know
4 or believe to be true with respect to the subject matter of this Settlement Agreement, but that it is
5 their intention to release fully, finally and forever all Released Claims, and in furtherance of such
6 intention, the release of the Released Claims will be and remain in effect notwithstanding the
7 discovery or existence of any such additional or different facts.

8 C. On the Effective Date, if it occurs, and subject to Section IV.E hereof, the Defendant
9 Released Parties, and each of them, hereby fully and forever waive, relinquish, release and discharge
10 the Plaintiffs, Class Counsel, and each of them, and each of their respective former, present and
11 future joint ventures, partnerships, partners, principals, agents, employees, predecessors, successors,
12 assigns, heirs, estates, executors, trustees, administrators, attorneys and representatives, of and from,
13 without limitation, any and all claims, demands, controversies, damages, actions, causes of action,
14 debts, liabilities, rights contracts, costs (including attorneys' fees, costs and litigation expenses),
15 indemnities, obligations and losses of every kind or nature whatsoever, that arise from or relate to
16 the filing and prosecution of the Plaintiffs' Action.

17 D. With respect to any and all of the claims released by this Settlement Agreement, the
18 Parties expressly represent and warrant, and each Class Member shall be deemed to have
19 represented and warranted, that they have each read and understand fully the provisions of
20 California Civil Code § 1542 ("section 1542"), which states:

21 **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS
22 WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO
23 EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING
24 THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST
25 HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT
26 WITH THE DEBTOR.**

27 E. Having been apprised of the statutory language of section 1542, the Parties shall
28 expressly, and each of the Class Members shall be deemed to have, and by operation of the Final
Approval Order shall have, expressly, elected to assume all risks for claims heretofore and hereafter
arising, whether known or unknown, from the subject of this Settlement Agreement and waived any

1 and all provisions, rights and benefits conferred by any law of any state or territory of the United
2 States, or principle of common law which is similar, comparable or equivalent to section 1542.

3 F. *Nullification of Releases and Judgment of Dismissal With Prejudice:*

4 1. As used herein: “Payee” means any person or entity to whom a portion of the
5 Settlement Funds is paid, directly or indirectly; and “DRP” means any Defendant Released
6 Party or any affiliate of any Defendant Released Party, or any successor to, assignee of, or
7 estate of any Defendant Released Party or any such affiliate, or any trustee, receiver, or other
8 fiduciary for any Defendant Released Party or any such affiliate or any such successor,
9 assignee or estate.

10 2. Notwithstanding any other provision of this Settlement Agreement to the
11 contrary, but subject to **Section IV.F.3** below, if a Payee shall be required at any time to
12 return, restore, repay, pay on account of the avoidance or recovery of, or in any other way
13 surrender the benefit of all or any portion of the Settlement Payments (collectively a
14 “Recovery”), to or for the benefit of any DRP, and the full amount of such Recovery is paid
15 to or for the benefit of any DRP, then the release of Defendant Released Parties under this
16 Settlement Agreement by or on behalf of such Payee, the Judgment of Dismissal With
17 Prejudice (as defined below) as it applies to such Payee, and the release granted under this
18 Settlement Agreement to or for the benefit of such Payee, shall thereupon automatically be
19 of no further force or effect, as if the release by or on behalf of such Payee had never been
20 entered into, the Judgment of Dismissal With Prejudice as it applies to such Payee had never
21 been entered, and the release granted under this Settlement Agreement to or for the benefit of
22 such Payee had never been entered into.

23 3. To the extent that a Recovery is made from the Escrow Agents and/or the
24 Settlement Administrator with respect to funds that were to be distributed by the Settlement
25 Administrator to the Intervenor, the Public Prosecutors (if any) and/or those Class Members
26 who have mailed or delivered a Claim Form to the Settlement Administrator prior to the date
27 of such Recovery, if any, and the full amount of such Recovery is paid to or for the benefit of
28 any DRP, then **Section IV.F.2** shall apply to the releases and the Judgment of Dismissal

1 With Prejudice only as to the Intervenor, Public Prosecutors (if any), and/or such Class
2 Members who have mailed or delivered a Claim Form, if any, whose funds are the subject of
3 such Recovery (and for that purpose they shall be considered “Payees”), but **Section IV.F.2**
4 shall not affect the releases or the Judgment of Dismissal With Prejudice as to any other
5 persons or entities who might have or could have become recipients of such funds under this
6 Settlement Agreement.

7 **V. COVENANT NOT TO PROSECUTE RELEASED CLAIMS**

8 A. From the Settlement Date until the Effective Date, if it occurs, or a Termination, if it
9 occurs, and notwithstanding that the releases granted herein are not yet effective during that period,
10 the Parties hereby covenant and agree not to commence or prosecute any action or proceeding based
11 on any Released Claim or any claim released within **Section IV.C** above, unless otherwise provided
12 in this Settlement Agreement.

13 B. From and after the Effective Date, if it occurs, the Parties hereby covenant and agree
14 never to commence or prosecute any action or proceeding based on any Released Claim or any
15 claim released within **Section IV.C** above, subject, however, to **Section IV.F** above, unless
16 otherwise provided in this Settlement Agreement.

17 **VI. NOTICE AND APPROVAL OF THE SETTLEMENT**

18 A. Class Counsel and Intervenor will submit preliminary approval papers for the
19 Settlement, including a *Motion for Preliminary Approval of Settlement Agreements*, which shall
20 seek preliminary approval of this Settlement Agreement and the Intervenor Settlement Agreement,
21 along with a proposed order for preliminary approval substantially in the form of Exhibit D hereto
22 (the “Preliminary Approval Order”), an agreed proposed form of mailed notice and a summary
23 notice substantially in the Form of Exhibits E and F hereto (the “Notice” and the “Summary
Notice,” respectively), the proposed form of the order for final approval substantially in the form of
25 Exhibit G hereto (the “Final Approval Order”), and the executed Settlement Agreement and
26 Intervenor Settlement Agreement, within a reasonable time following of execution of this Settlement
27 Agreement and the Intervenor Settlement Agreement. The Defendants will not oppose the Motion
28 for Preliminary Approval.

1 B. The Preliminary Approval Order will approve the form of the Notice, will find that
2 the method of notice selected constitutes the best notice to all persons within the definition of the
3 Settlement Classes that is practicable under the circumstances, and will find that the form and
4 method of notice each comply fully with all applicable law.

5 C. The Parties will propose the following notice protocol for approval by the Court:

6 1. The appropriate form of the Notice, along with a claim form, will be mailed to
7 the last known address of Settlement Class Members in Defendants records, by first class
8 mail as soon as practicable, but in no event later than thirty (30) calendar days after the Court
9 enters the Preliminary Approval Order;

10 2. The Settlement Administrator (as defined below) and each Class Counsel will
11 provide a link on its website to a central site maintained by the Settlement Administrator to
12 obtain downloadable and printable copies of the Settlement Agreement, the Notice and the
13 Claim Form;

14 3. The Settlement Administrator will also provide publication notice of the
15 Settlement Agreement (via the Summary Notice) through one (1) notice to be published in
16 appropriate newspaper(s) of state-wide publication, or as otherwise ordered by the Court, not
17 later than thirty (30) calendar days after the Court enters the Preliminary Approval Order;
18 and

19 4. The Settlement Administrator will promptly re-mail any notices returned by
20 the Post Office with a forwarding address.

21 D. All Administration Costs will be paid out of the Class Settlement Fund, except as
22 otherwise provided in Section II.C.3 hereof.

23 E. The Settlement Administrator will file with the Court and serve upon Class Counsel,
24 Intervenor and Defendants' counsel no later than ten (10) calendar days prior to the hearing before
25 this Court to consider the entry of the Final Approval Order (the "Final Approval Hearing") an
26 affidavit or declaration stating that notice has been completed in accordance with the terms of the
27 Preliminary Approval Order.

1 F. The Final Approval Hearing will be held at a date and time to be set by the Court
2 after mailing of the Notice and the passing of the Opt-Out Date (as defined below) and the date for
3 Class Members to object to this Settlement. At the Final Approval Hearing, the Court will consider
4 and determine whether the provisions of this Settlement Agreement, the Intervenor Settlement
5 Agreement, and the Distribution Plan should be finally approved as fair, reasonable and adequate,
6 whether any objections to the Settlement should be overruled, whether attorneys' fees, costs and
7 Service Payments (as defined below) to Named Plaintiffs should be approved in the amounts
8 requested, and whether a judgment and order finally approving the Settlement and dismissing any or
9 all of the actions should be entered. Class Counsel for the Plaintiffs will file the *Motion for Final*
10 *Approval of the Settlement Agreements*, which shall seek final approval of this Settlement
11 Agreement and the Intervenor Settlement Agreement, on the schedule ordered by the Court and the
12 Defendants will not oppose the Motion. The Parties will submit a proposed form of Final Approval
13 Order substantially in the form of Exhibit G hereto.

14 G. The term "Effective Date" means, for purposes of this Settlement Agreement,
15 assuming that no Termination (as defined below) has theretofore occurred, the fifth (5th) business
16 day after the latest of the following dates: (a) the date upon which the time to commence an appeal
17 of the Final Approval Order and a Judgment of Dismissal With Prejudice with respect to the
18 Complaints, which shall include a provision vacating, as of the Effective Date, the *Orders and*
19 *Judgments for Permanent Injunction* entered by the Court on August 26, 2010, and vacating, as of
20 the Effective Date, certain identified rulings and orders made pursuant to hearings and during trial in
21 the Related Actions (the "Judgment of Dismissal With Prejudice")⁵ has expired, if no one has
22 commenced any appeal or writ proceeding challenging the Final Approval Order and Judgment of
23 Dismissal With Prejudice; or (b) the date the Final Approval Order and Judgment of Dismissal With
24 Prejudice has been affirmed on appeal or writ review (or the appeal or writ petition has been
25 dismissed with prejudice), and the time within which to seek further review has expired. In no event

26
27

⁵ The form of Judgment of Dismissal With Prejudice agreed to by the Parties is attached hereto as
28 Exhibit H.

1 will this Settlement Agreement or the Intervenor Settlement Agreement become effective unless the
2 Court has entered the Judgment of Dismissal With Prejudice.

3 H. Concurrently with the execution of this Settlement Agreement, Plaintiffs shall
4 execute and authorize the filing of the *Stipulation for Stay of Pending Appeal and [Proposed] Order*
5 *Thereon*, in the form attached hereto as Exhibit I.

6 **VII. EXCLUSIONS FROM THE SETTLEMENT**

7 A. The last date for Class Members to exclude themselves from the Settlement (the
8 “Opt-Out Date”) will be thirty (30) calendar days after the date that mailed and published Notice has
9 been completed (the “Class Notice Date”), as confirmed by the Settlement Administrator. The Opt-
10 Out Date shall be conspicuously listed in the Notice and in the Summary Notice.

11 B. Each Class Member who wishes to be excluded from the Settlement must mail to the
12 Settlement Administrator, postmarked or received in a manner allowed by the Notice on or before
13 thirty (30) calendar days after the Class Notice Date, an appropriate written request for exclusion,
14 including his or her name, address, telephone number, that is personally signed by the Class
15 Member. No Class Member, or any person acting on behalf or in concert or participation with that
16 Class Member, may exclude another Class Member from the Settlement.

17 C. No later than fourteen (14) calendar days after the Opt-Out Date, Class Counsel shall
18 direct the Settlement Administrator to provide a list of those Class Members of each class who have
19 attempted timely and validly to opt out (the “Administrator’s Report”) to Class Counsel and
20 designated counsel for the Defendants. A copy of the form used for each such attempted opt out
21 will be appended to the Administrator’s Report.

22 D. The final list of requests for exclusion will be filed with the Court by the Settlement
23 Administrator not later than five (5) business days before the Final Approval Hearing. Upon the
24 Effective Date, if it occurs, any and all Class Members who have not submitted a timely, written
25 request for exclusion to the Settlement Administrator, will be bound by the releases set forth herein,
26 and all proceedings, orders, and judgments entered in the Related Actions, even if those persons
27 have previously initiated or subsequently initiate individual claims, litigation or other proceedings

1 against the Defendants, or any of them, related to the claims released pursuant to this Settlement
2 Agreement.

3 E. Any Class Member who excludes themselves from the Settlement shall no longer be
4 considered a Class Member under this Settlement Agreement and shall be entitled to no benefits
5 whatsoever of the Settlement, including, without limitation, any settlement payments, or payment of
6 Attorneys' Fees and Costs.

7 **VIII. OBJECTIONS TO SETTLEMENT**

8 A. Any Class Member who has not filed a timely written request for exclusion and who
9 wishes to object to or oppose the fairness, reasonableness or adequacy of this Settlement Agreement,
10 or to any application for Attorneys' Fees and Costs, must serve upon Class Counsel and Counsel for
11 the Defendants, and must file with the Court, no later than twenty (20) calendar days after the Class
12 Notice Date, a statement of his/her objection, as well as the specific reason(s), if any, for such
13 objection, including any legal support the Class Member wishes to bring to the Court's attention and
14 any evidence the Class Member wishes to introduce in support of the objection. Class Members
15 may so object either on their own or through an attorney hired at their own expense. Class Members
16 who intend to appear and be heard at the Final Approval Hearing shall be required to so state in
17 connection with their objection. The Deadline for Objections will be conspicuously listed in the
18 Notice and in the Summary Notice.

19 B. Class Counsel and Counsel for the Defendants may, in their discretion, file and serve
20 a written response to objection(s), if any, filed and served by any Class Member. Any such written
21 response shall be filed with the Court, and served upon the Class Member or the Class Member's
22 attorney, if any, in the most expeditious manner practicable, not later than seven (7) calendar days
23 before the Final Approval Hearing.

24 C. The Final Approval Hearing will be the only opportunity for any Class Member who
25 objects to the proposed Settlement, to this Settlement Agreement, to the release of the Released
26 Claims, or to the entry of an order awarding Attorneys' Fees and Costs to Class Counsel, to appear
27 and be heard.

1 **IX. CLAIMS ADMINISTRATION PROCESS**

2 A. Pursuant to this Settlement Agreement, certain monetary benefits are available to
3 eligible Class Members only upon submission of a timely and substantially compliant claim on a
4 Claim Form approved by the Court. Court-approved Claim Forms shall be mailed together with the
5 Notice, or otherwise made available through other means by the Claims Administrator, and shall
6 have a return date of no earlier than ninety (90) calendar days from the date of the Class Notice
7 Date. However, no Class Members who opted out of the Class shall be entitled to submit a Claim
8 Form.

9 B. To the extent possible, the Settlement Administrator shall permit the return of Claims
10 Forms by other means including, for example, fax, email, or online submission, and shall establish a
11 process for return of Claims Forms by those other means if reasonably economical and practicable.
12 In the event that alternative means for filing claims is permitted, such means will be explained in the
13 class notice and on the Settlement Administrator's website.

14 C. A copy of the Claim Form for which Court approval will be sought is attached hereto
15 as Exhibit J.

16 D. *Untimely Claims:* Claims Forms that are not timely submitted will not be allowed
17 absent relief from the Settlement Administrator (in consultation with Class Counsel), or otherwise
18 ordered by the Court.

19 E. *Claims of Deceased Persons:* Claims of deceased persons shall be allowed if a claim
20 is submitted by a person generally authorized to act on behalf of the deceased person's estate
21 together with proof of such authorization.

22 F. *Incomplete, Late or Improper Claims:* The Settlement Administrator will have final
23 authority, in consultation with Class Counsel, to disallow any late, incomplete or improperly filed
24 claims and will send notice of and the reasons for such disallowance, if any.

25 G. To the extent that deficiencies in filed claims are not resolved, and if no relief from
26 the Court is obtained by the claimant at the claimant's sole cost and expense, said claim will be
27 permanently and finally disallowed.

1 H. After receipt of funds from the Class Escrow Account as provided in Section II.C.4
2 above, the Settlement Administrator shall disburse the Class Settlement Fund as follows, as soon as
3 practicable after the Effective Date:

4 1. The Settlement Administrator shall apply the Class Settlement Amount in
5 accordance with the Distribution Plan to the properly filed claims (and to any other claims
6 allowed by the Court) and will provide Class Counsel and Counsel for the Defendants with a
7 Distribution List identifying all Class Members who submitted allowed Claims, and the
8 amount of the payment that claimant is allowed under the Distribution Plan. Payments will
9 be made by the Settlement Administrator within thirty (30) calendar days of the approval of
10 the Distribution List by Class Counsel.

11 2. The Settlement Administrator shall disburse amounts to fund the other
12 purposes of the Class Settlement Fund specified in Section II.B above, to the extent not
13 theretofore paid.

14 I. After receipt of funds from the Additional Escrow Account as provided in
15 Section II.C.4 above, the Settlement Administrator shall disburse the Additional Settlement Fund as
16 provided for in Section II.C.6 above.

17 J. Within seven (7) business days after execution of this Settlement Agreement,
18 Defendants shall, to the extent reasonably available, provide to the Settlement Administrator a
19 database that identifies each of the Plaintiffs, including last known address and telephone number.
20 Within fifteen (15) business days after execution of this Settlement Agreement, Defendants shall, to
21 the extent reasonably available, provide to the Settlement Administrator a database that includes
22 information respecting each of the Plaintiffs' Social Security number, dates of admission and
23 discharge from any Defendant Facility, and the amounts of any private payments, if any, made by or
24 on behalf of each of the Plaintiffs.

25 **X. SELECTION OF SETTLEMENT ADMINISTRATOR**

26 Class Counsel shall select the settlement administrator in advance of the hearing before the
27 Court to consider entry of the Preliminary Approval Order (the "Settlement Administrator").
28 Because of the confidential nature of the information the Settlement Administrator will encounter in

1 the administration of the Settlement, the Settlement Administrator shall be required to execute a
2 standard HIPAA Business Associate Agreement in a form acceptable to the Parties.

3 **XI. ATTORNEYS' FEES AND COSTS/SERVICE PAYMENTS TO PLAINTIFFS**

4 A. Class Counsel and Intervenor have prosecuted the Related Actions since at least
5 May 2006, at their own expense without having received any benefit for their services. Class
6 Counsel will, pursuant to a request to be filed with the Court prior to the expiration of the time for a
7 Class Member to object to the approval of this Settlement Agreement set forth in **Section VIII**
8 hereof, ask the Court to approve an award of the Attorneys' Fees and Costs from the Class
9 Settlement Fund. The Defendants will not object to payments from the Class Settlement Fund for
10 Attorneys' Fees and Costs in an amount that includes (1) an amount not to exceed \$2 million for the
11 reimbursement of Class Counsel's actual out-of-pocket litigation costs and expenses; ***plus*** (2) an
12 amount that is equal to or less than forty percent (40%) of the Estimated Settlement Value (plus
13 interest accrued on that percentage from the date interest begins to accrue for the benefit of the Class
14 Settlement Fund). At the sole discretion of Class Counsel, a portion of the requested Attorney's
15 Fees and Cost may be set aside for anticipated post-settlement work, such as claims administration
16 issues, not to exceed \$750,000. Distribution of attorneys' fees among Class Counsel will be at the
17 sole discretion of Class Counsel. Class Counsel's entire claim for Attorneys' Fees and Costs will be
18 satisfied from the Class Settlement Fund and Class Counsel will have no claim against the
19 Defendant Released Parties.

20 B. Named Plaintiffs shall apply for service payments from the Class Settlement Fund in
21 the aggregate amount of \$30,000 (the "Service Payments") in recognition of their efforts and
22 contribution to the case and for their service to the Class. The Defendants will not object to
23 payment from the Class Settlement Fund of these amounts.

24 C. Approval of the Settlement will not be contingent upon approval of the Attorneys'
25 Fees and Costs or of Service Payments in the amounts requested. To the extent of Court approval,
26 Attorneys' Fees and Costs as well as Service Payments will be payable from the Class Settlement
27 Fund upon the earlier to occur of (a) the entry of the Final Approval Order; and (b) the entry of any
28 other order entered by the Court approving the Attorneys' Fees and Costs; **provided, however,** that

1 the payment of any such Attorneys' Fees and Costs or Service Payments shall not occur earlier than
2 the ninety-fourth (94th) calendar day after the latest to occur of (i) the execution by all Parties of this
3 Settlement Agreement; (ii) the receipt of the Settlement Payments into the Escrow Accounts in
4 collected funds; and (iii) the entry of the Preliminary Approval Order (as defined herein); provided
5 further, however, that in the event of a Termination, or any order entered by the Court approving the
6 Attorneys' Fees and Costs is reversed or reduced by any order of any court of competent jurisdiction
7 that has not been stayed (the "Fee Reduction Order"), Class Counsel hereby agrees to repay into the
8 Class Settlement Fund, not later than five (5) business days after the Termination or entry of such
9 Fee Reduction Order, as the case may be, the fees and costs received thereby in the full amount of
10 such Attorneys' Fees and Costs (in the event of a Termination), or an amount equal to the reduction
11 required by the Fee Reduction Order (in the event that any Fee Reduction Order is entered). Subject
12 to the above provisions, the Attorneys' Fees and Costs and Service Payments shall be payable from
13 the Class Settlement Fund by the Class Escrow Agent pursuant to the Class Escrow Agreement no
14 later than five (5) business days following the receipt from Class Counsel of certification in writing
15 (i) confirming that the above conditions for payment have been satisfied; and (ii) providing
16 instructions for the disbursement of amounts constituting the Attorneys' Fees and Costs and Service
17 Payments. Concurrently with the transmittal of such certification to the Class Escrow Agent, Class
18 Counsel shall transmit a copy of such certification to Defendants' counsel via email and overnight
19 delivery.

20 D. The Defendants shall bear their own legal fees and costs in connection with seeking
21 approval of and administering the Settlement. Class Counsel's legal fees and costs in connection
22 with seeking approval of and administering the Settlement shall be paid as set forth in Section XI
23 hereof.

24 **XII. NO ADMISSION OF WRONGDOING**

25 A. The Parties acknowledge that the execution of this Settlement Agreement and
26 consummation of the transactions contemplated hereby do not constitute an admission of liability,
27 wrongdoing, or of any facts by the Defendant Released Parties. This Settlement Agreement,
28 whether or not consummated, and any proceedings or events that occur pursuant to it:

1 1. Shall not be offered or received against the Defendant Released Parties for
2 any purpose or used as evidence of, or to be construed as or deemed to be evidence of, any
3 admission or concession by either the Defendant Released Parties of the truth or relevance of
4 any fact alleged by Plaintiffs, the Class, Intervenor and/or the Public Prosecutors, the validity
5 of any claim that has been or could have been asserted in the Related Actions or in any other
6 litigation, or of any liability, fault, or wrongdoing of any kind by or on behalf of the
7 Defendant Released Parties.

8 2. Shall not be offered or received against any of the Defendant Released Parties
9 as evidence of, or construed as or deemed to be evidence of, any admission or concession of
10 any liability, fault, or wrongdoing, or in any way referred to for any other reason as against
11 any of the Parties to this Settlement Agreement, in any other civil, criminal, regulatory or
12 administrative action or proceeding, other than such proceedings as may be necessary to
13 effectuate the provisions of this Settlement Agreement; provided, however, that if this
14 Settlement Agreement is approved by the Court, the Defendant Released Parties may refer to
15 it to effectuate the liability protection granted them hereunder or to establish insurance
16 coverage; and

17 3. Is not, and shall not be construed against any Party as an admission or
18 concession that the consideration to be given hereunder represents the amount which could
19 be or would have been recovered after trial, or as a reflection of the value of claims in any
20 other litigation.

21 **XIII. PUBLIC STATEMENTS**

22 Absent prior written approval by the other Parties, there shall be no press release or other
23 public statements by any Party, including Intervenor, the Public Prosecutors, Class Counsel,
24 Plaintiffs or Class Members, regarding the Settlement other than the Court filings necessary to
25 obtain entry of the Preliminary Approval Order and receive final approval of the Settlement at the
26 Final Approval Hearing. The Parties expressly recognize the continuing need for confidentiality
27 concerning all aspects of the proposed Settlement pending the Parties Motion for Preliminary
28 Approval, other than as required by the Court. Nothing in this **Section XIII**, however, is intended to

1 limit communications between and among Class Counsel and the Class or the ability of any Party to
2 respond to a request from a third party to comment on the Settlement; provided, however, that any
3 response by a Party to any request from a third party to comment on the Settlement shall be limited
4 to the information contained in this Settlement Agreement. Notwithstanding the foregoing, the
5 Parties acknowledge and agree that SKH is subject to the reporting requirements of Federal and state
6 securities laws and the securities exchange(s) on which its securities are traded (the “Stock
7 Exchange”) and, as such, SKH is expressly permitted to make all public disclosures required by law,
8 including, but not limited to, the Securities Exchange Act of 1934 and the rules of the Stock
9 Exchange.

10 **XIV. TERMINATION**

11 Prior to the Effective Date, if it occurs, the Parties shall have the right to terminate this
12 Settlement Agreement (“Termination”) if certain events occur (the “Termination Events”) by
13 providing written notice to the other Parties. The agreement concerning Termination Events will be
14 contained in a confidential side letter to this Settlement Agreement and will be available for in
15 camera inspection by the Court. The Parties agree to maintain the Termination Events and the
16 confidential side letter concerning the Termination Events in strictest confidence, except as
17 otherwise agreed. Notwithstanding the occurrence of a Termination Event, the following provisions
18 of this Settlement Agreement shall remain in effect following Termination: **Section II.C** and the
19 Escrow Agreements; **Section XV**; **Section XVI**; and **Section XVIII**.

20 **XV. MEDIATORS CONTINUED INVOLVEMENT**

21 Upon joint request of the Parties or by order of the Court, Judge Weinstein of JAMS may
22 assist the Parties in resolving open issues that may arise.

23 **XVI. CONTINUING JURISDICTION OF THE SUPERIOR COURT**

24 In accordance with Code of Civil Procedure section 664.6, the Superior Court of California
25 for the County of Humboldt will have continuing jurisdiction over the Related Actions for the
26 purpose of implementing the Settlement and all related matters, including this Settlement
27 Agreement, the Settlement, the Final Approval Order, Entry of the Judgment of Dismissal With
28 Prejudice, post-judgment issues, until all related matters are fully resolved. Any dispute regarding

1 the Parties' obligations pursuant to this Settlement Agreement and/or interpretation of the terms of
2 this Settlement Agreement (that cannot be resolved by the mediator in the event of a joint request for
3 mediation under **Section XV** hereof) will be presented to, and resolved by, Judge W. Bruce Watson,
4 or if he is unavailable, by another judge of the Superior Court of California for the County of
5 Humboldt, which Judge shall be appointed by the Presiding Judge of the Superior Court of
6 California for the County of Humboldt.

7 **XVII. DISMISSAL**

8 In connection with the entry of the Final Approval Order, the Judgment of Dismissal With
9 Prejudice shall be entered by the Court.

10 **XVIII. MISCELLANEOUS PROVISIONS**

11 A. *Neutral Interpretation.* This Settlement Agreement will not be construed more
12 strictly against one Party than another merely because it may have been prepared by counsel for one
13 of the Parties, it being recognized that, because of the arms' length negotiations resulting in the
14 Settlement Agreement, all Parties hereto have contributed substantially materially and equally to the
15 preparation of this Settlement Agreement.

16 B. *Choice of Law.* This Settlement Agreement is to be construed, enforced, and
17 administered in accordance with the laws of the State of California.

18 C. *Additional Acts to Effectuate Settlement Agreement.* The Parties hereto shall execute
19 all documents and perform all acts necessary and proper to effectuate the terms of this Settlement
20 Agreement and to obtain the benefit of the Settlement Agreement for the Parties.

21 D. *No Oral Modification.* Subject to any power of the Court to order a modification,
22 this Settlement Agreement may not be modified or amended except by a writing signed by all
23 Parties thereto and their respective attorneys.

24 E. *Competency; Independent Counsel.* Each Party to this Settlement Agreement
25 represents and warrants that he, she, or it is competent to enter into this Settlement Agreement and
26 in doing so is acting upon his, her, or its independent judgment and upon the advice of his, her, or its
27 own counsel and not in reliance upon any warranty or representation, express or implied, or any
28

nature or kind by any other Party, other than the warranties and representations expressly set forth in this Settlement Agreement itself.

F. *Entire Agreement.* This Settlement Agreement constitutes the entire agreement between and among the Parties with respect to the Settlement of the Related Actions, except as otherwise stated herein, and supersedes any and all prior negotiations and agreements.

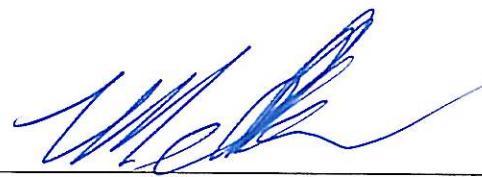
G. *Counterparts.* This Settlement Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

H. *Authority to Bind.* Each of the undersigned Plaintiffs' counsel represents that he or she is authorized to sign this Settlement Agreement on behalf of the Class and to resolve the Plaintiffs' Complaint. Each of the undersigned counsel for Defendants represents that he or she is authorized to sign this Settlement Agreement on behalf of the particular Defendant or Defendants designated in the respective signature blocks below.

I. Cooperation. The Parties and their counsel agree to fully cooperate with each other to accomplish the terms of this Settlement Agreement, including but not limited to: (a) execution of such documents and to take such other action as may reasonably be necessary to implement the terms of this Settlement Agreement; (b) providing documentation and data to effectuate class notice and claims administration; (c) obtaining entry by the Court of the Preliminary Approval Order and the Final Approval Order; and (d) providing documentation and data regarding the payments and distributions made pursuant to this Settlement Agreement from the Settlement Funds. The Parties to this Settlement Agreement shall use their reasonable best efforts, including all efforts contemplated by this Settlement Agreement and any other efforts that may become necessary by order of the Court, or otherwise, to effectuate this Settlement Agreement and the terms set forth herein.

[Signature Page Follows]

1 DATED: September 7, 2010



2
3 JANSSEN, MALLOY, NEEDHAM, MORRISON,
4 REINHOLSTSEN, CROWLEY & GRIEGO, LLP
By: W. Timothy Needham

5 LAW OFFICES OF MICHAEL D. THAMER
6 Michael D. Thamer

7 LUCE, FORWARD, HAMILTON & SCRIPPS LLP
By: Christopher J. Healey

8 *Attorneys for all Plaintiffs*

9
10 DATED: September , 2010

11 WROTON & ASSOCIATES
12 By: Kippy L. Wroten

13 *Attorneys for all Defendants*

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1 DATED: September __, 2010

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3 JANSSEN, MALLOY, NEEDHAM, MORRISON,
4 REINHOLSTSEN, CROWLEY & GRIEGO, LLP
By: W. Timothy Needham

5 LAW OFFICES OF MICHAEL D. THAMER
6 Michael D. Thamer

7 LUCE, FORWARD, HAMILTON & SCRIPPS LLP
8 By: Christopher J. Healey

9 *Attorneys for all Plaintiffs*

10 DATED: September 7, 2010

11 
12 WROten & ASSOCIATES
By: Kippy L. Wroten

13 *Attorneys for all Defendants*

EXHIBIT A

(Class Escrow Agreement)

ESCROW AGREEMENT
(Class Escrow Account)

Escrow No. _____

This Escrow Agreement (the “**Escrow Agreement**”) is made and effective as of September 7, 2010, by and among Gilardi & Co. LLC (“**Gilardi**”) and Skilled Healthcare, LLC (“**SHLLC**” and, collectively with Gilardi, the “**Parties**”); and JPMorgan Chase Bank, National Association (“**Escrow Agent**”), with reference to the following facts:

A. There is pending in the Superior Court of California for the County of Humboldt (the “**Superior Court**”) a class action lawsuit captioned *Lavender et al. v. Skilled Healthcare Group, Inc., et al.*, Case No. DR060264 (the “**Lawsuit**”). The plaintiffs (“**Plaintiffs**”) and defendants (“**Defendants**”) in the Lawsuit have entered into a “Class Settlement Agreement And Release With Plaintiffs Vinnie Lavender (By And Through Her Conservator), Wanda Baker, Walter Simon, And Jacquelyn Vilchinsky” to be approved by the Superior Court in the Lawsuit (the “**Settlement Agreement**”). References to the Settlement Agreement are made in this Escrow Agreement for purposes of the Parties’ agreement, but Escrow Agent is not to be concerned with the Settlement Agreement. Terms used with initial capital letters in this Escrow Agreement and not defined herein have the meanings set forth in the Settlement Agreement, but Escrow Agent is not be concerned therewith.

B. Gilardi is the Settlement Administrator under the Settlement Agreement, pursuant to which it will administer payments to Plaintiffs and others, and SHLLC is one of the Defendants in the Lawsuit, and they have been authorized by the Superior Court in the Lawsuit to be the parties to this Escrow Agreement for the benefit of Plaintiffs and Defendants, respectively.

C. This Escrow Agreement constitutes a binding contractual agreement among the Parties and Escrow Agent and joint escrow instructions on behalf of the Parties to Escrow Agent for the creation, funding, and holding of, and disbursement of funds from, an escrow, all as provided herein. This escrow is the “Class Escrow Account” as that term is used in the Settlement Agreement.

NOW, THEREFORE, in consideration of their mutual covenants herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties and Escrow Agent agree, and the Parties instruct Escrow Agent, as follows:

1. Appointment. The Parties hereby appoint Escrow Agent as their escrow agent for the purposes set forth herein, and Escrow Agent hereby accepts such appointment under, and agrees to comply with, the terms and conditions set forth herein.

2. Counsel Authorization.

2.1. As used herein:

- (a) **“Plaintiffs’ Counsel”** means Christopher J. Healey or Todd R. Kinnear of Luce, Forward, Hamilton & Scripps LLP, and the contact information for each is as set forth in **Schedule 1** attached hereto, and a reference to “Plaintiffs’ Counsel” means either of such persons acting alone.
- (b) **“Defendants’ Counsel”** means Bruce Bennett or Joshua D. Morse of Hennigan, Bennett & Dorman LLP, and the contact information for each is as set forth in **Schedule 1** attached hereto, and a reference to “Defendants’ Counsel” means either of such persons acting alone.

2.2. Each of the Parties instructs and directs Escrow Agent that Escrow Agent is authorized to (a) direct any inquiries regarding this Escrow Agreement to Plaintiffs’ Counsel on behalf of Gilardi, and to Defendants’ Counsel on behalf of SHLLC, (b) rely upon written disbursement and other instructions, responses, directions, approvals, consents and the like from Plaintiffs’ Counsel on behalf of Gilardi and Defendants’ Counsel on behalf of SHLLC, and (c) accept modifications, supplements or waivers of this Escrow Agreement executed in writing by Plaintiffs’ Counsel on behalf of Gilardi and Defendants’ Counsel on behalf of SHLLC.

3. Deposit of Funds into Escrow.

3.1. Deposit by SHLLC. SHLLC shall deposit in escrow with Escrow Agent the sum of Forty-Five Million US Dollars (US\$45,000,000.00) as the Class Settlement Payment, when required under the Settlement Agreement (the “**Escrow Deposit**”). Escrow Agent shall hold the Escrow Deposit in escrow and, subject to the terms and conditions hereof, shall invest and reinvest the Escrow Deposit and the proceeds thereof (the “**Fund**”) as directed in **Section 4** below.

3.2. Deposit Date. The date on which the Escrow Deposit is received into escrow in collected funds (or, if the Escrow Deposit is received in increments, the date on which the last increment is received into escrow in collected funds) is referred to herein as the “**Deposit Date**,” and Escrow Agent shall promptly notify Plaintiffs’ Counsel and Defendants’ Counsel in writing (in accordance with **Section 13.1** below) of the Deposit Date.

4. Investment of Fund. During the term of this Escrow Agreement, the Fund shall be invested in a cash compensation account at JPMorgan Chase Bank, N.A., in the State of New York (“**Cash Compensation Account**”), unless otherwise instructed in writing by the Parties and as shall be acceptable to the Escrow Agent. In the absence of written direction from Plaintiffs’ Counsel and Defendants’ Counsel, all proceeds of the Fund shall be retained in the Fund and reinvested from time to time by the Escrow Agent as provided in this **Section 4**. Cash Compensation Accounts have rates of compensation that may vary from time to time based upon market conditions. Written investment instructions, if any, shall specify the type and identity of the investments to be purchased and/or sold. The Escrow Agent is hereby authorized to execute purchases and sales of investments through the facilities of its own trading or capital markets

operations or those of any affiliated entity. The Escrow Agent or any of its affiliates may receive compensation with respect to any investment directed hereunder including without limitation charging an agency fee in connection with each transaction. The Parties recognize and agree that the Escrow Agent will not provide supervision, recommendations or advice relating to either the investment of moneys held in the Fund or the purchase, sale, retention or other disposition of any investment described herein. The Escrow Agent shall not have any liability for any loss sustained as a result of any investment in an investment made pursuant to the terms of this Escrow Agreement or as a result of any liquidation of any investment prior to its maturity or for the failure of the Parties to give the Escrow Agent instructions to invest or reinvest the Fund. The Escrow Agent shall have the right to liquidate any investments held in order to provide funds necessary to make required payments under this Escrow Agreement.

5. Disbursement of the Fund.

5.1. Initial Disbursement. Each of the Parties hereby instructs Escrow Agent, within five (5) Business Days (as defined below) after the Deposit Date, and without further instruction, to disburse from the Fund the sum of Fifty Thousand Dollars (\$50,000.00) to Gilardi, by wire transfer pursuant to the instructions set forth in **Schedule 1**.

5.2. Entitlement to Further Disbursements. As between the Parties, and other parties to the Settlement Agreement, the contingencies and conditions to disbursement of the Fund have been agreed upon in, and are governed by, the Settlement Agreement, and Escrow Agent is not to be concerned therewith. The Parties agree that the entitlements to disbursements from the Fund under the Settlement Agreement are as follows, subject to all of the terms and conditions thereof: (a) in the event of a Termination, Defendants are entitled to a disbursement pursuant to Section II.C.3 of the Settlement Agreement; (b) persons or entities to whom Attorneys' Fees and Costs or Service Fees become payable are entitled to disbursements pursuant to Section XI.C of the Settlement Agreement; (c) Plaintiffs are entitled to a disbursement to Gilardi pursuant to Section II.C.4 of the Settlement Agreement; and (d) Gilardi is entitled to disbursements necessary to timely pay federal and state taxes pursuant to Section II.C.7 of the Settlement Agreement. No provision of this Escrow Agreement shall be construed to expand, diminish or otherwise modify the entitlement of the Parties to disbursements as provided in the Settlement Agreement.

5.3. Disbursement Instruction Procedure. Upon the happening of the contingencies and satisfaction of the conditions to each disbursement pursuant to the Settlement Agreement, Escrow Agent shall be instructed as to the amount then to be disbursed from the Fund and the person(s) or entity(ies) to whom such amount is to be transmitted, as follows:

- (a) by Plaintiffs' Counsel alone, or by Defendants' Counsel alone, or by Gilardi alone, as applicable, in writing (in accordance with **Section 13.2** below), using the form of disbursement instruction set forth in **Schedule 3**, **Schedule 4**, or **Schedule 5**, respectively, attached hereto (a "**Disbursement Instruction**"); **or**

- (b) by a certified copy of an order of the Superior Court in the Lawsuit, which any Party may present to Escrow Agent and upon which the Escrow Agent may rely without further inquiry; **or**
- (c) by a written disbursement instruction from Plaintiffs' Counsel and Defendants' Counsel jointly.

5.4. Certifications. The certifications to be included in a Disbursement Instruction pursuant to **Schedule 3, 4 or 5** are made to and for the benefit of the Parties and other parties to the Settlement Agreement. Escrow Agent is not be concerned therewith, other than determining that a Disbursement Instruction includes a certification in compliance with **Schedule 3, 4 or 5**, as applicable.

5.5. Disbursements by Escrow Agent. Each of the Parties hereby instructs Escrow Agent to make disbursements from the Fund as follows:

- (a) Within five (5) Business Days (as defined below) after receipt by Escrow Agent of a Disbursement Instruction from Plaintiffs' Counsel alone (**Schedule 3**), or a Disbursement Instruction from Defendants' Counsel alone (**Schedule 4**), Escrow Agent shall disburse amounts from the Fund in accordance therewith.
- (b) Within five (5) Business Days (as defined below) after receipt by Escrow Agent of a Disbursement Instruction from Gilardi alone (**Schedule 5**), or an order as provided in **Section 5.3(b)** above, or a joint instruction as provided in **Section 5.3(c)** above, Escrow Agent shall disburse amounts from the Fund in accordance therewith.

6. Termination of Escrow. Upon delivery of the Fund by the Escrow Agent in accordance with this Escrow Agreement, this Escrow Agreement shall terminate, subject to the provisions of **Sections 9 and 10** which shall survive such termination.

7. Escrow Agent.

7.1. The Escrow Agent shall have only those duties as are specifically and expressly provided herein, which shall be deemed purely ministerial in nature, and no other duties shall be implied. The Escrow Agent shall neither be responsible for, nor chargeable with, knowledge of, nor have any requirements to comply with, the terms and conditions of any other agreement, instrument or document between the Parties, in connection herewith, if any, including without limitation the Settlement Agreement, nor shall the Escrow Agent be required to determine if any person or entity has complied with any such agreements, nor shall any additional obligations of the Escrow Agent be inferred from the terms of such agreements, even though reference thereto may be made in this Escrow Agreement. In the event of any conflict between the terms and provisions of this Escrow Agreement, those of the Settlement Agreement, any schedule or exhibit attached to the Escrow Agreement, or any other agreement among the Parties, as to the Parties the terms and conditions of the Settlement Agreement shall control, but Escrow

Agent is not to be concerned therewith. The Escrow Agent may rely upon and shall not be liable for acting or refraining from acting upon any written notice, document, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper Party or Parties without inquiry and without requiring substantiating evidence of any kind. The Escrow Agent shall not be liable to any Party, any beneficiary or other person for refraining from acting upon any instruction setting forth, claiming, containing, objecting to, or related to the transfer or distribution of the Fund, or any portion thereof, unless such instruction shall have been delivered to the Escrow Agent in accordance with **Section 13.2** below and the Escrow Agent has been able to satisfy any applicable security procedures as may be required hereunder **Section 14** below. The Escrow Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document, notice, instruction or request. The Escrow Agent shall have no duty to solicit any payments which may be due it or the Fund, including, without limitation, the Escrow Deposit nor shall the Escrow Agent have any duty or obligation to confirm or verify the accuracy or correctness of any amounts deposited with it hereunder.

7.2. The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in good faith except to the extent that a final adjudication of a court of competent jurisdiction determines that the Escrow Agent's gross negligence or willful misconduct was the primary cause of any loss to either Party. The Escrow Agent may execute any of its powers and perform any of its duties hereunder directly or through attorneys, and shall be liable only for its gross negligence or willful misconduct (as finally adjudicated in a court of competent jurisdiction) in the selection of any such attorney. The Escrow Agent may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in accordance with, or in reliance upon, the advice or opinion of any such counsel, accountants or other skilled persons. In the event that the Escrow Agent shall be uncertain or believe there is some ambiguity as to its duties or rights hereunder or shall receive instructions, claims or demands from any party hereto which, in its opinion, conflict with any of the provisions of this Escrow Agreement, it shall be entitled to refrain from taking any action and its sole obligation shall be to keep safely all property held in escrow until it shall be given a direction in writing by the Parties which eliminates such ambiguity or uncertainty to the satisfaction of Escrow Agent or by a final and non-appealable order or judgment of a court of competent jurisdiction. The Parties agree to pursue any redress or recourse in connection with any dispute without making the Escrow Agent a party to the same. Anything in this Escrow Agreement to the contrary notwithstanding, in no event shall the Escrow Agent be liable for special, incidental, punitive, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

8. Succession.

8.1. The Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving thirty (30) days advance notice in writing of such

resignation to the Parties specifying a date when such resignation shall take effect. If the Parties have failed to appoint a successor escrow agent prior to the expiration of thirty (30) days following receipt of the notice of resignation, the Escrow Agent may petition the Superior Court for the appointment of a successor escrow agent or for other appropriate relief, and any such resulting appointment shall be binding upon all of the parties hereto. Escrow Agent's sole responsibility after such thirty (30) day notice period expires shall be to hold the Fund (without any obligation to reinvest the same) and to deliver the same to a designated substitute escrow agent, if any, or in accordance with the directions of a final order or judgment of a court of competent jurisdiction, at which time of delivery Escrow Agent's obligations hereunder shall cease and terminate, subject to the provisions of **Sections 9 and 10** hereunder. The Escrow Agent shall have the right to withhold an amount equal to any amount due and owing to the Escrow Agent, plus any costs and expenses the Escrow Agent shall reasonably believe may be incurred by the Escrow Agent in connection with the termination of the Escrow Agreement.

8.2. Any entity into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any entity to which all or substantially all the escrow business may be transferred, shall be the Escrow Agent under this Escrow Agreement without further act.

9. Compensation and Reimbursement. Gilardi agrees to (a) pay the Escrow Agent for the services to be rendered hereunder, which unless otherwise agreed in writing shall be as described in **Schedule 2** attached hereto, and (b) pay or reimburse the Escrow Agent upon request for all expenses, disbursements and advances, including, without limitation reasonable attorney's fees and expenses, incurred or made by it in connection with the performance of this Escrow Agreement. The Parties agree that any and all costs of the escrow are included within the Administration Costs as defined in the Settlement Agreement, with which Escrow Agent is not to be concerned.

10. Indemnity.

10.1. The Parties shall jointly and severally indemnify, defend and hold harmless the Escrow Agent and its affiliates and their respective successors, assigns, directors, agents and employees (the "**Indemnitees**") from and against any and all losses, damages, claims, liabilities, penalties, judgments, settlements, litigation, investigations, costs or expenses (including, without limitation, the fees and expenses of outside counsel) (collectively "**Losses**") arising out of or in connection with (a) the Escrow Agent's execution and performance of this Escrow Agreement, tax reporting or withholding, the enforcement of any rights or remedies under or in connection with this Escrow Agreement, or as may arise by reason of any act, omission or error of the Indemnitee, except in the case of any Indemnitee to the extent that such Losses are finally adjudicated by a court of competent jurisdiction to have been primarily caused by the gross negligence or willful misconduct of such Indemnitee, or (b) its following any instructions or directions, whether joint or singular, from the Parties, except to the extent that its following any such instruction or direction is expressly forbidden by the terms hereof. The Parties hereto acknowledge that the foregoing indemnities shall survive the

resignation, replacement or removal of the Escrow Agent or the termination of this Escrow Agreement.

10.2. The Parties hereby grant the Escrow Agent a lien on, right of set-off against and security interest in, the Fund for the payment of any claim for indemnification, fees, expenses and amounts due hereunder. In furtherance of the foregoing, the Escrow Agent is expressly authorized and directed, but shall not be obligated, to charge against and withdraw from the Fund for its own account or for the account of an Indemnitee any amounts due to the Escrow Agent or to an Indemnitee under this **Section 10**.

11. Patriot Act Disclosure/Taxpayer Identification Numbers/Tax Reporting.

11.1. Patriot Act Disclosure. Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“**USA PATRIOT Act**”) requires the Escrow Agent to implement reasonable procedures to verify the identity of any person that opens a new account with it. Accordingly, the Parties acknowledge that Section 326 of the USA PATRIOT Act and the Escrow Agent’s identity verification procedures require the Escrow Agent to obtain information which may be used to confirm the Parties identity including without limitation name, address and organizational documents (“**Identifying Information**”). The Parties agree to provide the Escrow Agent with and consent to the Escrow Agent obtaining from third parties any such Identifying Information required as a condition of opening an account with or using any service provided by the Escrow Agent.

11.2. Taxpayer Identification Numbers (“TIN”). The Parties have provided the Escrow Agent with their respective fully executed Internal Revenue Service (“**IRS**”) Form W-8, or W-9 and/or other required documentation. The Parties each represent that its correct TIN assigned by the IRS, or any other taxing authority, is set forth in the delivered forms, as well as in the Substitute IRS Form W-9 set forth on the signature page of this Escrow Agreement.

12. Tax Reporting.

12.1. The Fund is the Class Settlement Fund as defined in the Settlement Agreement, which is a “Qualified Settlement Fund” within the meaning of Treasury Regulation Section 1.468B-1. All interest or other income earned under the Escrow Agreement shall be allocated to the Fund and reported, as and to the extent required by law, by the Escrow Agent to the IRS, or any other taxing authority, on IRS Form 1099 or 1042S (or other appropriate form) as income earned from the Escrow Deposit by the Fund whether or not said income has been distributed during such year. Any other tax returns required to be filed will be prepared and filed by the Parties with the IRS and any other taxing authority as required by law. The Parties acknowledge and agree that Escrow Agent shall have no responsibility for the preparation and/or filing of any income, franchise or any other tax return with respect to the Fund or any income earned by the Escrow Deposit. The Parties further acknowledge and agree that any taxes payable from the income earned on the investment of any sums held in the Escrow

Deposit shall be paid by the Fund. Escrow Agent shall withhold any taxes it deems appropriate, including but not limited to required withholding in the absence of proper tax documentation, and shall remit such taxes to the appropriate authorities. The Parties agree that the taxes on the income earned on the Fund are included within the Administration Costs as defined in the Settlement Agreement, with which Escrow Agent is not to be concerned.

12.2. The Parties have provided the Escrow Agent with their respective fully executed Internal Revenue Service (“IRS”) Form W-8, or W-9 and/or other required documentation.

12.3. The Settlement Fund is to be treated for federal income tax purposes as a qualified settlement fund within the meaning of U.S. Department of Treasury (“Treas.”) Reg. § 1.468B-1. The Administrator shall be the “administrator” (as that term is used in Treas. Reg. § 1.468B-2(k)(3)) of the Settlement Fund and as such will file such federal, state or local returns, pay such federal, state or local taxes, comply with applicable federal, state or local information reporting requirements and otherwise generally comply with the rules and regulations applicable to qualified settlement funds under Treas. Reg. § 1.468B-1 and relevant provisions of state and local tax law. The Administrator is explicitly authorized to use the assets of the Settlement Fund (A) to satisfy such federal, state and local taxes as may be due with respect to the Settlement Fund and (B) to reduce the amount of any payments under this Agreement by taxes paid or which the Administrator reasonably concludes may become payable. The Company will comply with the provisions of the U.S. Department of Treasury Regulations applicable to the transferor to a qualified settlement fund and the Administrator will comply with its duties and obligations under the Reg. §1.468B rules.

12.4. The Administrator, and, as required, the Company, shall jointly and timely make (or cause to be jointly and timely made) the “relation-back election” (as defined in Treas. Reg. § 1.468-1B) back to the earliest permitted date. Such election shall be made in compliance with the procedures and requirements contained in such regulations (or any successor regulations). It shall be the responsibility of the Administrator to timely and properly prepare, and deliver the necessary documentation (including but not limited to the disclosures and elections referred to above) for signature by all necessary Parties, and thereafter to cause the appropriate filing to occur.

12.5. The Parties hereto acknowledge that the Administrator shall not be held accountable for any fines, penalties or interest associated with late filings as a result of the failure or refusal of others to cooperate with the Administrator causing such filings to occur on a timely basis. The Administrator may retain or hire a qualified third party or parties (“Qualified Third Party”) to perform any of its duties or responsibilities specified herein or in Treas. Reg. § 1-468B-2. The fees or costs of such Qualified Third Party shall be billed to the Administrator and shall be paid from amounts on deposit in the Settlement Fund.

12.6. The Escrow Agent shall have no duty to comply with the provisions of Treasury Reg. § 1.468B, cited above. Furthermore, the Escrow Agent shall not be

deemed to have any knowledge or responsibility concerning the applicability of such regulation to the transactions contemplated by this Agreement.

13. Notices.

13.1. All communications hereunder shall be in writing and, except for communications from the Parties setting forth, claiming, containing, objecting to, or in any way related to the transfer or distribution of funds, including but not limited to funds transfer instructions (all of which shall be specifically governed by **Section 13.2** below), shall be deemed to be duly given and received: (a) upon delivery, if delivered personally, or upon confirmed transmittal, if by facsimile; (b) on the next Business Day (as hereinafter defined) if sent by overnight courier; or (c) four (4) Business Days after mailing if mailed by prepaid registered mail, return receipt requested, to the appropriate notice address set forth in **Schedule 1** attached hereto or at such other address as any party hereto may have furnished to the other parties in writing by registered mail, return receipt requested. Notwithstanding the foregoing, in the case of communications delivered to the Escrow Agent pursuant to **Sections 13.1 and 13.2**, such communications shall be deemed to have been given on the date received by an officer of the Escrow Agent or any employee of the Escrow Agent who reports directly to any such officer at the above-referenced office as set forth in **Schedule 1**. In the event that the Escrow Agent, in its sole discretion, shall determine that an emergency exists, the Escrow Agent may use such other means of communication as the Escrow Agent deems appropriate. **“Business Day”** shall mean any day other than a Saturday, Sunday or any other day on which the Escrow Agent located at the notice address set forth in **Schedule 1** is authorized or required by law or executive order to remain closed.

13.2. Notwithstanding anything to the contrary set forth in **Section 13.1** above, any instructions setting forth, claiming, containing, objecting to, or in any way related to the transfer or distribution of funds, including but not limited to any such funds transfer instructions that may otherwise be set forth in a written instruction permitted pursuant to **Section 5.3** above, may be given to the Escrow Agent only by confirmed facsimile and no instruction for or related to the transfer or distribution of the Fund, or any portion thereof, shall be deemed delivered and effective unless the Escrow Agent actually shall have received such instruction by facsimile at the number provided to the Parties by the Escrow Agent in accordance with **Section 13.1** and as further evidenced by a confirmed transmittal to that number.

14. Security Procedures. In the event funds transfer instructions are given (other than in writing at the time of execution of this Escrow Agreement), whether in writing, by facsimile or otherwise, the Escrow Agent is authorized to seek confirmation of such instructions by telephone call-back to a person designated for such purpose in **Schedule 1**, and the Escrow Agent may rely upon the confirmation of anyone purporting to be the person or persons so designated. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by the Escrow Agent. The Escrow Agent and the beneficiary’s bank in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by the Parties to identify (a) the beneficiary, (b) the beneficiary’s bank, or (c) an intermediary bank. The Escrow Agent may apply any of the escrowed funds for

any payment order it executes using any such identifying number, even when its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the beneficiary's bank or an intermediary bank designated. The Parties acknowledge that these security procedures are commercially reasonable.

15. Compliance with Court Orders. In the event that any escrow property shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Escrow Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, entity, firm or corporation, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

16. Settlement of Disputes. Any dispute which may arise under this Escrow Agreement with respect to the delivery, ownership and/or right of possession of the Fund, or any other questions arising under this Escrow Agreement, shall be settled either by mutual agreement of the Parties (evidenced by appropriate instructions in writing to Escrow Agent signed by Plaintiffs' Counsel and Defendants' Counsel) or by a final order of the Superior Court. The Escrow Agent shall be under no duty to institute or defend any such proceedings and none of the costs and expenses of any such proceedings shall be borne by Escrow Agent.

17. Miscellaneous.

17.1. Entire Agreement. This Escrow Agreement (together with the Settlement Agreement, as to the Parties only) contains the entire understanding of the parties hereto with respect to the transactions contemplated hereby and any prior agreements or understandings, whether oral or written, are entirely superseded hereby.

17.2. Waiver. The provisions of this Escrow Agreement may be waived, altered, amended or supplemented, in whole or in part, only by a writing signed by the Escrow Agent and Plaintiffs' Counsel and Defendants' Counsel. No failure or delay by a Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any right of further exercise or the exercise of any other right, power or privilege.

17.3. Admissions. Nothing in this Escrow Agreement shall be deemed to be an admission by any Party with respect to the subject matter of the Lawsuit or any matter or proceeding relating thereto, and nothing herein shall be used in any such manner in the Lawsuit or any matter or proceeding relating thereto.

17.4. Assignment. Neither this Escrow Agreement nor any right or interest hereunder may be assigned in whole or in part by the Escrow Agent or any Party, except as provided in **Section 8**, without the prior consent of the Escrow Agent and Plaintiffs' Counsel and Defendants' Counsel.

17.5. No Third-Party Beneficiaries or Rights of Others. Nothing expressed or implied in this Escrow Agreement is intended or shall be construed to confer upon or to give any person other than Escrow Agent and the Parties any rights or remedies under or by reason of this Escrow Agreement. A person who is not a party to this Escrow Agreement shall have no right to enforce any term of this Escrow Agreement. Nothing in this Escrow Agreement, whether express or implied, shall be construed to give to any person or entity other than the Escrow Agent and the Parties any legal or equitable right, remedy, interest or claim under or in respect of this Escrow Agreement or any funds escrowed hereunder.

17.6. Governing Law; Venue; Service; Waiver of Immunity; Trial By Jury. This Escrow Agreement shall be governed by and construed under the internal laws of the State of New York, without regard to conflict of law provisions. Each Party irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of the courts located in the State of New York. To the extent that in any jurisdiction either Party may now or hereafter be entitled to claim for itself or its assets, immunity from suit, execution attachment (before or after judgment), or other legal process, such Party shall not claim, and it hereby irrevocably waives, such immunity. The Parties further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Escrow Agreement.

17.7. Acts of God. No party to this Escrow Agreement is liable to any other party for losses due to, or if it is unable to perform its obligations under the terms of this Escrow Agreement because of, acts of God, fire, war, terrorism, floods, strikes, electrical outages, equipment or transmission failure, or other causes reasonably beyond its control.

17.8. Counterparts; Facsimile. This Escrow Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. All signatures of the parties to this Escrow Agreement and the persons specified in **Schedule 1** may be transmitted by facsimile, and such facsimile will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces, and will be binding upon such party.

17.9. Severability. If any provision of this Escrow Agreement is determined to be prohibited or unenforceable by reason of any applicable law of a jurisdiction, then such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof, and any such prohibition or unenforceability in such jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction.

17.10. Compliance with Law. The Parties represent, warrant and covenant that each document, notice, instruction or request provided by such Party to Escrow Agent shall comply with applicable laws and regulations. Where, however, the conflicting provisions of any such applicable law may be waived, they are hereby irrevocably waived

by the parties hereto to the fullest extent permitted by law, to the end that this Escrow Agreement shall be enforced as written.

17.11. Headings. Headings herein are used for convenience of reference only and do not define or limit the scope of provisions of this Escrow Agreement.

[Remainder of this page intentionally left blank; signatures appear on following pages]

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

GILARDI: GILARDI & CO., LLC

By _____
Name _____
Title _____

SHLLC: SKILLED HEALTHCARE, LLC

By _____
Name _____
Title _____

[Remainder of this page intentionally left blank; signatures continue on following page]

ESCROW AGENT:

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
as Escrow Agent

By: _____

Name: _____

Title: _____

[Remainder of this page intentionally left blank; signatures continue on following page]

Waiver of Setoff and Other Rights

With the sole exception of the right of lien, set-off and security interest expressly set forth in favor of Escrow Agent in **Section 10.2** above for the purposes therein expressly specified, JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, on behalf of itself, its affiliates, successors and assigns, hereby forever **WAIVES** any present or future rights of set-off, lien, banker's lien, security interest, or other right, claim or interest in or to the Escrow Deposit, the Fund, or this Escrow Agreement, whether arising under or by reason of any present or future loan, credit and/or banking relationships with SHLLC, Gilardi, Defendants, Plaintiffs, or otherwise.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

SCHEDULE 1
INFORMATION REGARDING
ESCROW AGENT, THE PARTIES,
PLAINTIFFS' COUNSEL, AND
DEFENDANTS' COUNSEL

Addresses for Notice

ESCROW AGENT: JPMorgan Chase Bank, N.A.
Escrow Services
4 New York Plaza, 21st Floor
New York City, NY 10004
Attention: Michael Kuzmicz/Andy Jacknick Fax No.: 212-623-6168

GILARDI: Bruce H. Cozzi
Fund Controller
Gilardi & Co., LLC
3301 Kerner Blvd
San Rafael, CA 94901
Fax No.: 415-256-9757

with copy to Plaintiffs' Counsel (below)

SHLLC: Skilled Healthcare LLC
c/o Defendants' Counsel (below)

PLAINTIFFS' COUNSEL: Christopher J. Healey
and
Todd R. Kinnear
LUCE, FORWARD, HAMILTON & SCRIPPS LLP
600 West Broadway, Suite 2600
San Diego, CA 92101-3372
Fax No.: 619-232-8311

DEFENDANTS' COUNSEL: Bruce Bennett
and
Joshua D. Morse
HENNIGAN, BENNETT & DORMAN LLP
865 South Figueroa Street, Suite 2900
Los Angeles, California 90017
Fax No.: 213-694-1234

**Telephone Numbers and authorized signatures for
Persons Designated to give Funds Transfer Instructions
and to confirm Funds Transfer Instructions**

If from Gilardi:

Name	Telephone Number	Signature
1. Bruce H. Cozzi	415-458-3007	_____
2. Luciann Leraul	415-458-3009	_____

If from Plaintiffs' Counsel:

Name	Telephone Number	Signature
1. Christopher J. Healey	619-699-2491	_____
2. Todd R. Kinnear	619-699-2513	_____

If from Defendants' Counsel:

Name	Telephone Number	Signature
1. Bruce Bennett	213-694-1200	_____
2. Joshua D. Morse	213-694-1200	_____

Wire Transfer Information for Initial Disbursement to Gilardi:

Bank: Bank of the West
Business Services
201 N. Civic Dr., Suite 1900
Walnut Creek, CA 94596
Attn: Terry West
925-942-8624

Routing #: 121100782

Account Name: Gilardi & Co. LLC

Account #: 184-006955

Taxpayer ID #: 91-1821644

SCHEDULE 2 COMPENSATION SCHEDULE

J.P.Morgan

Based upon our current understanding of your proposed transaction, our fee proposal is as follows:

Account Acceptance Fee **\$2,500.00**

Encompassing review, negotiation and execution of governing documentation, opening of the account, and completion of all due diligence documentation. Payable upon closing.

Annual Administration Fee **\$2,500.00**

The Administration Fee covers our usual and customary ministerial duties, including record keeping, distributions, document compliance and such other duties and responsibilities expressly set forth in the governing documents for each transaction. Payable upon closing and annually in advance thereafter, without pro-rata for partial years.

Extraordinary Services and Out-of Pocket Expenses

Any additional services beyond our standard services as specified above, and all reasonable out-of-pocket expenses including attorney's or accountant's fees and expenses will be considered extraordinary services for which related costs, transaction charges, and additional fees will be billed at the Bank's then standard rate. Disbursements, receipts, investments or tax reporting exceeding 25 items per year may be treated as extraordinary services thereby incurring additional charges. The Escrow Agent may impose, charge, pass-through and modify fees and/or charges for any account established and services provided by the Escrow Agent, including but not limited to, transaction, maintenance, balance-deficiency, and service fees and other charges, including those levied by any governmental authority.

Disclosure & Assumptions

- Please note that the fees quoted are based on a review of the transaction documents provided and an internal due diligence review. JPMorgan reserves the right to revise, modify, change and supplement the fees quoted herein if the assumptions underlying the activity in the account, level of balances, market volatility or conditions or other factors change from those used to set our fees.
- The escrow deposit shall be continuously invested in a JPMorgan Chase Bank money market deposit account ("MMDA") or a JPMorgan Chase Bank Cash Compensation account. MMDA and Cash Compensation Accounts have rates of compensation that may vary from time to time based upon market conditions. The Annual Administration Fee would include a supplemental charge up to 25 basis points on the escrow deposit amount if another investment option were to be chosen.
- The Parties acknowledge and agree that they are permitted by U.S. law to make up to six (6) pre-authorized withdrawals or telephonic transfers from an MMDA per calendar month or statement cycle or similar period. If the MMDA can be accessed by checks, drafts, bills of exchange, notes and other financial instruments ("Items"), then no more than three (3) of these six (6) transfers may be made by an Item. The Escrow Agent is required by U.S. law to reserve the right to require at least seven (7) days notice prior to a withdrawal from a money market deposit account.
- Payment of the invoice is due upon receipt.

Compliance

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account. We may ask for information that will enable us to meet the requirements of the Act.

SCHEDULE 3
FORM OF DISBURSEMENT INSTRUCTION
BY PLAINTIFFS' COUNSEL
(to be sent pursuant to Section 13.2 of Escrow Agreement)

Disbursement Instruction

TO: JPMorgan Chase Bank, N.A.

FROM: [insert Plaintiffs' Counsel]
Luce, Forward, Hamilton & Scripps LLP

RE: Escrow No. _____
Escrow Agreement dated September 7, 2010 (the "Escrow Agreement")

DATE: _____

Terms used with initial capital letters in this Disbursement Instruction have the meanings set forth in the Escrow Agreement.

Pursuant to the terms of the Escrow Agreement, Escrow Agent is hereby instructed by Plaintiffs' Counsel to disburse from the Fund [*either:*] [the sum of _____ Dollars (\$_____)] [*or*] [the entire amount now on deposit in the Fund], to _____, by wire transfer as follows:

_____ Bank

ABA # _____
Credit: Account of _____
Acct. No. _____
Reference: _____

In connection with this Disbursement Instruction, Plaintiffs' Counsel hereby certifies, on behalf of itself and Plaintiffs, to Defendants and Defendants' Counsel, as follows: The disbursement requested herein is made pursuant to, in full compliance with, and for the purposes specified in Section [*insert either:*] [II.C.4] [*or*] [XI.C] of the Settlement Agreement. All conditions to such disbursement have been satisfied.

LUCE, FORWARD, HAMILTON & SCRIPPS LLP

By _____
Name: _____

SCHEDULE 4
FORM OF DISBURSEMENT INSTRUCTION
BY DEFENDANTS' COUNSEL
(to be sent pursuant to Section 13.2 of Escrow Agreement)

Disbursement Instruction

TO: JPMorgan Chase Bank, N.A.

FROM: [insert Defendants' Counsel]
Hennigan, Bennett & Dorman LLP

RE: Escrow No. _____
Escrow Agreement dated September 7, 2010 (the "Escrow Agreement")

DATE: _____

Terms used with initial capital letters in this Disbursement Instruction have the meanings set forth in the Escrow Agreement.

Pursuant to the terms of the Escrow Agreement, Escrow Agent is hereby instructed by Defendants' Counsel to disburse from the Fund the entire amount now on deposit in the Fund, to _____, by wire transfer as follows:

_____ Bank

ABA # _____
Credit: Account of _____
Acct. No. _____
Reference: _____

In connection with this Disbursement Instruction, Defendants' Counsel hereby certifies, on behalf of itself and Defendants, to Gilardi, Plaintiffs and Plaintiffs' Counsel, as follows: The disbursement requested herein is made pursuant to, in full compliance with, and for the purposes specified in Section II.C.3 of the Settlement Agreement. A Termination has occurred. All conditions to such disbursement have been satisfied.

HENNIGAN, BENNETT & DORMAN LLP

By _____
Name: _____

SCHEDULE 5
FORM OF DISBURSEMENT INSTRUCTION
BY GILARDI
(to be sent pursuant to Section 13.2 of Escrow Agreement)

Disbursement Instruction

TO: JPMorgan Chase Bank, N.A.

FROM: Gilardi & Co., LLC

RE: Escrow No. _____
Escrow Agreement dated September 7, 2010 (the “**Escrow Agreement**”)

DATE: _____

Terms used with initial capital letters in this Disbursement Instruction have the meanings set forth in the Escrow Agreement.

Pursuant to the terms of the Escrow Agreement, Escrow Agent is hereby instructed by Gilardi to disburse from the Fund the sum of _____ Dollars (\$_____), by wire transfer as follows:

_____ Bank

_____ ABA #

Credit: Account of _____

Acct. No. _____

Reference: _____

In connection with this Disbursement Instruction, Gilardi hereby certifies to Plaintiffs, Plaintiffs’ Counsel, Defendants and Defendants’ Counsel as follows: The disbursement requested herein is made pursuant to, in full compliance with, and for the purposes specified in Section II.C.7 of the Settlement Agreement.

GILARDI & CO., LLC

By _____
Name: _____

EXHIBIT B

(Additional Escrow Agreement)

ESCROW AGREEMENT
(Additional Escrow Account)

Escrow No. _____

This Escrow Agreement (the “**Escrow Agreement**”) is made and effective as of September 7, 2010, by and among Gilardi & Co. LLC (“**Gilardi**”) and Skilled Healthcare, LLC (“**SHLLC**” and, collectively with Gilardi, the “**Parties**”); and JPMorgan Chase Bank, National Association (“**Escrow Agent**”), with reference to the following facts:

A. There is pending in the Superior Court of California for the County of Humboldt (the “**Superior Court**”) a class action lawsuit captioned *Lavender et al. v. Skilled Healthcare Group, Inc., et al.*, Case No. DR060264 (the “**Lawsuit**”). The plaintiffs (“**Plaintiffs**”) and defendants (“**Defendants**”) in the Lawsuit have entered into a “Class Settlement Agreement And Release With Plaintiffs Vinnie Lavender (By And Through Her Conservator), Wanda Baker, Walter Simon, And Jacquelyn Vilchinsky” to be approved by the Superior Court in the Lawsuit (the “**Settlement Agreement**”). References to the Settlement Agreement are made in this Escrow Agreement for purposes of the Parties’ agreement, but Escrow Agent is not to be concerned with the Settlement Agreement. Terms used with initial capital letters in this Escrow Agreement and not defined herein have the meanings set forth in the Settlement Agreement, but Escrow Agent is not be concerned therewith.

B. Gilardi is the Settlement Administrator under the Settlement Agreement, pursuant to which it will administer payments to Plaintiffs and others, and SHLLC is one of the Defendants in the Lawsuit, and they have been authorized by the Superior Court in the Lawsuit to be the parties to this Escrow Agreement for the benefit of Plaintiffs and Defendants, respectively.

C. This Escrow Agreement constitutes a binding contractual agreement among the Parties and Escrow Agent and joint escrow instructions on behalf of the Parties to Escrow Agent for the creation, funding, and holding of, and disbursement of funds from, an escrow, all as provided herein. This escrow is the “Additional Escrow Account” as that term is used in the Settlement Agreement.

NOW, THEREFORE, in consideration of their mutual covenants herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties and Escrow Agent agree, and the Parties instruct Escrow Agent, as follows:

1. Appointment. The Parties hereby appoint Escrow Agent as their escrow agent for the purposes set forth herein, and Escrow Agent hereby accepts such appointment under, and agrees to comply with, the terms and conditions set forth herein.

2. Counsel Authorization.

2.1. As used herein:

- (a) **“Plaintiffs’ Counsel”** means Christopher J. Healey or Todd R. Kinnear of Luce, Forward, Hamilton & Scripps LLP, and the contact information for each is as set forth in **Schedule 1** attached hereto, and a reference to “Plaintiffs’ Counsel” means either of such persons acting alone.
- (b) **“Defendants’ Counsel”** means Bruce Bennett or Joshua D. Morse of Hennigan, Bennett & Dorman LLP, and the contact information for each is as set forth in **Schedule 1** attached hereto, and a reference to “Defendants’ Counsel” means either of such persons acting alone.

2.2. Each of the Parties instructs and directs Escrow Agent that Escrow Agent is authorized to (a) direct any inquiries regarding this Escrow Agreement to Plaintiffs’ Counsel on behalf of Gilardi, and to Defendants’ Counsel on behalf of SHLLC, (b) rely upon written disbursement and other instructions, responses, directions, approvals, consents and the like from Plaintiffs’ Counsel on behalf of Gilardi and Defendants’ Counsel on behalf of SHLLC, and (c) accept modifications, supplements or waivers of this Escrow Agreement executed in writing by Plaintiffs’ Counsel on behalf of Gilardi and Defendants’ Counsel on behalf of SHLLC.

3. Deposit of Funds into Escrow.

3.1. Deposit by SHLLC. SHLLC shall deposit in escrow with Escrow Agent the sum of Five Million US Dollars (US\$5,000,000.00) as the Additional Settlement Payment, when required under the Settlement Agreement (the “**Escrow Deposit**”). Escrow Agent shall hold the Escrow Deposit in escrow and, subject to the terms and conditions hereof, shall invest and reinvest the Escrow Deposit and the proceeds thereof (the “**Fund**”) as directed in **Section 4** below.

3.2. Deposit Date. The date on which the Escrow Deposit is received into escrow in collected funds (or, if the Escrow Deposit is received in increments, the date on which the last increment is received into escrow in collected funds) is referred to herein as the “**Deposit Date**,” and Escrow Agent shall promptly notify Plaintiffs’ Counsel and Defendants’ Counsel in writing (in accordance with **Section 13.1** below) of the Deposit Date.

4. Investment of Fund. During the term of this Escrow Agreement, the Fund shall be invested in a non-interest bearing account at JPMorgan Chase Bank, N.A., in the State of New York, unless otherwise instructed in writing by the Parties and as shall be acceptable to the Escrow Agent. In the absence of written direction from Plaintiffs’ Counsel and Defendants’ Counsel, all proceeds of the Fund shall be retained in the Fund and reinvested from time to time by the Escrow Agent as provided in this **Section 4**. If the Parties subsequently so instruct Escrow Agent, then thereafter during the term of this Escrow Agreement, the Fund shall be invested in a cash compensation account at JPMorgan Chase Bank, N.A., in the State of New York (“**Cash Compensation Account**”), unless otherwise instructed in writing by the Parties and as shall be acceptable to the Escrow Agent. Cash Compensation Accounts have rates of

compensation that may vary from time to time based upon market conditions. Written investment instructions, if any, shall specify the type and identity of the investments to be purchased and/or sold. The Escrow Agent is hereby authorized to execute purchases and sales of investments through the facilities of its own trading or capital markets operations or those of any affiliated entity. The Escrow Agent or any of its affiliates may receive compensation with respect to any investment directed hereunder including without limitation charging an agency fee in connection with each transaction. The Parties recognize and agree that the Escrow Agent will not provide supervision, recommendations or advice relating to either the investment of moneys held in the Fund or the purchase, sale, retention or other disposition of any investment described herein. The Escrow Agent shall not have any liability for any loss sustained as a result of any investment in an investment made pursuant to the terms of this Escrow Agreement or as a result of any liquidation of any investment prior to its maturity or for the failure of the Parties to give the Escrow Agent instructions to invest or reinvest the Fund. The Escrow Agent shall have the right to liquidate any investments held in order to provide funds necessary to make required payments under this Escrow Agreement.

5. Disbursement of the Fund.

5.1. [Intentionally omitted]

5.2. Entitlement to Disbursements. As between the Parties, and other parties to the Settlement Agreement, the contingencies and conditions to disbursement of the Fund have been agreed upon in, and are governed by, the Settlement Agreement, and Escrow Agent is not to be concerned therewith. The Parties agree that the entitlements to disbursements from the Fund under the Settlement Agreement are as follows, subject to all of the terms and conditions thereof: (a) in the event of a Termination, Defendants are entitled to a disbursement pursuant to Section II.C.3 of the Settlement Agreement; and (b) Plaintiffs are entitled to a disbursement to Gilardi pursuant to Section II.C.4 of the Settlement Agreement. No provision of this Escrow Agreement shall be construed to expand, diminish or otherwise modify the entitlement of the Parties to disbursements as provided in the Settlement Agreement.

5.3. Disbursement Instruction Procedure. Upon the happening of the contingencies and satisfaction of the conditions to each disbursement pursuant to the Settlement Agreement, Escrow Agent shall be instructed as to the amount then to be disbursed from the Fund and the person(s) or entity(ies) to whom such amount is to be transmitted, as follows:

- (a) by Plaintiffs' Counsel alone, or by Defendants' Counsel alone, as applicable, in writing (in accordance with **Section 13.2** below), using the form of disbursement instruction set forth in **Schedule 3 or Schedule 4**, respectively, attached hereto (a "**Disbursement Instruction**"); **or**
- (b) by a certified copy of an order of the Superior Court in the Lawsuit, which any Party may present to Escrow Agent and upon which the Escrow Agent may rely without further inquiry; **or**

- (c) by a written disbursement instruction from Plaintiffs' Counsel and Defendants' Counsel jointly.

5.4. Certifications. The certifications to be included in a Disbursement Instruction pursuant to **Schedule 3 or 4** are made to and for the benefit of the Parties and other parties to the Settlement Agreement. Escrow Agent is not be concerned therewith, other than determining that a Disbursement Instruction includes a certification in compliance with **Schedule 3 or 4**, as applicable.

5.5. Disbursements by Escrow Agent. Each of the Parties hereby instructs Escrow Agent to make disbursements from the Fund as follows:

- (a) Within five (5) Business Days (as defined below) after receipt by Escrow Agent of a Disbursement Instruction from Plaintiffs' Counsel alone (**Schedule 3**), or a Disbursement Instruction from Defendants' Counsel alone (**Schedule 4**), Escrow Agent shall disburse amounts from the Fund in accordance therewith.
- (b) Within five (5) Business Days (as defined below) after receipt by Escrow Agent of an order as provided in **Section 5.3(b)** above, or a joint instruction as provided in **Section 5.3(c)** above, Escrow Agent shall disburse amounts from the Fund in accordance therewith.

6. Termination of Escrow. Upon delivery of the Fund by the Escrow Agent in accordance with this Escrow Agreement, this Escrow Agreement shall terminate, subject to the provisions of **Sections 9 and 10** which shall survive such termination.

7. Escrow Agent.

7.1. The Escrow Agent shall have only those duties as are specifically and expressly provided herein, which shall be deemed purely ministerial in nature, and no other duties shall be implied. The Escrow Agent shall neither be responsible for, nor chargeable with, knowledge of, nor have any requirements to comply with, the terms and conditions of any other agreement, instrument or document between the Parties, in connection herewith, if any, including without limitation the Settlement Agreement, nor shall the Escrow Agent be required to determine if any person or entity has complied with any such agreements, nor shall any additional obligations of the Escrow Agent be inferred from the terms of such agreements, even though reference thereto may be made in this Escrow Agreement. In the event of any conflict between the terms and provisions of this Escrow Agreement, those of the Settlement Agreement, any schedule or exhibit attached to the Escrow Agreement, or any other agreement among the Parties, as to the Parties the terms and conditions of the Settlement Agreement shall control, but Escrow Agent is not to be concerned therewith. The Escrow Agent may rely upon and shall not be liable for acting or refraining from acting upon any written notice, document, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper Party or Parties without inquiry and without

requiring substantiating evidence of any kind. The Escrow Agent shall not be liable to any Party, any beneficiary or other person for refraining from acting upon any instruction setting forth, claiming, containing, objecting to, or related to the transfer or distribution of the Fund, or any portion thereof, unless such instruction shall have been delivered to the Escrow Agent in accordance with **Section 13.2** below and the Escrow Agent has been able to satisfy any applicable security procedures as may be required hereunder **Section 14** below. The Escrow Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document, notice, instruction or request. The Escrow Agent shall have no duty to solicit any payments which may be due it or the Fund, including, without limitation, the Escrow Deposit nor shall the Escrow Agent have any duty or obligation to confirm or verify the accuracy or correctness of any amounts deposited with it hereunder.

7.2. The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in good faith except to the extent that a final adjudication of a court of competent jurisdiction determines that the Escrow Agent's gross negligence or willful misconduct was the primary cause of any loss to either Party. The Escrow Agent may execute any of its powers and perform any of its duties hereunder directly or through attorneys, and shall be liable only for its gross negligence or willful misconduct (as finally adjudicated in a court of competent jurisdiction) in the selection of any such attorney. The Escrow Agent may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in accordance with, or in reliance upon, the advice or opinion of any such counsel, accountants or other skilled persons. In the event that the Escrow Agent shall be uncertain or believe there is some ambiguity as to its duties or rights hereunder or shall receive instructions, claims or demands from any party hereto which, in its opinion, conflict with any of the provisions of this Escrow Agreement, it shall be entitled to refrain from taking any action and its sole obligation shall be to keep safely all property held in escrow until it shall be given a direction in writing by the Parties which eliminates such ambiguity or uncertainty to the satisfaction of Escrow Agent or by a final and non-appealable order or judgment of a court of competent jurisdiction. The Parties agree to pursue any redress or recourse in connection with any dispute without making the Escrow Agent a party to the same. Anything in this Escrow Agreement to the contrary notwithstanding, in no event shall the Escrow Agent be liable for special, incidental, punitive, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

8. Succession.

8.1. The Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving thirty (30) days advance notice in writing of such resignation to the Parties specifying a date when such resignation shall take effect. If the Parties have failed to appoint a successor escrow agent prior to the expiration of thirty (30) days following receipt of the notice of resignation, the Escrow Agent may petition the Superior Court for the appointment of a successor escrow agent or for other

appropriate relief, and any such resulting appointment shall be binding upon all of the parties hereto. Escrow Agent's sole responsibility after such thirty (30) day notice period expires shall be to hold the Fund (without any obligation to reinvest the same) and to deliver the same to a designated substitute escrow agent, if any, or in accordance with the directions of a final order or judgment of a court of competent jurisdiction, at which time of delivery Escrow Agent's obligations hereunder shall cease and terminate, subject to the provisions of **Sections 9 and 10** hereunder. The Escrow Agent shall have the right to withhold an amount equal to any amount due and owing to the Escrow Agent, plus any costs and expenses the Escrow Agent shall reasonably believe may be incurred by the Escrow Agent in connection with the termination of the Escrow Agreement.

8.2. Any entity into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any entity to which all or substantially all the escrow business may be transferred, shall be the Escrow Agent under this Escrow Agreement without further act.

9. Compensation and Reimbursement. Gilardi agrees to (a) pay the Escrow Agent for the services to be rendered hereunder, which unless otherwise agreed in writing shall be as described in **Schedule 2** attached hereto, and (b) pay or reimburse the Escrow Agent upon request for all expenses, disbursements and advances, including, without limitation reasonable attorney's fees and expenses, incurred or made by it in connection with the performance of this Escrow Agreement. The Parties agree that any and all costs of the escrow are included within the Administration Costs as defined in the Settlement Agreement, with which Escrow Agent is not to be concerned.

10. Indemnity.

10.1. The Parties shall jointly and severally indemnify, defend and hold harmless the Escrow Agent and its affiliates and their respective successors, assigns, directors, agents and employees (the "**Indemnitees**") from and against any and all losses, damages, claims, liabilities, penalties, judgments, settlements, litigation, investigations, costs or expenses (including, without limitation, the fees and expenses of outside counsel) (collectively "**Losses**") arising out of or in connection with (a) the Escrow Agent's execution and performance of this Escrow Agreement, tax reporting or withholding, the enforcement of any rights or remedies under or in connection with this Escrow Agreement, or as may arise by reason of any act, omission or error of the Indemnitee, except in the case of any Indemnitee to the extent that such Losses are finally adjudicated by a court of competent jurisdiction to have been primarily caused by the gross negligence or willful misconduct of such Indemnitee, or (b) its following any instructions or directions, whether joint or singular, from the Parties, except to the extent that its following any such instruction or direction is expressly forbidden by the terms hereof. The Parties hereto acknowledge that the foregoing indemnities shall survive the resignation, replacement or removal of the Escrow Agent or the termination of this Escrow Agreement.

10.2. The Parties hereby grant the Escrow Agent a lien on, right of set-off against and security interest in, the Fund for the payment of any claim for

indemnification, fees, expenses and amounts due hereunder. In furtherance of the foregoing, the Escrow Agent is expressly authorized and directed, but shall not be obligated, to charge against and withdraw from the Fund for its own account or for the account of an Indemnitee any amounts due to the Escrow Agent or to an Indemnitee under this **Section 10**.

11. Patriot Act Disclosure/Taxpayer Identification Numbers/Tax Reporting.

11.1. Patriot Act Disclosure. Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“**USA PATRIOT Act**”) requires the Escrow Agent to implement reasonable procedures to verify the identity of any person that opens a new account with it. Accordingly, the Parties acknowledge that Section 326 of the USA PATRIOT Act and the Escrow Agent’s identity verification procedures require the Escrow Agent to obtain information which may be used to confirm the Parties identity including without limitation name, address and organizational documents (“**Identifying Information**”). The Parties agree to provide the Escrow Agent with and consent to the Escrow Agent obtaining from third parties any such Identifying Information required as a condition of opening an account with or using any service provided by the Escrow Agent.

11.2. Taxpayer Identification Numbers (“TIN”). The Parties have provided the Escrow Agent with their respective fully executed Internal Revenue Service (“**IRS**”) Form W-8, or W-9 and/or other required documentation. The Parties each represent that its correct TIN assigned by the IRS, or any other taxing authority, is set forth in the delivered forms, as well as in the Substitute IRS Form W-9 set forth on the signature page of this Escrow Agreement.

12. Tax Reporting. All interest or other income earned under the Escrow Agreement shall be allocated to Gilardi and reported, as and to the extent required by law, by the Escrow Agent to the IRS, or any other taxing authority, on IRS Form 1099 or 1042S (or other appropriate form) as income earned from the Escrow Deposit by Gilardi whether or not said income has been distributed during such year. Any other tax returns required to be filed will be prepared and filed by the Parties with the IRS and any other taxing authority as required by law. The Parties acknowledge and agree that Escrow Agent shall have no responsibility for the preparation and/or filing of any income, franchise or any other tax return with respect to the Fund or any income earned by the Escrow Deposit. The Parties further acknowledge and agree that any taxes payable from the income earned on the investment of any sums held in the Escrow Deposit shall be paid by Gilardi or the recipients of proceeds of the Fund pursuant to the Settlement Agreement as their interests may appear. Escrow Agent shall withhold any taxes it deems appropriate, including but not limited to required withholding in the absence of proper tax documentation, and shall remit such taxes to the appropriate authorities. The Parties agree that the taxes on the income earned on the Fund are included within the Administration Costs as defined in the Settlement Agreement, with which Escrow Agent is not to be concerned.

13. Notices.

13.1. All communications hereunder shall be in writing and, except for communications from the Parties setting forth, claiming, containing, objecting to, or in any way related to the transfer or distribution of funds, including but not limited to funds transfer instructions (all of which shall be specifically governed by **Section 13.2** below), shall be deemed to be duly given and received: (a) upon delivery, if delivered personally, or upon confirmed transmittal, if by facsimile; (b) on the next Business Day (as hereinafter defined) if sent by overnight courier; or (c) four (4) Business Days after mailing if mailed by prepaid registered mail, return receipt requested, to the appropriate notice address set forth in **Schedule 1** attached hereto or at such other address as any party hereto may have furnished to the other parties in writing by registered mail, return receipt requested. Notwithstanding the foregoing, in the case of communications delivered to the Escrow Agent pursuant to **Sections 13.1 and 13.2**, such communications shall be deemed to have been given on the date received by an officer of the Escrow Agent or any employee of the Escrow Agent who reports directly to any such officer at the above-referenced office as set forth in **Schedule 1**. In the event that the Escrow Agent, in its sole discretion, shall determine that an emergency exists, the Escrow Agent may use such other means of communication as the Escrow Agent deems appropriate. **“Business Day”** shall mean any day other than a Saturday, Sunday or any other day on which the Escrow Agent located at the notice address set forth in **Schedule 1** is authorized or required by law or executive order to remain closed.

13.2. Notwithstanding anything to the contrary set forth in **Section 13.1** above, any instructions setting forth, claiming, containing, objecting to, or in any way related to the transfer or distribution of funds, including but not limited to any such funds transfer instructions that may otherwise be set forth in a written instruction permitted pursuant to **Section 5.3** above, may be given to the Escrow Agent only by confirmed facsimile and no instruction for or related to the transfer or distribution of the Fund, or any portion thereof, shall be deemed delivered and effective unless the Escrow Agent actually shall have received such instruction by facsimile at the number provided to the Parties by the Escrow Agent in accordance with **Section 13.1** and as further evidenced by a confirmed transmittal to that number.

14. Security Procedures. In the event funds transfer instructions are given (other than in writing at the time of execution of this Escrow Agreement), whether in writing, by facsimile or otherwise, the Escrow Agent is authorized to seek confirmation of such instructions by telephone call-back to a person designated for such purpose in **Schedule 1**, and the Escrow Agent may rely upon the confirmation of anyone purporting to be the person or persons so designated. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by the Escrow Agent. The Escrow Agent and the beneficiary’s bank in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by the Parties to identify (a) the beneficiary, (b) the beneficiary’s bank, or (c) an intermediary bank. The Escrow Agent may apply any of the escrowed funds for any payment order it executes using any such identifying number, even when its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the

beneficiary's bank or an intermediary bank designated. The Parties acknowledge that these security procedures are commercially reasonable.

15. Compliance with Court Orders. In the event that any escrow property shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Escrow Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, entity, firm or corporation, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

16. Settlement of Disputes. Any dispute which may arise under this Escrow Agreement with respect to the delivery, ownership and/or right of possession of the Fund, or any other questions arising under this Escrow Agreement, shall be settled either by mutual agreement of the Parties (evidenced by appropriate instructions in writing to Escrow Agent signed by Plaintiffs' Counsel and Defendants' Counsel) or by a final order of the Superior Court. The Escrow Agent shall be under no duty to institute or defend any such proceedings and none of the costs and expenses of any such proceedings shall be borne by Escrow Agent.

17. Miscellaneous.

17.1. Entire Agreement. This Escrow Agreement (together with the Settlement Agreement, as to the Parties only) contains the entire understanding of the parties hereto with respect to the transactions contemplated hereby and any prior agreements or understandings, whether oral or written, are entirely superseded hereby.

17.2. Waiver. The provisions of this Escrow Agreement may be waived, altered, amended or supplemented, in whole or in part, only by a writing signed by the Escrow Agent and Plaintiffs' Counsel and Defendants' Counsel. No failure or delay by a Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any right of further exercise or the exercise of any other right, power or privilege.

17.3. Admissions. Nothing in this Escrow Agreement shall be deemed to be an admission by any Party with respect to the subject matter of the Lawsuit or any matter or proceeding relating thereto, and nothing herein shall be used in any such manner in the Lawsuit or any matter or proceeding relating thereto.

17.4. Assignment. Neither this Escrow Agreement nor any right or interest hereunder may be assigned in whole or in part by the Escrow Agent or any Party, except as provided in **Section 8**, without the prior consent of the Escrow Agent and Plaintiffs' Counsel and Defendants' Counsel.

17.5. No Third-Party Beneficiaries or Rights of Others. Nothing expressed or implied in this Escrow Agreement is intended or shall be construed to confer upon or

to give any person other than Escrow Agent and the Parties any rights or remedies under or by reason of this Escrow Agreement. A person who is not a party to this Escrow Agreement shall have no right to enforce any term of this Escrow Agreement. Nothing in this Escrow Agreement, whether express or implied, shall be construed to give to any person or entity other than the Escrow Agent and the Parties any legal or equitable right, remedy, interest or claim under or in respect of this Escrow Agreement or any funds escrowed hereunder.

17.6. Governing Law; Venue; Service; Waiver of Immunity; Trial By Jury.

This Escrow Agreement shall be governed by and construed under the internal laws of the State of New York, without regard to conflict of law provisions. Each Party irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of the courts located in the State of New York. To the extent that in any jurisdiction either Party may now or hereafter be entitled to claim for itself or its assets, immunity from suit, execution attachment (before or after judgment), or other legal process, such Party shall not claim, and it hereby irrevocably waives, such immunity. The Parties further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Escrow Agreement.

17.7. Acts of God. No party to this Escrow Agreement is liable to any other party for losses due to, or if it is unable to perform its obligations under the terms of this Escrow Agreement because of, acts of God, fire, war, terrorism, floods, strikes, electrical outages, equipment or transmission failure, or other causes reasonably beyond its control.

17.8. Counterparts; Facsimile. This Escrow Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. All signatures of the parties to this Escrow Agreement and the persons specified in **Schedule 1** may be transmitted by facsimile, and such facsimile will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces, and will be binding upon such party.

17.9. Severability. If any provision of this Escrow Agreement is determined to be prohibited or unenforceable by reason of any applicable law of a jurisdiction, then such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof, and any such prohibition or unenforceability in such jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction.

17.10. Compliance with Law. The Parties represent, warrant and covenant that each document, notice, instruction or request provided by such Party to Escrow Agent shall comply with applicable laws and regulations. Where, however, the conflicting provisions of any such applicable law may be waived, they are hereby irrevocably waived by the parties hereto to the fullest extent permitted by law, to the end that this Escrow Agreement shall be enforced as written.

17.11. Headings. Headings herein are used for convenience of reference only and do not define or limit the scope of provisions of this Escrow Agreement.

[Remainder of this page intentionally left blank; signatures appear on following pages]

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

GILARDI: GILARDI & CO., LLC

By _____
Name _____
Title _____

SHLLC: SKILLED HEALTHCARE, LLC

By _____
Name _____
Title _____

[Remainder of this page intentionally left blank; signatures continue on following page]

ESCROW AGENT:

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
as Escrow Agent

By: _____

Name: _____

Title: _____

Lavender v. Skilled Healthcare, LLC
Additional Escrow Account

Waiver of Setoff and Other Rights

With the sole exception of the right of lien, set-off and security interest expressly set forth in favor of Escrow Agent in **Section 10.2** above for the purposes therein expressly specified, JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, on behalf of itself, its affiliates, successors and assigns, hereby forever **WAIVES** any present or future rights of set-off, lien, banker's lien, security interest, or other right, claim or interest in or to the Escrow Deposit, the Fund, or this Escrow Agreement, whether arising under or by reason of any present or future loan, credit and/or banking relationships with SHLLC, Gilardi, Defendants, Plaintiffs, or otherwise.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

SCHEDULE 1
INFORMATION REGARDING
ESCROW AGENT, THE PARTIES,
PLAINTIFFS' COUNSEL, AND
DEFENDANTS' COUNSEL

Addresses for Notice

ESCROW AGENT:	JPMorgan Chase Bank, N.A. Escrow Services 4 New York Plaza, 21st Floor New York City, NY 10004 Attention: Michael Kuzmicz/Andy Jacknick Fax No.: 212-623-6168
GILARDI:	Bruce H. Cozzi Fund Controller Gilardi & Co., LLC 3301 Kerner Blvd San Rafael, CA 94901 Fax No.: 415-256-9757
with copy to Plaintiffs' Counsel (below)	
SHLLC:	Skilled Healthcare LLC c/o Defendants' Counsel (below)
PLAINTIFFS' COUNSEL:	Christopher J. Healey and Todd R. Kinnear LUCE, FORWARD, HAMILTON & SCRIPPS LLP 600 West Broadway, Suite 2600 San Diego, CA 92101-3372 Fax No.: 619-232-8311
DEFENDANTS' COUNSEL:	Bruce Bennett and Joshua D. Morse HENNIGAN, BENNETT & DORMAN LLP 865 South Figueroa Street, Suite 2900 Los Angeles, California 90017 Fax No.: 213-694-1234

**Telephone Numbers and authorized signatures for
Persons Designated to give Funds Transfer Instructions
and to confirm Funds Transfer Instructions**

If from Plaintiffs' Counsel:

Name	Telephone Number	Signature
1. Christopher J. Healey	619-699-2491	_____
2. Todd R. Kinnear	619-699-2513	_____

If from Defendants' Counsel:

Name	Telephone Number	Signature
1. Bruce Bennett	213-694-1200	_____
2. Joshua D. Morse	213-694-1200	_____

SCHEDULE 2 COMPENSATION SCHEDULE

J.P.Morgan

Based upon our current understanding of your proposed transaction, our fee proposal is as follows:

Account Acceptance Fee **\$2,500.00**

Encompassing review, negotiation and execution of governing documentation, opening of the account, and completion of all due diligence documentation. Payable upon closing.

Annual Administration Fee **\$2,500.00**

The Administration Fee covers our usual and customary ministerial duties, including record keeping, distributions, document compliance and such other duties and responsibilities expressly set forth in the governing documents for each transaction. Payable upon closing and annually in advance thereafter, without pro-rata for partial years.

Extraordinary Services and Out-of Pocket Expenses

Any additional services beyond our standard services as specified above, and all reasonable out-of-pocket expenses including attorney's or accountant's fees and expenses will be considered extraordinary services for which related costs, transaction charges, and additional fees will be billed at the Bank's then standard rate. Disbursements, receipts, investments or tax reporting exceeding 25 items per year may be treated as extraordinary services thereby incurring additional charges. The Escrow Agent may impose, charge, pass-through and modify fees and/or charges for any account established and services provided by the Escrow Agent, including but not limited to, transaction, maintenance, balance-deficiency, and service fees and other charges, including those levied by any governmental authority.

Disclosure & Assumptions

- Please note that the fees quoted are based on a review of the transaction documents provided and an internal due diligence review. JPMorgan reserves the right to revise, modify, change and supplement the fees quoted herein if the assumptions underlying the activity in the account, level of balances, market volatility or conditions or other factors change from those used to set our fees.
- The escrow deposit shall be continuously invested in a JPMorgan Chase Bank money market deposit account ("MMDA") or a JPMorgan Chase Bank Cash Compensation account. MMDA and Cash Compensation Accounts have rates of compensation that may vary from time to time based upon market conditions. The Annual Administration Fee would include a supplemental charge up to 25 basis points on the escrow deposit amount if another investment option were to be chosen.
- The Parties acknowledge and agree that they are permitted by U.S. law to make up to six (6) pre-authorized withdrawals or telephonic transfers from an MMDA per calendar month or statement cycle or similar period. If the MMDA can be accessed by checks, drafts, bills of exchange, notes and other financial instruments ("Items"), then no more than three (3) of these six (6) transfers may be made by an Item. The Escrow Agent is required by U.S. law to reserve the right to require at least seven (7) days notice prior to a withdrawal from a money market deposit account.
- Payment of the invoice is due upon receipt.

Compliance

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account. We may ask for information that will enable us to meet the requirements of the Act.

SCHEDULE 3
FORM OF DISBURSEMENT INSTRUCTION
BY PLAINTIFFS' COUNSEL
(to be sent pursuant to Section 13.2 of Escrow Agreement)

Disbursement Instruction

TO: JPMorgan Chase Bank, N.A.

FROM: [insert Plaintiffs' Counsel]
Luce, Forward, Hamilton & Scripps LLP

RE: Escrow No. _____
Escrow Agreement dated September 7, 2010 (the "Escrow Agreement")

DATE: _____

Terms used with initial capital letters in this Disbursement Instruction have the meanings set forth in the Escrow Agreement.

Pursuant to the terms of the Escrow Agreement, Escrow Agent is hereby instructed by Plaintiffs' Counsel to disburse from the Fund the entire amount now on deposit in the Fund, to _____, by wire transfer as follows:

_____ Bank

ABA # _____
Credit: Account of _____
Acct. No. _____
Reference: _____

In connection with this Disbursement Instruction, Plaintiffs' Counsel hereby certifies, on behalf of itself and Plaintiffs, to Defendants and Defendants' Counsel, as follows: The disbursement requested herein is made pursuant to, in full compliance with, and for the purposes specified in Section II.C.4 of the Settlement Agreement. All conditions to such disbursement have been satisfied.

LUCE, FORWARD, HAMILTON & SCRIPPS LLP

By _____
Name: _____

SCHEDULE 4
FORM OF DISBURSEMENT INSTRUCTION
BY DEFENDANTS' COUNSEL
(to be sent pursuant to Section 13.2 of Escrow Agreement)

Disbursement Instruction

TO: JPMorgan Chase Bank, N.A.

FROM: [insert Defendants' Counsel]
Hennigan, Bennett & Dorman LLP

RE: Escrow No. _____
Escrow Agreement dated September 7, 2010 (the "Escrow Agreement")

DATE: _____

Terms used with initial capital letters in this Disbursement Instruction have the meanings set forth in the Escrow Agreement.

Pursuant to the terms of the Escrow Agreement, Escrow Agent is hereby instructed by Defendants' Counsel to disburse from the Fund the entire amount now on deposit in the Fund, to _____, by wire transfer as follows:

_____ Bank

_____ ABA #

Credit: Account of _____

Acct. No. _____

Reference: _____

In connection with this Disbursement Instruction, Defendants' Counsel hereby certifies, on behalf of itself and Defendants, to Gilardi, Plaintiffs and Plaintiffs' Counsel, as follows: The disbursement requested herein is made pursuant to, in full compliance with, and for the purposes specified in Section II.C.3 of the Settlement Agreement. A Termination has occurred. All conditions to such disbursement have been satisfied.

HENNIGAN, BENNETT & DORMAN LLP

By _____
Name: _____

EXHIBIT C

(Injunction)

For a copy of the injunction, please call Gilardi & Co., at 1-877-246-8217.

EXHIBIT D

(Preliminary Approval Order)

1 W. Timothy Needham, State Bar No. 96542
2 Michael J. Crowley, State Bar No. 102343
3 Amelia F. Burroughs, State Bar No. 221490
JANSSEN, MALLOY, NEEDHAM, MORRISON,
REINHOLSTEN, CROWLEY & GRIEGO, LLP
730 Fifth Street
4 Eureka, CA 95501
Telephone: 707.445.2071
5 Facsimile: 707.445.8305

6 Michael D. Thamer, State Bar No. 101440
LAW OFFICES OF MICHAEL D. THAMER
7 Old Callahan School House
12444 South Highway 3
8 P.O. Box 1568
Callahan, CA 96014-1568
9 Telephone No.: 530.467.5307
Facsimile No.: 530.467.5437

10 Christopher J. Healey, State Bar No. 105798
11 Aaron T. Winn, State Bar No. 229763
LUCE, FORWARD, HAMILTON & SCRIPPS LLP
12 600 West Broadway, Suite 2600
San Diego, CA 92101-3372
13 Telephone No.: 619.236.1414
Fax No.: 619.232.8311

14
15 Attorneys for Plaintiffs

16
17 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
18 **FOR THE COUNTY OF HUMBOLDT**

19
20 VINNIE LAVENDER by and through her
21 Conservator, WANDA BAKER; WALTER
SIMON; JACQUELYN VILCHINSKY,

22 Plaintiffs,

23 v.

24 SKILLED HEALTHCARE GROUP, INC., et
al.,

25 Defendants.

Case No. DR060264

**[PROPOSED] ORDER GRANTING
PRELIMINARY APPROVAL OF CLASS
ACTION SETTLEMENT**

Date:
Time:
Dept.: 1

Complaint Filed: May 4, 2006
Trial Date: November 30, 2009

1 NOW THEREFORE, having read and considered the *Class Settlement Agreement and*
2 *Release with Plaintiffs Vinnie Lavender (By and Through Her Conservator), Wanda Baker, Walter*
3 *Simon, and Jacquelyn Vilchinsky* (the “Plaintiffs’ Settlement Agreement”) and the *Settlement*
4 *Agreement and Release with the People of the State of California, by and through Intervenor, the*
5 *Humboldt County District Attorney’s Office* (the “Intervenor’s Settlement Agreement,” and
6 together with the Plaintiffs’ Settlement Agreement, the “Settlement Agreements”) and
7 Exhibits thereto, IT IS HEREBY ORDERED:

8 1. This Order hereby incorporates by reference the definitions of the Settlement
9 Agreements as though fully set forth herein, and all terms used herein shall have the same
10 meaning as set forth in the Settlement Agreements. To the extent that any inconsistencies exist
11 between this Order and the Settlement Agreements (including Exhibits thereto), the terms of the
12 Settlement Agreements shall control.

13 2. Janssen, Malloy, Needham, Morrison, Reinholsten, Crowley & Griego, LLP; The
14 Law Offices of Michael D. Thamer; and Luce, Forward, Hamilton & Scripps, LLP shall represent
15 the Settlement Classes in this lawsuit as “Plaintiffs’ Class Counsel.” Any Class Member may
16 enter an appearance in this lawsuit, at their own expense, either individually or through counsel of
17 their own choice. However, if they do not enter an appearance, they will be represented by
18 Plaintiffs’ Class Counsel.

19 3. The Court hereby preliminarily approves the settlement of the Related Actions as
20 set forth in the Settlement Agreements as being fair, just, reasonable and adequate to the
21 Settlement Classes.

22 || 4. The Settlement Administrator shall be Gilaridi & Co., LLC.

23 5. A Final Approval Hearing shall be held on _____, 2010 at ____ .m. before
24 the Honorable W. Bruce Watson in Department 1 of the Humboldt County Superior Court located
25 at 825 Fifth Street, Eureka, California 95501-1153. The purpose of the Final Approval Hearing
26 will be to determine whether: (a) the proposed Settlement Agreements and the Distribution Plan
27 contemplated thereby should be finally approved by the Court as fair, reasonable and adequate;
28 (b) any objections to the Settlement should be overruled; (c) the Attorneys' Fees and Costs sought

1 by Plaintiffs' Class Counsel's should be approved in the amounts requested; (d) the Service
2 Payments to Named Plaintiffs should be approved in the amounts requested; and (d) the Judgment
3 of Dismissal With Prejudice dismissing the Related Actions with prejudice should be entered.

4 6. The Court hereby approves, as to form and content, the Notice attached hereto as

5 Exhibit A.

6 7. The procedure for mailing and distributing the Notice to the Class Members shall
7 be as follows:

8 A. The parties shall provide to the Settlement Administrator the list containing
9 the names and last known addresses for every Settlement Class Member then
10 reasonably available to Defendants, based upon their existing records and data at
11 the time the information was provided;

12 B. The Settlement Administrator shall conduct an NCOA (National Change of
13 Address) search before mailing the Notice to the Settlement Class Members;

14 C. The Settlement Administrator shall mail the Notice within thirty (30) days
15 after entry of this Order. If any Notice is returned undelivered, the Settlement
16 Administrator shall perform a skip-trace and shall promptly re-mail the Notice to
17 any new addresses disclosed through such efforts. The Settlement Administrator
18 may use previously-obtained information regarding the location of Class Members
19 during the course of this litigation.

20 D. The Settlement Administrator will also provide publication notice of the
21 Settlement Agreements (Summary Notice) through one (1) notice to be published
22 in appropriate newspaper(s) of state-wide publication, within thirty (30) days after
23 entry of this Order;

24 8. The Court finds that dissemination of the Notice and Summary Notice in the
25 manner set forth in this Order meets the requirements of California Code of Civil Procedure
26 section 382 and California Rule of Court 3.769(f) and due process and constitutes the best notice
27 practicable under the circumstances and shall constitute due and sufficient notice to all persons
28 entitled thereto.

1 9. Any Class Members may request exclusion from the Settlement Classes by sending
2 a letter to the Settlement Administrator by mail as set forth in the Plaintiffs' Settlement
3 Agreement. In order to be valid, the request for exclusion must be postmarked no later than thirty
4 (30) days after the Class Notice, or, if such day falls on a Sunday or holiday, the first business day
5 thereafter. If the Class Member submits a valid and timely request for exclusion, such person
6 shall have no rights under the Plaintiffs' Settlement Agreement, will not be entitled to any
7 payment pursuant to the Plaintiffs' Settlement Agreement and will not be bound by the Plaintiffs'
8 Settlement Agreement or Judgment of Dismissal With Prejudice.

9 10. Any Class Member who wishes to object to all or any part of the proposed
10 Settlement, including the request by Plaintiffs' Class Counsel for approval of the Attorneys' Fees
11 and Costs, or expenses associated with or incurred by the Settlement Administrator, must file
12 written objections with the Court Clerk of the Humboldt County Superior Court, located at 825
13 Fifth Street, Eureka, California 95501-1153 no later than twenty (20) calendar days after the Class
14 Notice Date, or, if such day falls on a Sunday or holiday, the first business day thereafter. In
15 addition, Class Members who wish to appear at the Final Approval Hearing must so state in their
16 objection. All objections must also be served on both Plaintiffs' Class Counsel and Defendants'
17 Counsel as follows:

18 || To Plaintiffs' Class Counsel:

Janssen, Malloy, Needham, Morrison, Reinholsten, Crowley & Griego, LLP.
C/O Karen Ellis
730 Fifth Street
Eureka, CA 95501

22 To Defendants' Counsel:

Darryl Ross
Wroten & Associates, Inc.
20 Pacifica, Suite 1100
Irvine, CA 92618

26 Only Class Members who have timely filed and delivered properly completed written notices of
27 their intent to appear will be entitled to be heard at the Final Approval Hearing unless the Court
28 orders otherwise. Any Class Member who does not make his or her objection in the manner

1 provided for herein shall be deemed to have waived such objection and shall forever be foreclosed
2 from making any objection to the fairness or adequacy of the proposed Settlement or to the award
3 of Attorneys' Fees and Costs to Plaintiffs' Class Counsel unless otherwise ordered.

4 11. All papers in support of the motion for final approval of the Settlement Agreements
5 and any request by Plaintiffs' Class Counsel for approval of Attorneys' fees and Costs, including
6 any expenses associated with or incurred by the Settlement Administrator, shall be filed not later
7 than twenty one (21) days prior to the Final Approval Hearing. Any opposition papers shall be
8 filed not later than fourteen (14) days before the Final Approval Hearing, and any reply papers not
9 later than five (5) days before the Final Approval Hearing.

10 12. The Court reserves the right to adjourn the date of the Final Approval Hearing
11 without further notice to the Class Members, and retains jurisdiction to consider all further
12 applications arising out of or connected with the proposed Settlement Agreements.

13 13. Pending the Court's ruling at the Final Approval Hearing, neither the Named
14 Plaintiffs, Class Members, and any other person or entity, or any of them, whether directly,
15 representatively, or in any other capacity, whether or not such persons have appeared in the
16 lawsuit, shall institute or prosecute any of the matters referenced as Released Claims in the
17 Settlement Agreement.

18 14. Neither the Settlement Agreements, nor any of their terms or provisions, nor any of
19 the negotiations or proceedings connected with it shall be construed in the Related Actions or any
20 other lawsuit as an admission or concession by Defendants of the truth of any of the allegations in
21 the Related Actions, or of any liability, fault or wrongdoing of any kind.

22 15. The Court hereby approves the Escrow Agreement that has been attached as
23 Exhibit A to the Plaintiffs' Settlement Agreement, and its execution and delivery by all parties
24 thereto. Gilardi & Co. LLC, the Settlement Administrator under the Plaintiffs' Settlement
25 Agreement, is hereby authorized to be party to the Escrow Agreement for the benefit of Plaintiffs.
26 Defendant Skilled Healthcare LLC is hereby authorized to be party to the Escrow Agreement for
27 the benefit of all Defendants. The Class Escrow Account into which the Class Settlement
28 Payment is paid, as referenced in the Plaintiffs' Settlement Agreement, shall be established and

treated as a “Qualified Settlement Funds” within the meaning of Treasury Regulation Section 1.468B-1.

16. Plaintiffs' Second Amended Complaint is hereby amended to extend the Class Period from September 1, 2003 through and including the Settlement Date.

IT IS SO ORDERED.

Dated: _____, 2010

Honorable W. Bruce Watson
Judge of the Superior Court

101297892.5

EXHIBIT E

(Notice)

NOTICE OF PROPOSED CLASS ACTION SETTLEMENT

This notice pertains to the settlement of a class action lawsuit entitled *Vinnie Lavender et al. v. Skilled Healthcare Group, Inc. et al*, Humboldt County Superior Court, Case No. DR060264 (“Lawsuit”). The Lawsuit was filed against the following Defendants:

Alexandria Care Center, LLC, Alta Care Center, LLC, Anaheim Terrace Care Center, LLC, Bay Crest Care Center, LLC, Brier Oak On Sunset, LLC, Carehouse Healthcare Center, LLC, Devonshire Care Center, LLC, Elmcrest Care Center, LLC, Eureka Healthcare and Rehabilitation Center, LLC, Granada Healthcare and Rehabilitation Center, LLC, Hancock Park Rehabilitation Center, LLC, Montebello Care Center, LLC, Pacific Healthcare and Rehabilitation Center, LLC, Royalwood Care Center, LLC, Seaview Healthcare and Rehabilitation Center, LLC, Sharon Care Center, LLC, St. Luke Healthcare & Rehabilitation Center, LLC, Sycamore Park Care Center, LLC, The Earlwood, LLC, Valley Healthcare Center, LLC, Villa Maria Healthcare Center, LLC, and Willow Creek Healthcare Center, LLC (the foregoing are referred to herein as the “Facility Defendants”), along with Non-Facility Defendants Skilled Healthcare Group, Inc., and Skilled Healthcare LLC (together with the Facility Defendants, the “Defendants”).

The Lawsuit alleged that the Facility Defendants failed to (1) meet the State of California’s minimum staffing requirements, and (2) employ an adequate number of qualified employees to carry out all facility functions at the skilled nursing facilities operated by Facility Defendants during the Class Period.

The Class Period runs from September 1, 2003 through and including September 7, 2010, for all Facilities except the St. Luke Healthcare and Rehabilitation Center, LLC, as to which the Class Period runs from December 15, 2003 through and including September 7, 2010. Defendants deny these allegations.

The persons on whose behalf the Lawsuit has been brought (collectively, the “Plaintiffs” or “Class Members”) consist of the Named Plaintiffs (listed below) and the following classes and subclass: (1) **Facility Residents Class**, consisting of all persons who resided at one or more skilled nursing facilities operated by Facility Defendants during the Class Period, including a subclass of residents who made private payments to Defendants; and (2) **Family Member Class**, consisting of all persons who are related to any Facility Resident Class Member by blood, marriage or legal relationship and paid monies to any Defendant, for services rendered to a Facility Resident Class Member at a Facility during the Class Period.

On July 6, 2010, after approximately a six-month trial, a jury returned a verdict of approximately \$676.8 million in favor of the Plaintiffs. The verdict substantially exceeded Defendants’ collective reported net worth. On July 15, 2010, the parties agreed to mediation before the Hon. Daniel Weinstein (Retired) in an effort to reach a fair settlement that would avoid bankruptcy proceedings for Defendants. After multiple mediation sessions before Judge Weinstein and extensive negotiations, the parties have agreed to settle the Lawsuit on the terms described below. The Court has granted preliminary approval of the settlement and directed that this Notice be provided to you.

This Notice summarizes the key terms of the settlement, the procedure for obtaining final Court approval of the settlement and the steps you must take to participate in, opt-out or object to the settlement. Your legal rights are affected whether you act or not, so please read this Notice carefully.

KEY SETTLEMENT TERMS

The complete Settlement Agreement for the lawsuit can be obtained at [insert website]. Here are the key terms of the settlement:

1. Injunction. Pursuant to a Court-ordered injunction, the terms of which were negotiated by the Parties to the Settlement Agreements, Defendants will ensure that nurse staffing levels at the skilled nursing facilities meet or exceed the minimum staffing requirements under California law. The Injunction shall become effective on the Effective Date of the Settlement Agreements, if it occurs, and remain in place thereafter for at least 18 months. The injunction also provides for a Court-approved auditor to monitor Facility Defendants' compliance with the law. The estimated costs of compliance with the terms of the Injunction are approximately \$12.8 million, and Defendants have agreed that if the actual costs of compliance with the terms of the Injunction do not meet or exceed \$9.6 million (subject to adjustment), the difference between the actual costs of compliance with the terms of the Injunction and \$9.6 million (subject to adjustment) shall be paid by Defendants into the Cy Pres Fund (described below).

2. Settlement Fund. Defendants will make "Settlement Payments" in an aggregate amount of \$50 million in cash, which includes a \$45 million "Class Settlement Payment" and a \$5.0 million "Additional Settlement Payment." From the Settlement Payments, an estimated amount of at least \$25 million will be available for settlement payments to qualifying Class Members who make timely claims in response to this Notice ("Class Settlement Amount"). The Class Settlement Amount will be divided approximately 91.5% to the Facility Resident Class Members and 8.5% to Family Member and Private Pay Class Members. The balance of the Settlement Payments will be used to pay the Initial Additional Payment, the Service Payments, the Attorneys' Fees and Costs, the Administration Costs, and a contingent Final Additional Payment, all of which are defined below.

3. Cash Payments to Eligible Class Members. The amount of each Class Member's payment (each, a "Cash Payment") will be based on an estimate of the understaffed days during the year (or years) of a resident's stay at a Facility Defendant skilled nursing facility, multiplied by a per understaffed day amount. The estimated understaffed day amount is approximately \$20 per day for persons who are members of both the Facility Resident and Private Pay Classes. For example, if you resided at a Facility for 100 days in a particular year and made private payments during that time, and the Facility was understaffed 30% of that year, you would be eligible to receive approximately \$600 (100 days x 30% x \$20). Payments to eligible Class Members will be made through a claims process detailed below and administered by Gilardi & Company, LLC ("Settlement Administrator"). The class notice, claims administration, escrow fees and costs of settlement administration are estimated to be not more than \$400,000 (the "Administration Costs").

4. Service Payments to Named Plaintiffs. In recognition of their contribution to the Lawsuit and service to the Class, Plaintiffs Vinnie Lavender by and through her Conservator, Wanda Baker; Walter Simon and Jacquelyn Vilchinsky (collectively, the “Named Plaintiffs”) shall apply to the Court for the approval of Service Payments of \$10,000 each for a total of \$30,000. The actual amount of all Service Payments paid from the Settlement Fund shall be the total amount awarded by the Court (the “Service Payments”).

5. Additional Payments. From the Additional Settlement Payment, \$1.0 million shall be paid to the Humboldt County Treasurer-Tax Collector on behalf of the People of the State of California. This payment shall cover litigation expenses and civil penalties recovered by Intervenor, the Humboldt County District Attorney’s Office. If not required to pay claims asserted by Class Members, the remaining \$4.0 million of the Additional Settlement Payment shall be used for the contingent Final Additional Payment, as explained below.

6. Cy Pres Fund. Any Settlement Funds remaining after distribution to the Class and the other payments described herein (“Unused Funds”) shall be distributed as cy pres payments, donated to one or more charitable or non-profit organizations, trusts or other entities, to be selected in accordance with the procedure set forth in the Settlement Agreement; provided that, the first \$4.0 million of any Unused Funds shall be reserved for payment of the “Final Additional Payment” on the second anniversary of the Effective Date (as defined in the Settlement Agreement) as follows: (i) \$1.0 million to the Humboldt County District Attorney’s Office pursuant to Business and Professions Code 17206(b); (ii) \$500,000 to the Office of the Attorney General of the State of California; (iii) \$500,000 (plus any interest accumulated on the Final Additional Payment) to the California District Attorney’s Association; and (iv) \$400,000 to each of the District Attorney’s Offices for the Counties of Orange, Riverside, Los Angeles, Fresno and Santa Barbara. Under certain circumstances, the Final Additional Payment can be made prior to the second anniversary of the Effective Date. If, however, the Office of the Attorney General of the State of California, or any of the District Attorney’s Offices for the Counties of Orange, Riverside, Los Angeles, Fresno or Santa Barbara institute a separate action(s) seeking restitution and other civil remedies for violations under Health & Safety Code section 1430, subdivision (b) (subsuming theories of liability under sections 1276.5 and 1599.1) based on claims or allegations that occurred during the Class Period under B&P Code sections 17200, *et seq.*, for alleged unlawful business practices, including, but not limited to, relief under B&P Code sections 17203, 17206 and 17206.1 (except for matters involving the conduct at Eureka Healthcare and Rehabilitation Center, LLC, which was the subject of a search warrant by the Department of Justice served on the Northern California regional offices of Skilled Healthcare, LLC, on or about April 14, 2009), then the full amount of the Final Additional Payment shall be paid to the Defendants to be used to defend or settle such action(s). Any amounts not used to settle or defend any such action(s) shall revert back and be treated as Unused Funds under the Settlement Agreements.

7. Attorneys Fees and Litigation Costs. As approved by the Court, three law firms served as “Class Counsel” throughout the Lawsuit on behalf the Class: Janssen, Malloy, Needham, Morrison, Reinholsten, Crowley & Griego, LLP; the Law Offices of Michael D. Thamer; and Luce, Forward, Hamilton & Scripps, LLP. Class Counsel have worked on the case since at least May 2006, taken or defended over 107 depositions, reviewed over 1 million documents, briefed and argued over 140 motions (including 12 writs or applications to the

appellate courts) and successfully represented the Plaintiffs in a six-month jury trial. During these 4.5 years of litigation, Class Counsel have received no compensation for their services and have advanced substantial litigation expenses on behalf of the Class. Subject to Court approval, Class Counsel will apply for attorneys' fees not to exceed 40% of the Estimated Settlement Value (which the parties estimate is not less than \$62.8 million), plus interest earned on that amount from the date of the Settlement Payment. Class Counsel's fee application may include a request for fees and expenses in an amount that shall not exceed \$750,000 (inclusive of the 40% of the Estimated Settlement Value fee requested) for anticipated work on claims administration, monitoring compliance with the Injunction and other post-settlement work. Class Counsel will also apply for reimbursement of litigation costs which are estimated to be not more than \$2.0 million. The actual attorneys' fees and litigation costs paid from the Settlement Fund shall be the amounts awarded by Court (the "Attorneys' Fees and Costs").

8. Release of All Claims. In exchange for agreeing to the Injunction, and the other consideration from the Defendants as provided for in the Settlement Agreements, Defendants and their related entities shall be released from any and all legal liability with respect to the claims which were asserted or could have been asserted in the Lawsuit, subject to specific limitations in the Settlement Agreements. Claims for personal injuries (if any) have been specifically excluded from the Lawsuit and, as such, are not being released as part of the Settlement. However, Class Members who participate in the Settlement are deemed to have released all other claims that were asserted or could have been asserted in the Lawsuit, including all claims under (1) California Health & Safety Code section 1430(b) based on violations of Health & Safety Code sections 1276.5 or 1599.1(a) that arose prior to the Settlement Date, (2) the Consumer Legal Remedies Act, and (3) California Business and Professions Code section 17200, *et seq.*, including claims for unfair, unlawful or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising. By releasing these claims, you will be giving up important rights and benefits, including the right to assert these or related claims to a jury. You may wish to consult with your own attorney before deciding to stay in the Class and give up those rights.

HOW TO PARTICIPATE IN THE SETTLEMENT

In order to be eligible to receive a Cash Payment, a Class Member must timely complete and submit a Claim Form to the "Settlement Administrator." The Claim Form and instructions for mailing it are included with this Notice. The beneficiaries of a deceased Class Member may also receive a Cash Payment on behalf of the Class Member provided that they also complete an additional form, which they can receive by calling the Settlement Administrator.

HOW TO OPT-OUT

If you do not want to remain a Class Member, you may choose to exclude yourself from the Lawsuit. This is called "opting out." If you decide to opt-out, you must send a signed letter stating "I hereby opt-out of the Skilled Healthcare Class Action Settlement" to Gilardi & Co. LLC, 3301 Kerner Blvd., San Rafael, CA 94901. In that letter, you must include your printed name, address and signature. The request for exclusion letter must be postmarked no later than _____, 2010, and must be signed by the person(s) to whom this Notice is addressed, or their legally authorized representative.

HOW TO OBJECT TO THE SETTLEMENT

You may also object to all or any part the proposed settlement of the Lawsuit, if you wish. In order to object to the proposed settlement, you must file written objections by _____, **2010** with the Court Clerk of the Humboldt County Superior Court, located at 825 Fifth Street, Eureka, California 95501-1153. If you wish to appear at the Final Approval hearing, you must so state in your objection. In order to be considered valid, objections must be postmarked and actually received by _____, **2010**. Copies of any written objections must also be served on Plaintiffs' Class Counsel and Defendants' Counsel, at the following addresses: Janssen, Malloy, Needham, Morrison, Reinholtzen, Crowley & Griego, LLP (Plaintiffs' Class Counsel), c/o Karen Ellis, 730 Fifth Street, Eureka, CA 95501 and Wroten & Associates, Inc. (Defendants' Counsel), c/o Darryl Ross, 20 Pacifica, Suite 1100, Irvine, CA 92618

FINAL APPROVAL HEARING

The Court will hold the Final Approval Hearing at : 0 .m on, _____, 2010, at the Superior Court for the County of Humboldt, 825 Fifth Street, Eureka, California 95501, in Courtroom 1. At this hearing the Court will consider whether to approve the settlement as fair and adequate. If there are objections, the Court will consider them. The Court will also decide whether to approve Plaintiffs' Class Counsel's request for approval of the Attorneys' Fees and Costs. The Court may enter its order at the hearing, or it may consider the matter further and enter its order after the hearing. We do not know how long these decisions will take. If the Court does not approve the settlement, you will be notified.

If you have questions regarding the settlement, you may obtain additional information by visiting www.gilardi.com/skilledhealthcare or calling the Settlement Administrator toll-free 1-888-XXX-XXXX. You can also write to the administrator at Skilled Healthcare Settlement Administrator, c/o Gilardi & Co. LLC, P.O. Box 80_____, San Rafael, CA 94901-_____. **PLEASE DO NOT TELEPHONE THE COURT.**

EXHIBIT F

(Summary Notice)

IF YOU WERE A RESIDENT OR FAMILY MEMBER OF A RESIDENT AT ONE OF THE CARE FACILITIES LISTED BELOW, A CLASS ACTION LAWSUIT MAY AFFECT YOUR RIGHTS

NOTICE OF PROPOSED CLASS ACTION SETTLEMENT

This notice pertains to the settlement of a class action lawsuit entitled *Vinnie Lavender et al. v. Skilled Healthcare Group, Inc. et al.*, Humboldt County Superior Court, Case No. DR060264 ("Lawsuit"). The Lawsuit was filed against the following "Facility Defendants":

Alexandria Care Center, LLC Alta Care Center, LLC Anaheim Terrace Care Center, LLC Bay Crest Care Center, LLC Brier Oak On Sunset, LLC Carehouse Healthcare Center, LLC Devonshire Care Center, LLC Elmcrest Care Center, LLC Eureka Healthcare and Rehabilitation Center, LLC Granada Healthcare and Rehabilitation Center, LLC Hancock Park Rehabilitation Center, LLC	Montebello Care Center, LLC Pacific Healthcare and Rehabilitation Center, LLC Royalwood Care Center, LLC Seaview Healthcare and Rehabilitation Center, LLC Sharon Care Center, LLC St. Luke Healthcare & Rehabilitation Center, LLC Sycamore Park Care Center, LLC The Earlwood, LLC Valley Healthcare Center, LLC Villa Maria Healthcare Center, LLC Willow Creek Healthcare Center LLC
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The Lawsuit was also filed against Skilled Healthcare Group, Inc., and Skilled Healthcare, LLC (which, together with the Facility Defendants, are referred to as "Defendants").

ARE YOU AFFECTED?

Anyone who resided in one or more of the Facility Defendants between September 1, 2003 and September 7, 2010 (or, in the case of St. Luke Healthcare and Rehabilitation Center, LLC only, between December 15, 2003 and September 7, 2010), or was a family member of such a resident who paid money to any Defendant on behalf of the resident, is a Class Member and affected by the proposed settlement.

WHAT IS THE LAWSUIT ABOUT?

The Lawsuit alleged that the Defendants failed to (1) meet California's minimum staffing requirements, and (2) employ an adequate number of qualified nursing personnel at the skilled nursing facilities operated by Facility Defendants during the above times. Defendants deny these allegations. On July 6, 2010, after a six-month trial, a jury returned a verdict of approximately \$676.8 million in favor of the Plaintiffs. The verdict substantially exceeds Defendants' collective reported net worth. After multiple mediation sessions before a retired California judge, the parties have agreed to settle the Lawsuit. The Court has preliminary approved the settlement and approved this notice.

WHAT ARE THE SETTLEMENT TERMS?

The complete settlement agreement is available at [www.\[insert\].com](http://www.[insert].com). Generally, the key terms are as follows:

1. Pursuant to a Court-ordered injunction, the terms of which were negotiated by the Parties to the Settlement Agreements, Defendants will ensure that nurse staffing levels at the skilled nursing facilities meet or exceed the minimum staffing requirements under California law. The Injunction shall become effective on the Effective Date of the Settlement Agreements, if it occurs, and remain in place thereafter for at least 18 months. The estimated compliance costs is approximately \$12.8 million, with a minimum expense of \$9.6 million required, subject to adjustment if, for example, Defendants close a facility.
2. Defendants will pay an aggregate amount of \$50 million in cash, which includes a \$45 million "Class Settlement Payment" and a \$5.0 million "Additional Settlement Payment." The overall Estimated Settlement Value is \$62.8 million (\$50 million cash and \$12.8 estimated injunction costs.) From the Class Settlement Payment, an estimated amount of at least \$25 million will be available for settlement payments to qualifying Class Members who make timely claims in response to this Notice ("Class Settlement Amount"). The balance of the Class Settlement Payment will be used to pay service payments of \$30,000 in total to the three named plaintiffs, settlement administration expenses not to exceed \$400,000, litigation expenses not to exceed \$2 million and attorneys' fees to the Class Counsel not to exceed 40% of the Estimated Settlement Value, with actual amount of fees to be determined by the

Court. The Additional Settlement Payment will be used for a remedial payment of \$1 million to the Humboldt County District Attorney's Office (as Intervenor). Assuming funds are available after distribution to Class Members, additional payments totaling \$4 million will be made to the Humboldt County District Attorneys' Office, other District Attorneys, the California District Attorneys' Association and California Attorney General's Office.

3. In exchange for these benefits, Class Members will be releasing all claims against the Defendants that were asserted or could have been asserted in the Lawsuit, subject to specific limitations in the Settlement Agreement.

WHO REPRESENTS YOU?

The Court has appointed the three law firms of Janssen, Malloy, Needham, Morrison, Reinholsten, Crowley & Griego, LLP; the Law Offices of Michael D. Thamer; and Luce, Forward, Hamilton & Scripps, LLP to serve as "Class Counsel." At the Final Approval Hearing, Class Counsel will seek approval for reimbursement of litigation expenses not to exceed \$2 million and attorneys' fees not to exceed 40% of the estimated settlement value.

WHAT ARE YOUR OPTIONS?

If you wish to remain a Class Member, you do not have to do anything. However, to obtain settlement payment, you must file a claim. If the Court approves the settlement, you will be legally bound by all orders and judgments of the Court, and you will not be able to sue, or continue to sue the Defendants related to their staffing levels during the time period described above.

If you wish to receive a settlement payment, you must complete and submit a Claim Form to Gilardi & Co. (the "Settlement Administrator") at the address located at the end of this Notice. Claim forms must be received by the administrator, postmarked no later than _____, 2010. You may obtain a Claim Form by calling the Settlement Administrator at 1-800-[insert], or visiting [www.\[insert\].com](http://www.[insert].com)

If you do not wish to participate in the Settlement, you must send a letter containing your name, signature, address and telephone number to the Claims Administrator at the address located at the end of this Notice, postmarked not later than _____, 2010, stating you want to be excluded from the Lavender v. Skilled Healthcare Settlement. If you choose to be excluded from the settlement, you will not receive any settlement payment. However, you will retain your right to sue the defendants for any claims you may have and will not be bound by any orders or judgments of the Court.

If you wish to appear at the Final Approval Hearing or object to the proposed settlement, you must file a written objection and/or notice to appear with the Court Clerk of the Humboldt County Superior Court, located at 825 Fifth Street, Eureka, California 95501-1153, by _____, 2010. Copies of any written objections must also be served on Class Counsel and Defendants' Counsel, at the following addresses:

Janssen, Malloy, Needham, Morrison,
Reinholsten, Crowley & Griego, LLP
C/O Karen Ellis
730 Fifth Street
Eureka, CA 95501

Plaintiffs' Counsel

Wroten & Associates, Inc.
C/O Darryl Ross
20 Pacifica, Suite 1100
Irvine, CA 92618

Defendants' Counsel

HOW CAN YOU GET MORE INFORMATION?

This is only a summary of the key terms of the settlement. For more information, including a long-form version of the class notice, visit www.gilardi.com/skilledhealthcare or call toll-free 1-888-XXX-XXXX. You can also write to the administrator at Skilled Healthcare Settlement Administrator, c/o Gilardi & Co. LLC, P.O. Box 80____, San Rafael, CA 94901-____.

www.gilardi.com/skilledhealthcare

PLEASE DO NOT TELEPHONE THE COURT

By order of the Honorable W. Bruce Watson, Humboldt County Superior Court, dated _____, 2010.

EXHIBIT G

(Final Approval Order)

1 W. Timothy Needham, State Bar No. 96542
2 Michael J. Crowley, State Bar No. 102343
3 Amelia F. Burroughs, State Bar No. 221490
JANSSEN, MALLOY, NEEDHAM, MORRISON,
REINHOLSTEN, CROWLEY & GRIEGO, LLP
730 Fifth Street
4 Eureka, CA 95501
Telephone: 707.445.2071
5 Facsimile: 707.445.8305

6 Michael D. Thamer, State Bar No. 101440
LAW OFFICES OF MICHAEL D. THAMER
7 Old Callahan School House
12444 South Highway 3
8 P.O. Box 1568
Callahan, CA 96014-1568
9 Telephone No.: 530.467.5307
Facsimile No.: 530.467.5437

10 Christopher J. Healey, State Bar No. 105798
11 Aaron T. Winn, State Bar No. 229763
LUCE, FORWARD, HAMILTON & SCRIPPS LLP
12 600 West Broadway, Suite 2600
San Diego, CA 92101-3372
13 Telephone No.: 619.236.1414
Fax No.: 619.232.8311

14
15 Attorneys for Plaintiffs

16
17 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
18 **FOR THE COUNTY OF HUMBOLDT**
19

20 VINNIE LAVENDER by and through her
21 Conservator, WANDA BAKER; WALTER
SIMON; JACQUELYN VILCHINSKY,

22 Plaintiffs,

23 v.

24 SKILLED HEALTHCARE GROUP, INC., et
al.,

25 Defendants.

Case No. DR060264

**[PROPOSED] ORDER GRANTING
FINAL APPROVAL OF CLASS ACTION
SETTLEMENT**

Date:

Time:

Dept.: 1

Complaint Filed: May 4, 2006
Trial Date: November 30, 2009

1 WHEREAS, this matter, having been brought before the Court on ___, 2010, pursuant to
2 this Court's Order Granting Preliminary Approval of Class Action Settlement dated ___, 2010, to
3 determine whether the *Class Settlement Agreement and Release with Plaintiffs Vinnie Lavender*
4 (*By and Through Her Conservator*), *Wanda Baker, Walter Simon, and Jacquelyn Vilchinsky* (the
5 “Plaintiffs' Settlement Agreement”) and the *Settlement Agreement and Release with the People of*
6 *the State of California, by and through Intervenor, the Humboldt County District Attorney's Office*
7 (the “Intervenor's Settlement Agreement,” and together with the Plaintiffs' Settlement Agreement,
8 the “Settlement Agreements”) are fair and reasonable and should be approved as in the best
9 interest of the Settlement Classes; and

10 WHEREAS notice of the proposed Settlement having been given to all Class Members as
11 directed by this Court's September ___, 2010 Order Granting Preliminary Approval of Class Action
12 Settlement, and

13 WHEREAS the Claims Administrator has filed proof of Notice with the Court; and

14 WHEREAS the Court is satisfied that Notice has been provided to all Class Members and
15 further, that the Notice and Summary Notice complies with the requirements of California Code of
16 Civil Procedure section 382 and California Rule of Court 3.769(f) and due process and constituted
17 the best notice practicable under the circumstances and constituted due and sufficient notice to all
18 persons entitled thereto.

19 WHEREAS the Court has received and reviewed the Settlement Agreements and all
20 exhibits thereto; and

21 WHEREAS all persons present or represented at the Final Approval Hearing, who were
22 entitled to be heard pursuant to the Notice, having been given an opportunity to be heard; and

23 WHEREAS counsel for the parties having appeared in support of the Settlement; and

24 WHEREAS Plaintiffs' Class Counsel and Intervenor's Counsel having represented to the
25 Court that in their opinion the settlement is fair and reasonable and in the best interests of the
26 Settlement Classes and The People of the State of California, respectively; and

27 WHEREAS the Court having considered all documents filed in support of the Settlement,
28 and fully considered all matters raised, all exhibits and affidavits filed and all evidence received at

1 the Final Approval Hearing, all other papers and documents comprising the record herein, and all
2 oral arguments presented to the Court;

3 **IT IS HEREBY ORDERED** as follows:

4 1. For purposes of this Order Granting Final Approval of Class Action Settlement
5 (“Order”), the Court adopts all defined terms as set forth in the Settlement Agreements,
6 incorporated by reference herein. To the extent that any inconsistencies exist between this Order
7 and the Settlement Agreements (including Exhibits thereto), the terms of the Settlement
8 Agreements shall control.

9 2. The Court has jurisdiction over the subject matter of the Related Actions, and over
10 all parties to the Related Actions, including all Class Members.

11 3. The Court approves the Settlement of the Related Actions set forth in the
12 Settlement Agreements as being fair, just, reasonable and adequate to the Settlement Classes and
13 Class Members.

14 4. There have been no objections asserted to the approval of the Settlement or the
15 Settlement Agreements that have not been overruled.

16 5. The “Class Period” is, except as set forth immediately below with respect to
17 persons who resided at St. Luke Healthcare and Rehabilitation Center, LLC (“St. Luke”) (as
18 defined below), September 1, 2003, through and including September 7, 2010. As defined
19 immediately below, the Settlement Classes consist of two classes and a subclass, namely: (1) the
20 “Facility Resident Class” with a “Private Pay Subclass,” and (2) the “Family Member Class.”
21 Only individuals included in the following Settlement Classes are covered by the Settlement
22 Agreements.

23 **Class 1: FACILITY RESIDENT CLASS**

24 The Facility Resident Class consists of all persons who resided at a Defendant
25 Skilled Nursing Facility during the Class Period, with the exception of St. Luke ,
26 which consists of all persons who resided at St. Luke from December 15, 2003
27 through and including September 7, 2010.

28 **Class 1A: PRIVATE PAY SUBCLASS**

The Private Pay Subclass is a subclass of the Facility Resident Class and consists of
all persons who are members of the Facility Resident Class and who made

1 payments to the Defendants, or any of them, through private pay funds during the
2 Class Period.

3
4 **Class 2: FAMILY MEMBER CLASS**

5 The Family Member Class consists of all persons who are related to any Facility
6 Resident Class member by blood, marriage or legal relationship and paid monies to
7 the Defendants, or any of them, for services rendered at a Defendant Skilled
8 Nursing Facility to any Facility Resident Class member during the Class Period.

9
10 6. The Court finds that the requirements of California Code of Civil Procedure
11 Section 382 have been satisfied and that the Named Plaintiffs and Plaintiffs' Class Counsel fairly
12 and adequately represent the Settlement Classes and satisfy the requirements to be representatives
13 of and counsel to the Settlement Classes.

14 7. The Notice provided to Class Members pursuant to the Order Granting Preliminary
15 Approval of Class Action Settlement constitutes full and adequate notice and is in full compliance
16 with the requirements of California law and due process of law.

17 8. The Settlement shall be implemented and consummated in accordance with the
18 terms and conditions of the Settlement Agreements.

19 9. Neither the Settlement Agreements, nor any of their terms or provisions, nor any of
20 the negotiations or proceedings connected with respect thereto shall be construed as an admission
21 or concession by Defendants of the truth of any of the allegations related to or arising under the
22 Related Actions, or of any liability, fault or wrongdoing of any kind.

23 10. Pursuant to the *Judgment of Dismissal With Prejudice* (the "Judgment") entered
24 concurrently herewith, the Related Actions, and each allegation, claim and causes of action
25 asserted therein against Defendants are dismissed on the merits and with prejudice against Named
26 Plaintiffs and all Class Members who have not validly and timely requested exclusion, subject to
27 the terms of the Settlement Agreements.

28 11. The Named Plaintiffs and all Class Members, on behalf of themselves and any of
29 their respective agents, successors, heirs, assigns, and other persons and entities referenced in the
30 Settlement Agreements, for good and sufficient consideration, the receipt of which is hereby
31 acknowledged, shall be deemed to have released and forever discharged the Defendants and

1 Defendant Released Parties and each of them, from any and all Released Claims, as defined in,
2 and in accordance with the terms and conditions of, the Settlement Agreements.

3 12. Pursuant to Code of Civil Procedure section 664.6 and California Rule of
4 Court 3.769(h), the Court hereby reserves jurisdiction over the Related Actions and the Settlement
5 to enforce the terms of this Order and the Injunction.

6 13. This Order is final for purposes of appeal and may be appealed, and the Clerk is
7 hereby directed to enter the Judgment. If this Order does not become effective in accordance with
8 the terms of the Settlement Agreements (*see e.g.*, Plaintiffs' Settlement Agreement, ¶ VI.G), then
9 this Order and the Judgment, shall be rendered null, void and vacated in accordance with and to
10 the extent of the terms of Settlement Agreements.

11 14. Plaintiffs' application for approval of Attorneys' Fees and Costs and Service
12 Payments is approved as follows:

13 a. Plaintiffs' application for litigation expenses and costs incurred prior to the
14 Settlement Date is approved in the amount of \$_____.

15 b. Plaintiffs' application for attorneys' fees for work performed prior to the
16 Settlement Date is approved in the amount of \$ _____, plus interest accrued on
17 that amount from the date that the Settlement Payment was delivered to the Escrow Agent
18 through and including the date of disbursement to Plaintiffs' Counsel.

19 c. Plaintiffs' application for attorneys' fees and costs incurred after the
20 Settlement Date is approved in an amount not to exceed \$750,000; provided, however,
21 that, Plaintiffs' Counsel shall make a subsequent application to the Court for approval of
22 the payment of these additional fees, supported by appropriate invoices showing the work
23 performed and expenses incurred.

d. The Court approves Service Payments in a aggregate amount of \$30,000, which amount shall be divided among the Named Plaintiffs.

IT IS SO ORDERED.

DATED: _____

Judge of the Superior Court

101297920.2

EXHIBIT H

(Judgment of Dismissal With Prejudice)



SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF HUMBOLDT

VINNIE LAVENDER, by and through her Conservator, WANDA BAKER, WALTER SIMON; JACQUELYN VILCHINSKY,

Plaintiffs,

vs.

SKILLED HEALTHCARE GROUP, INC., et al.,

Defendants.

CASE NO. DR060264

JUDGMENT OF DISMISSAL WITH PREJUDICE

CLASS ACTION

Action Filed: May 4, 2006
Trial Date: November 30, 2009

IT IS HEREBY ADJUDGED AND DECREED THAT:

20 1. This Judgment of Dismissal With Prejudice (“Judgment”) incorporates by reference
21 the definitions contained in the *Class Settlement Agreement and Release with Plaintiffs Vinnie*
22 *Lavender (By and Through Her Conservator), Wanda Baker, Walter Simon, and Jacquelyn*
23 *Vilchinsky*, dated as of September 7, 2010 (the “Plaintiffs’ Settlement Agreement”) and *Settlement*
24 *Agreement and Release with the People of the State of California, by and through Intervenor, the*
25 *Humboldt County District Attorney’s Office*, dated as of September 7, 2010 (the “Intervenor’s
26 Settlement Agreement,” and together with the Plaintiffs’ Settlement Agreement, the “Settlement
27 Agreements”) and all terms used herein shall have the same meanings as set forth in the



1 Settlement Agreements unless otherwise defined herein. The terms of the Settlement Agreements
2 are fully incorporated in this Judgment as if set forth fully herein.

3 2. The Court has jurisdiction over the subject matter of the Related Actions, and all
4 parties to the Related Actions, including all Class Members.

5 3. Pursuant to the Order Granting Final Approval of Class Action Settlement, all
6 Persons who satisfy the Settlement Class definitions therein are Class Members bound by this
7 Judgment.

8 4. Persons who file timely completed Opt-Outs are not bound by this Judgment or the
9 terms of the Plaintiffs' Settlement Agreement, however, such Persons are not entitled to any rights
10 or benefits provided to Settlement Classes by the terms of the Agreement.

11 5. For the reasons set forth in the accompanying Order Granting Final Approval of
12 Class Action Settlement, the Settlement of the Related Actions on the terms set forth in the
13 Settlement Agreements, along with all Exhibits thereto, proposed by the Parties has been approved
14 by this Court.

15 6. Pursuant to the Order Granting Final Approval of Class Action Settlement, all
16 Class Members who have not timely and validly filed Opt-Outs: (a) shall be deemed Class
17 Members who are bound by this Judgment, by the Order Granting Final Approval of Class Action
18 Settlement, and by the terms of the Agreements; and (b) are permanently barred and enjoined from
19 asserting, commencing, prosecuting or continuing the Released Claims, or any of them, against the
20 Defendants and Defendant Released Parties, or any of them.

21 7. The Court hereby dismisses with prejudice the Related Actions, which dismissal
22 shall be effective on the Effective Date, if it occurs.

23 8. Additionally, the Court hereby vacates, as of the Effective Date, if it occurs, the
24 following rulings and orders made pursuant to hearings and during trial of the Related Actions:

25 a. Orders and Judgments for Permanent Injunction, entered on
26 August 26, 2010;

27
28



4 c. Decision on in Limine Motions, entered on December 22, 2009;

5 d. Oral Ruling, RT 1/14/2010 10:59 a.m. 1:5- 16:23; 16: 24- 24:19;

6 e. Decision on in Limine Motions, entered on December 22, 2009;

7 f. Oral Ruling, RT 6/9/2010 8:42 a.m. 1:24-4:3;

g. Oral Ruling, RT 2/8/2010, 22:17-23:19;

9 h. Oral Ruling, RT 12/9/2009 10:21 a.m. 7:27-8:9;

10 i. Defendants Motions for Summary Judgment/Adjudication, III. Lack of
11 Merit-Reliance (CLRA) and IV. Lack of Merit-Standing (CLRA), dated
12 November 23, 2009;

13 j. Oral Ruling, RT 1/14/2010 10:36 a.m. 167:16-18; RT 1/12/2010 8:36
14 a.m. 22:9-13.

15 9. Without affecting the finality of this Judgment, the Court reserves jurisdiction over
16 the implementation, administration and enforcement of this Judgment and the Settlement
17 Agreements, and all matters ancillary thereto.

18 10. The Court, finding that no reason exists for delay, hereby directs the Clerk to enter
19 this Judgment forthwith.

21 | IT IS SO ORDERED.

23 | DATED: _____, 2010

JUDGE OF THE SUPERIOR COURT

EXHIBIT I

(Stipulation for Stay Pending Appeal and [Proposed] Order Thereon)

No. A129514

**IN THE COURT OF APPEAL
OF THE STATE OF CALIFORNIA
FIRST APPELLATE DISTRICT
DIVISION THREE**

**VINNIE LAVENDER, by and through her conservator Wanda Baker,
WALTER SIMON, JAMES C. BREWER and JACQUELYN VILCHINSKY,**

Plaintiffs,

v.

SKILLED HEALTHCARE GROUP, INC., et al.,

Defendants.

Appeal from the County of Humboldt; Honorable W. Bruce Watson, Presiding
Humboldt County Superior Court Case No. DR060264

**STIPULATION FOR STAY OF PENDING APPEAL AND [PROPOSED] ORDER
THEREON**

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Attorneys for Defendants

CERTIFICATE OF INTERESTED ENTITIES OR PERSONS

(Cal. Rules of Court, Rules 8.208, 8.490, 8.494, 8.496 & 8.498)

The following entities or persons have either (1) an ownership interest of 10 percent or more in the party or parties filing this certificate (Cal. Rules of Court, Rule 8.208(e)(1)), or (2) a financial or other interest in the outcome of the proceeding that the justices should consider in determining whether to disqualify themselves (Cal. Rules of Court, Rule 8.208(e)(2)):

Summit Care Corporation (a non-Defendant entity) holds an ownership interest of 10% or more in Petitioners Granada Healthcare and Rehabilitation Center, LLC; Eureka Healthcare and Rehabilitation Center, LLC; Pacific Healthcare and Rehabilitation Center, LLC; Seaview Healthcare and Rehabilitation Center, LLC; St. Luke Healthcare and Rehabilitation Center, LLC; Bay Crest Care Center, LLC; Brier Oak on Sunset, LLC; The Earlwood, LLC; Royalwood Care Center, LLC; Sycamore Park Care Center, LLC; Villa Maria Healthcare Center, LLC; Valley Healthcare Center, LLC; Alta Care Center, LLC; Anaheim Terrace Care Center, LLC; Carehouse Healthcare Center, LLC; Devonshire Care Center, LLC; Elmcrest Care Center, LLC; Montebello Care Center, LLC; Alexandria Care Center, LLC; Hancock Park Rehabilitation Center, LLC and Sharon Care Center, LLC.

Defendant Skilled Healthcare Group, Inc. holds an ownership interest of 10% or more in non-Defendant entity Summit Care Corporation. Affiliates and associates of Onex Corporation, a Canadian company, (collectively Onex Partners GP LP; Onex Partners LLC and Onex American Holdings LLC) hold an ownership interest of 10% or more in Defendant Skilled Healthcare Group, Inc.

Dated: September __, 2010

WROTON & ASSOC., INC.

By: _____
Laura K. Sitar
Attorneys for Defendants

STIPULATION FOR STAY OF APPEAL

WHEREAS, on September 7, 2010, the Parties entered into a Settlement Agreement and Release (the “Settlement Agreement”) in this case, subject to the approval of the trial court, with all terms used herein having the same definitions as contained in that Settlement Agreement;

WHEREAS, Defendants and the Intervenor also have executed or will be executing a settlement agreement (the “Intervenor’s Settlement Agreement,” and collectively with the Settlement Agreement, the “Settlement Agreements”);

WHEREAS, the Settlement Agreements are subject to a Preliminary Approval Order and a Final Approval Order by the trial court, an approval process which may require several months given the class notice and other procedural requirements associated therewith;

WHEREAS, if the Settlement Agreements are approved on a final basis by the trial court and not terminated prior to the Effective Date thereof, this case will be resolved in its entirety and a final stipulated judgment of dismissal with prejudice will be entered, thus obviating the need for this appeal;

WHEREAS, prior to execution of the Settlement Agreements, on August 27, 2010, Defendants filed this appeal;

WHEREAS, if (but only if) the Settlement Agreements are finally approved and not terminated prior to the Effective Date thereof, Defendants have agreed to dismiss this appeal;

WHEREAS, the Parties wish to avoid the cost of pursuing this appeal if the Settlement Agreements are approved by the trial court on a final basis and not terminated prior to the Effective Date thereof,

THEREFORE, the Parties and Intervenor hereby stipulate and agree that all proceedings in this appeal shall be stayed until the Effective Date of the Settlement Agreements, if it occurs. On the Effective Date, if it occurs, the Parties shall notify this Court that Defendants are dismissing this appeal. To the extent that a Termination occurs under the Settlement Agreements, the Parties shall notify this Court that the stay should be lifted and Defendants will proceed with this appeal.

Dated: September __, 2010

IT IS SO STIPULATED:

WROTEN & ASSOCIATES, INC.

By _____
Laura K. Sitar
Attorneys for Defendants

JANSSEN, MALLOY, NEEDHAM,
MORRISON, REINHOLSEN,
CROWLEY & GRIEGO, LLP

By _____

W. Timothy Needham
Attorneys for Plaintiffs

OFFICE OF THE DISTRICT
ATTORNEY, HUMBOLDT COUNTY

By _____
Paul V. Gallegos
Attorneys for Intervenor

**ORDER STAYING APPEAL PENDING FINAL
SETTLEMENT APPROVAL**

Upon stipulation of Plaintiffs, Defendants and Intervenor, and for good cause shown, it is hereby ordered that the appeal in this matter filed on August 27, 2010, No. A129514, is stayed until the Effective Date of the Settlement Agreements, if it occurs. On the Effective Date, if it occurs, the Parties shall notify this Court that Defendants are dismissing this appeal. To the extent that a Termination occurs under the Settlement Agreements, the Parties shall notify this Court that the stay should be lifted and Defendants will proceed with this appeal.

IT IS SO ORDERED.

DATED: September __, 2010

Presiding Justice

SD\726145.1

EXHIBIT J

(Claim Form)

3. CERTIFICATION

I hereby certify that I have read the Notice of Pendency of Class Action. I hereby certify that the Class Member was confined at one or more of the Skilled Nursing Facilities listed in the Notice of Pendency of Class Action during the Penalty Period. I hereby release defendants from any and all claims and causes of action that were the subject of this Litigation. I hereby certify that the statements and information set forth above are true and correct.

Date: _____

Signature of Class Member (or Representative if claiming on behalf of Class Member)

Name of Claimant, if not Class Member:

11. **What is the primary purpose of the *Journal of Clinical Oncology*?**

Representative Capacity of Claimant, if claiming on behalf of Class Member.

4. MAIL CLAIM FORM

Mail your completed claim form, using the self-addressed, postage prepaid envelope that is enclosed, to the following address:

Lavender v. Skilled Healthcare Group, Inc. Settlement Administrator
c/o Gilardi & Co. LLC
P.O. Box 8060
San Rafael, CA 94912-8060

The Claim Form and Memorandum must be mailed no later than _____, 2010.

