UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF GEORGIA
MACON DIVISION

UNITED STATES OF AMERICA, Plaintiff, v. BEVERLY ENTERPRISES, BEVERLY ENTERPRISES-ALABAMA, INC., SOUTHERN MEDICAL SERVICES, INC., AMERICAN TRUST OF HAWAII, INC. AS TRUSTEE UNDER THE SOUTHERN MEDICAL SERVICES, INC. PROFIT SHARING PLAN, GEORGE A. SMITH, and JACK B. BRUCE, Defendants.	Civil Action No. 84-70-1-MAC Filed: February 28, 1984

COMPETITIVE IMPACT STATEMENT

Pursuant to Section 2(b) of the Antitrust Procedures and Penalties Act ("APPA"), 15 U.S.C. § 16(b)-(h), the United States files this Competitive Impact Statement relating to the proposed Final Judgment ("Judgment") submitted for entry in this civil antitrust proceeding.

I. Nature and Purpose of the Proceeding

On January 18, 1984, the United States filed a civil antitrust complaint and a motion for preliminary injunction and temporary restraining order pursuant to Section 15 of the Clayton Act, 15 U.S.C. § 25, challenging the proposed acquisition of Southern Medical Services, Inc. ("SMS") of

Birmingham, Alabama by Beverly Enterprises and Beverly Enterprises-Alabama, Inc. (collectively "Beverly") of Pasadena, California as a violation of Section 7 of the Clayton Act, 15 U.S.C. § 18. Also named in the complaint were American Trust of Hawaii, Inc. as Trustee under the SMS Profit Sharing Plan ("the Trustee"), which owns 34 percent of SMS' voting stock, and George A. Smith and Jack B. Bruce who each own 33 percent of SMS' voting stock. The complaint alleged the effect of the acquisition may be substantially to lessen competition in the provision of nursing home care in the following four local geographic markets: (1) the area in and around the cities of Macon and Gray, Georgia; (2) the area in and around the cities of Augusta, Martinez and Evans, Georgia and North Augusta, South Carolina; (3) the area in and around the city of Montgomery, Alabama; and (4) the area in and around the cities of Mobile and Eight Mile, Alabama. The complaint sought a preliminary and permanent injunction preventing defendants from consummating the proposed acquisition or from entering into any similar plan to acquire any stock or assets in any nursing homes in the four local markets.

Plaintiff and Beverly have stipulated that the proposed Judgment may be entered after compliance with the APPA. Entry of the proposed Judgment will terminate the action, except that the Court will retain jurisdiction to construe, modify, or enforce the provisions of the proposed Judgment, and to punish violations of the proposed Judgment. Following the consummation of the SMS acquisition, plaintiff will file notice of its

intent to terminate this action against SMS, the Trustee, George H. Smith and Jack B. Bruce by dismissal without prejudice as these parties will cease to exist or have disposed of all of their stock interest in SMS.

II. Events Giving Rise to the Alleged Violation

Nursing homes provide long-term inpatient care for geriatric patients requiring less nursing care than that supplied by acute care hospitals but more than that offered by residential and personal care homes and home health agencies. Defendant Beverly is the nation's largest nursing home chain, operating over 780 homes nationwide and had revenues of $816 million in 1982. SMS operates 49 homes in seven southeastern states. Its 1982 revenues exceeded $30 million.

Nursing homes compete in localized areas and the government was prepared to prove that Beverly and SMS presently compete in the four local markets in Alabama and Georgia and that the effect of the acquisition may be to substantially lessen competition in these markets. Each of the four markets alleged in the complaint is concentrated and as a result the proposed acquisition would not only eliminate a major competitor but allow Beverly to control a large percentage of the total licensed nursing home beds in those areas. Beverly's market share in each market after the proposed acquisition would have exceeded 29 percent and would have been as high as 48 percent in the Montgomery, Alabama market. Plaintiff was further prepared to prove that the nursing home industry is highly

regulated and entry in both Alabama and Georgia is limited by state certificate-of-need laws. The Department, therefore, concluded that the proposed acquisition may substantially lessen competition in each of the four markets to the detriment of nursing home patients.

Although it did not include allegations as to the Huntsville, Alabama market in the complaint, the Department has continued to investigate the impact of the acquisition and preliminarily has determined that the acquisition may substantially lessen competition in that area as well. The proposed Final Judgment will prevent any anticompetitive effects of the acquisition in the Huntsville, Alabama market as well as in the four markets alleged in the complaint

III. Explanation of the Proposed Judgment

Plaintiff and Beverly have stipulated that the proposed Judgment may be entered by the Court at any time after compliance with the APPA. The proposed Judgment constitutes no admission by any party as to any issue of fact or law. Under the provisions of Section 2(e) of the APPA, entry of the proposed Judgment is conditioned upon a determination by the Court that the proposed Judgment is in the public interest.

The proposed Judgment is designed to ensure that the acquisition of SMS by Beverly does not substantially lessen competition among providers of nursing home care in the markets set forth above by requiring that Beverly divest itself of all of its interest in seven homes in the four areas alleged in the

complaint plus one home in Huntsville to an independent, viable competitor. The terms of the proposed Judgment require that pursuant to the parties' stipulation, Beverly will, no later than September 1, 1984, transfer all legal and equitable ownership, rights or other interests in eight nursing home facilities to First American Health Care, Inc. ("First American") of Huntsville, Alabama. Pursuant to a purchase agreement entered into on Februry 2, 1984, First American will acquire the following eight Beverly homes (seven formerly owned by SMS and one owned by Beverly): Southern Medical of East Macon and Southern Medical of North Macon in Macon, Georgia; Southern Medical of Augusta in Augusta, Georgia; Lynwood Nursing Home and Southern Medical of Springhill in Mobile, Alabama; Perry Hill Health Facility and Montgomery Health Care Center in Montgomery, Alabama; and Southern Medical of Huntsville in Huntsville, Alabama.

The proposed Judgment also contains provisions designed to ensure that if for any reason the divestiture to First American does not occur or in the event of delay of the closing or default after closing, Beverly will immediately notify both the Department and the Court and the Court shall determine the manner and timing of the divestiture as required by the Judgment. Beverly may not assume management or control of the homes in those circumstances and may not retain any legal interest in the facilities for a period exceeding nine months. The Judgment further provides that Beverly shall enter into

certain management agreements with First American to permit First American to operate the homes until regulatory approvals are forthcoming and the purchase agreement can be completed. If, for any reason, the First American management agreements terminate before the purchase agreement is consummated or if First American defaults on its purchase obligation, the management of the homes will be transfered to a qualified nursing home operator independent of Beverly who shall assume the operation and control of the facilities. Also, Beverly may not acquire any ownership or control in First American or in any entity that acquires ownership in the facilities to be divested during the duration of the Judgment.

The proposed Judgment also requires Beverly to provide 60 days prior written notice to the Department for any purchase of any equitable interest, right or title in any nursing home in the five geographic areas set forth above. This provision will allow the Department to take appropriate action in the event a proposed acquisition may be anticompetitive.

Finally, the proposed Judgment requires that Beverly ensure that the transferred homes be operated as independent and separate nursing home facilities. Specifically, Beverly shall refrain from selecting employees, from participating in the management of these facilities or from influencing any operational or financial decisions or actions of these facilities. The proposed Judgment also specifies procedures for determining Beverly's compliance with the Judgment.

IV. Remedies Available to Potential Private Litigants

Section 4 of the Clayton Act (15 U.S.C. § 15) provides that any person who has been injured as a result of conduct prohibited by the antitrust laws may bring suit in federal court to recover three times the damages the person has suffered, as well as costs and reasonable attorney fees. Entry of the Judgment will neither impair nor assist the bringing of any private antitrust damage actions. Under the provisions of Section 5(a) of the Clayton Act (15 U.S.C. § 16(a)), the Judgment has no prima facie effect in any private lawsuit that may be brought against the defendants.

V. Procedures Available for Modification of the Proposed Final Judgment

As provided by the APPA, any person wishing to comment upon the Judgment may within the statutory 60-day comment period submit written comments to John W. Poole, Jr., Chief, Special Litigation Section, Antitrust Division, United States Department of Justice, Washington, D.C. 20530. These comments and the Department's responses will be filed with the Court and published in the Federal Register. All comments will be given due consideration by the Department, which remains free to withdraw its consent to the Judgment at any time prior to entry. The Judgment provides that the Court retains jurisdiction over this action, and any party may apply to the Court for any order necessary or appropriate for its modification, interpretation, or enforcement.

VI. Alternatives to Proposed Final Judgment

In addition to the relief provided by the proposed Final Judgment, the Department initially sought a provision and would have requested at trial that Beverly be required to give prior notice to the Department for all acquisition agreements or management contracts it entered into for nursing home facilities located within a specified radius of any existing facility operated by Beverly. Beverly's proposed acquisition of SMS is only the most recent in a series of numerous nursing home acquisitions it has made in recent years. Only after the Department previously expressed antitrust concerns regarding two of its proposed acquisitions did Beverly restructure the transactions to avoid suit. Those two acquisitions, as well as the proposed SMS acquisition, were brought to the Department's attention prior to consummation as a result of the premerger notification provisions of Section 7A of the Clayton Act (15 U.S.C. § 18a). However, many nursing home acquisitions, including a substantial number by Beverly in recent years, are not of sufficient size to require prior notification to the Department under Section 7A. Thus, acquisitions that may substantially lessen competition may not be discovered by federal antitrust enforcement agencies until after consummation, or perhaps not at all. The Department believes the public interest would be advanced if it had the opportunity to receive prior notice of acquisitions within close geographic proximity to existing Beverly facilities.

During negotiations between the Department and Beverly, it became clear that Beverly would not enter into a consent decree that includes such a notice requirement. The Department ultimately dropped its demand for the provision because it believed that the paramount public interest in this action required, prior to consummation of the SMS acquisition, that Beverly be bound to divest and not interfere in the operations of the eight homes if the First American deal fell through. This would prevent a commingling of the assets involved and thereby facilitate effective and prompt divestiture if, for example, First American failed to obtain the necessary regulatory approvals. It was unclear whether the Department could obtain such a binding obligation since the consummation of the Beverly-SMS acquisition was scheduled for Tuesday, February 28, 1984 and the Court may have allowed the transaction to go forward without having a decree in place.

The Department continues to believe that Beverly ought to provide the Department with notice of its acquisition of any nursing home within a specified radius of any of its existing homes. This would serve the public interest in maintaining competition in the provision of nursing home care, an intensely local and very important service industry. Also, such a provision would not appear to place an undue burden on Beverly. Nonetheless, the Department agreed to a decree that did not provide such notice because of the overriding public interest that a binding commitment to divest the eight homes

involved in this case be in place prior to consummation of the SMS acquisition. In this connection, the Department notes that Beverly has stipulated to be bound by the terms of the proposed Judgment as of February 27, 1984.

On balance, the substantial expense of further litigation, the uncertainty of obtaining relief beyond what is embodied in the proposed Final Judgment, and the questionable availability of preliminary relief preventing consummation of the acquisition pending negotiation of a consent decree, led the Department to conclude that further litigation would not be in the public interest.

VII. Determinative Materials and Documents

The Department considered the attached Purchase Agreement and related documents between Beverly and First American in formulating the Judgment.

Dated: 2/27/84

Respectfully submitted,

S/
TERRENCE F. MCDONALD

S/
KATHLEEN M. EYRE

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EXHIBIT A

PURCHASE AGREEMENT

This Agreement is made and entered into this 22nd day of February, 1984, by and among Beverly Enterprises, Beverly Enterprises-Georgia, Inc. and Beverly Enterprises-Alabama, Inc., each of which is a California corporation (collectively referred to herein as "BEA"), and First American Health Care, Inc., an Alabama corporation (the "Buyer").

R E C I T A L S

WHEREAS, upon the consummation of the transactions contemplated by the Agreement between and among Beverly Enterprises, Beverly Enterprises-Alabama, Inc., Southern Medical Services, Inc., American Trust Company of Hawaii, Inc., George H. Smith and Jack B. Bruce dated October 19, 1983 (the "SMS Agreement"), BEA will own all of the issued and outstanding shares of Common Stock (the "Shares") of each of the corporations set forth on Exhibit A attached hereto (collectively, the "Corporations") which Corporations own or lease and operate the seven nursing home facilities located at the addresses set forth on Exhibit A attached hereto (collectively, the "Facilities").

WHEREAS, BEA operates the Montgomery Health Care Center, located at 520 South Hull Street, Montgomery, Alabama (the "Montgomery Facility"), which it leases from Geriatric Multicare, Inc. and The Medical Clinic Board of the City of Montgomery, Alabama - Midtown.

References herein to the Montgomery Facility and the Facilities shall be deemed to include all land, and improvements and appurtenances thereto, personal property and other assets utilized in the operation of the Montgomery Facility and the Facilities, including furniture, fixtures, equipment, supplies, inventory, books and records and all other items of personal property, but excluding cash and accounts receivable; and

WHEREAS, the Buyer desires to purchase the Shares and the Montgomery Facility from BEA, and BEA desires to sell the Shares and the Montgomery Facility to the Buyer, on the terms and conditions hereinafter set forth.

A G R E E M E N T

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and agreements hereinafter set forth, the parties hereto do hereby agree as follows:

ARTICLE I

PURCHASE OF THE MONTGOMERY FACILITY AND THE SHARES

1.01. Purchase and Conveyance. Subject to the terms and conditions set forth in this Agreement, at the Closing (as hereinafter defined), BEA shall sell, convey, transfer and deliver to the Buyer, and the Buyer shall purchase and accept from BEA, the Shares and the Montgomery Facility. On the Closing Date (as hereinafter defined),

the Buyer shall deliver to BEA (a) a cashier's or certified bank check payable to BEA in the sum of $100,000 and (b) a promissory note issued by the Buyer in favor of BEA, such note to be personally guaranteed by Bryson F. Hill, Jr., to be dated the Closing Date, to be in the original principal amount of $400,000, to bear interest on the unpaid principal amount thereof at the rate of 12% per annum, principal and interest to be payable in equal monthly installments (based on full amortization of the principal amount thereof over 20 years) commencing on April 20, 1984 and continuing on the twentieth day of each subsequent month with a final payment of the then unpaid principal balance on March 20, 1994, to be secured by a pledge by the Buyer to BEA of all of the Shares pursuant to the Pledge Agreement attached as Exhibit B hereto, and otherwise in the form attached as Exhibit C hereto.

1.02. Assumption of Montgomery Facility Liabilities. As additional consideration for its purchase of the Montgomery Facility, the Buyer hereby assumes, subject to the terms and conditions hereof, all of the liabilities and obligations of Beverly Enterprises with respect to the Montgomery Facility other than those current liabilities and obligations described in clauses (a) through (e) of Section 7.05 hereof.

1.03. Closing. The closing under this Agreement (the "Closing") shall, subject to the conditions set forth in Articles VI and VII hereof, take place at the offices of BEA at 873 South Fair Oaks Avenue, Pasadena, California, beginning at 10:00 a.m., March 1, 1984, and shall be effective as of 12:01 a.m., March 1, 1984 (the "Closing Date"), or at such other time and/or place as shall be fixed by mutual consent of the parties hereto; provided that the Closing shall not take place unless all of the conditions set forth herein shall have been satisfied or waived in writing. In the event the transactions described herein fail to close on said date, the transactions shall close as soon as reasonably possible thereafter, and the parties hereto agree to use their best efforts to insure that the transactions close on the Closing Date or as soon thereafter as possible. If the transactions contemplated hereby shall be ready to close except that Buyer shall not have been licensed to operate the Montgomery Facility and the Facilities, BEA and Buyer shall enter into Management Agreements, in the form attached hereto as Exhibit D, with respect to the Montgomery Facility and the Facilities.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF BEA

Except as set forth in written disclosure schedules (collectively, the "Disclosure Schedules") attached

hereto and numbered to correspond to the Sections of this Article II, BEA makes the following representations and warranties to the Buyer:

2.01. Organization; Standing. BEA is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has full corporate power and authority to own and lease its property and assets and to conduct its business as now being conducted.

2.02 Authority. The execution, delivery and performance by BEA of this Agreement and the transactions contemplated hereby have been duly authorized and approved by all necessary corporate action on the part of BEA, and this Agreement has been duly executed and delivered by, and constitutes a valid, binding and enforceable obligation of BEA. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby by BEA will violate any provision of the Articles of Incorporation or Bylaws of BEA.

2.03. Ownership of the Shares. At the Closing BEA will own of record and beneficially all of the Shares of each of the Corporations, and the Shares issued by each Corporation comprise all of the issued and outstanding capital stock of such Corporation. At the Closing, BEA will have good and marketable title to the Shares, free and clear

of all liens, encumbrances or charges, restrictions, rights or interests of others of any kind.

2.04. Title to Assets. The Corporations have good and marketable title to, or valid leasehold interests in, the Facilities, and BEA has a valid leasehold interest in the Montgomery Facility, free and clear of all mortgages, liens, pledges, charges and encumbrances, except as noted on the title insurance commitments previously delivered to Buyer and except for such easements, restrictions or rights or interests of others, if any, which do not, as to any particular Facility, materially interfere with the use of such Facility as a nursing home facility.

2.05. Litigation. There are no actions, suits or proceedings pending or, to the knowledge of BEA, threatened against or affecting any of the Corporations or any of the Facilities or the Montgomery Facility before any court, governmental agency, bureau or instrumentality which could have a material adverse effect on any of the Corporations, the Facilities or the Montgomery Facility.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer makes the following representations and warranties to BEA:

3.01. Organization; Standing. The Buyer is a corporation duly organized, validly existing and in good

standing under the laws of the State of Alabama, and has full corporate power and authority to own and lease its property and assets and to conduct its business as now being conducted.

3.02. Authority. The execution, delivery and performance by the Buyer of this Agreement and all transactions contemplated hereby have been duly authorized and approved by all necessary action and this Agreement has been duly executed and delivered by, and constitutes a valid, binding and enforceable obligation of, the Buyer.

3.03. No Violation. Neither the execution, delivery or performance of this Agreement nor the consummation of the transactions contemplated hereby (a) violates or will violate the Articles of Incorporation or Bylaws of the Buyer, or (b) results or will result in any breach of any of the terms or provisions of, or constitutes or will constitute a default under, or causes or will cause the acceleration of the maturity of or change any financial term of any debt or obligation pursuant to, any contract, agreement or instrument to which the Buyer is a party or by which the Buyer or any of its property is bound or (c) violates or will violate any applicable statute, law, rule or regulation or any judgment, decree, order, regulation or rule of any court or any governmental authority.

3.04. No Defaults. There are no current defaults by the Buyer under any contract, agreement, obligation, commitment or understanding of any nature that could have a material adverse effect on the Buyer.

3.05. Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Buyer, threatened against or effecting the Buyer or any of its property before any court, governmental agency, bureau or instrumentality which could have a material adverse effect on the Buyer.

ARTICLE IV

CONDITION OF THE FACILITIES

The Buyer expressly acknowledges that BEA is making no representations or warranties hereunder whatsoever with respect to the condition (financial, physical or otherwise) of the Montgomery Facility or the Facilities or the Corporations, and, therefore, the Buyer acknowledges and agrees that, prior to the Closing, it will make whatever inspection of the Montgomery Facility, the Facilities and/or the books and records of the Corporations the Facilities and the Montgomery Facility that it deems necessary or appropriate. In light of the foregoing, the Buyer further acknowledges and agrees that it is acquiring the Montgomery Facility and the Corporations (through the purchase of the Shares) and, therefore, the Facilities on an "as is" basis

and will have no recourse against BEA for any claims, demands, losses, costs, expenses, obligations, liabilities, actions, suits, damages or deficiencies of any kind, including, without limitation, reasonable attorneys' fees, which the Buyer shall incur or suffer except as specifically set forth in Sections 7.05 and 8.02 hereof.

ARTICLE V

COVENANTS

5.01. Regular Course of Business. BEA shall use its best efforts to cause each of the Corporations to operate their respective Facilities in substantially the same manner as heretofore operated, and BEA shall use its best efforts to ensure that neither BEA nor any of the Corporations shall make any material change in the operation of the Facilities without the prior written consent of the Buyer.

5.02. Access to Facilities and Records. Prior to the Closing Date, BEA will use its best efforts to provide the Buyer (through its designated employees or, where appropriate, through authorized representatives of the Buyer's regular independent accountants and counsel) access during normal business hours to the Montgomery Facility and the Facilities and the books and records of the Corporations.

5.03. Additional Disclosure. From time to time between the date hereof and the Closing Date, BEA shall promptly advise the Buyer in writing of any matter hereafter arising which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in any of the schedules or exhibits attached hereto or which affects the accuracy or completeness of any representation or warranty made by BEA hereunder.

5.04. Consents. Between the date hereof and the Closing Date, BEA shall use its best efforts, without the payment of any consideration to the persons or entities from whom or which consents for agreements are required, to obtain at the earliest practicable date prior to the Closing Date all consents and agreements of third parties necessary for the performance by BEA of its obligations under this Agreement or to the consummation of the transactions contemplated hereby. No consideration, whether such consideration shall consist of the payment of money or shall take some other form, for any such consent or agreement shall be given or promised by BEA without the prior written approval of the Buyer.

ARTICLE VI

CONDITIONS TO THE OBLIGATIONS OF THE BUYER

Each and every obligation of the Buyer under this Agreement to be performed on or before the Closing Date

shall be subject to the satisfaction, on or before the Closing Date, of each of the following conditions, unless otherwise waived in writing by the Buyer:

6.01. Representations and Warranties True. The representations and warranties made by BEA in Article II hereof shall be correct and complete in all material respects at and as of the date hereof and at and as of the Closing Date as though such representations and warranties were made at and as of each such date.

6.02. Performance. BEA shall have performed and complied with all agreements, obligations and conditions required by this Agreement to be performed or complied with by it on or prior to the Closing Date.

6.03. Title Insurance. BEA agrees to deliver to the Buyer, at BEA's expense, on the Closing Date or as soon thereafter as reasonably possible, standard form owner's or lessee's policies of title insurance issued by title insurance companies reasonably acceptable to the Buyer insuring the respective Corporation's interest in the Facilities free and clear of all liens, encumbrances, and exceptions other than (a) those exceptions specified in the usual printed exceptions contained in such policies and (b) those liens and encumbrances set forth on the title insurance commitments previously delivered to Buyer. BEA further agrees to deliver to the Buyer, at BEA's expense, on

the Closing Date or as soon thereafter as reasonably possible, any current surveys received by BEA under the SMS Agreement, showing all easements, improvements, structures and encroachments, of the real property comprising each of the Facilities. No title insurance or survey will be provided with respect to the Montgomery Facility.

6.04. No Proceeding or Litigation. No suit, action or legal or administrative proceeding by any governmental body or other person shall have been instituted or threatened which questions the validity or legality of the transactions contemplated by this Agreement or which might materially adversely affect the business of the Corporations, taken as a whole.

6.05. Consents. All consents from third parties required under Section 5.04 hereof to consummate the transactions contemplated hereby shall have been obtained.

6.06. Certificates. BEA shall have furnished the Buyer with such certificates of the officers of BEA and of others to evidence compliance with the conditions set forth in this Article VI as may be reasonably requested by the Buyer.

6.07. Restructuring of Mortgage Indebtedness. The second mortgage indebtedness payable to Hill/Guthrie & Associates in the original aggregate principal amount of $3,081,000 with respect to the Huntsville, Augusta and East

Macon Facilities shall be restructured as of the Closing so that the unpaid principal amount thereof will bear interest at 11% per annum, principal and interest to be payable in equal monthly installments (based on full amortization of the principal amount thereof over 20 years) commencing on April 20, 1984 and continuing on the twentieth day of each subsequent month with a final payment of the unpaid principal balance, and accrued interest thereon, on March 20, 1994. Such indebtedness shall be secured by the existing second mortgages and a pledge of the Shares and shall be personally guaranteed by Bryson F. Hill, Jr.

6.08. SMS Closing The transactions contemplated by the SMS Agreement shall have been consummated.

ARTICLE VII

CONDITIONS TO THE OBLIGATIONS OF BEA

Each and every obligation of BEA under this Agreement to be performed on or before the Closing Date shall be subject to the satisfaction, on or before the Closing Date, of each of the following conditions, unless otherwise waived in writing by BEA:

7.01. Representations and Warranties True. The representations and warranties made by the Buyer in Article II hereof shall be correct and complete in all material respects at and as of the date when made and at and as of the Closing Date as though such representations and warranties were made at and as of each such date.

7.02. Performance. The Buyer shall have performed and complied with all agreements, obligations and conditions required by this Agreement to be performed or complied with by it on or prior to the Closing Date.

7.03. No Proceeding or Litigation. No suit, action or proceeding or legal or administrative proceeding by any governmental body or other person shall have been instituted or threatened which questions the validity or legality of the transactions contemplated by this Agreement.

7.04. Consents. All consents from third parties required under Section 5.04 hereof to consummate the transactions contemplated hereby shall have been obtained.

7.05. Working Capital. On or prior to the Closing Date each of the Corporations shall have made to BEA a distribution in respect of its Shares of all of their respective cash on hand and in banks and all other current assets other than the cash surrender value of life insurance policies securing long-term bond indebtedness and amounts escrowed in connection with the payment of long-term bond

indebtedness and together with all (a) accounts payable, (b) accrued current wages payable and vacation and sick leave pay payable, (c) accrued current interest on indebtedness which has not been escrowed with a trustee, (d) bank loans to the Corporations for working capital purposes and (e) all other current liabilities accrued under generally accepted accounting principals; provided that liabilities to be distributed by the Corporations to BEA under this Section 7.05 shall not include any indebtedness due to banks, finance companies or other lenders which is secured by any real or personal property or fixtures owned or utilized by such Corporations or any amounts due under capitalized lease obligations of the Corporations.

7.06. Certificates. The Buyer shall have furnished BEA with such certificates of the officers of the Buyer and of others to evidence compliance with the conditions set forth in this Article VII as may be reasonably requested by BEA.

7.07. Restructuring of Mortgage Indebtedness. The second mortgage indebtedness payable to Hill/Guthrie & Associates in the original aggregate principal amount of $3,081,000 with respect to the Huntsville, Augusta and East Macon Facilities shall be restructured as of the Closing so that the unpaid principal amount thereof will bear interest at 11% per annum, principal and interest to be payable in

equal monthly installments (based on full amortization of the principal amount thereof over 20 years) commencing on April 20, 1984 and continuing on the twentieth day of each subsequent month with a final payment of the unpaid principal balance, and accrued interest thereon, on March 20, 1994. Such indebtedness shall be secured by the existing second mortgages and a pledge of the Shares and shall be personally guaranteed by Bryson F. Hill, Jr.

7.08. SMS Closing. The transactions described in the SMS Agreement shall have been consummated.

ARTICLE VIII

INDEMNIFICATION

8.01. Survival of Representations and Warranties. The respective representations and warranties of BEA and the Buyer contained herein shall survive the Closing.

8.02. Indemnity. BEA agrees to indemnify and hold the Buyer harmless from and against any damage, claim, liability, cost, loss or expense, including, without limitation, reasonable attorneys' fees, which the Buyer shall incur or suffer and which shall arise out of or result

from the inaccuracy of any representation or warranty made by BEA in Article II hereof.

8.03. Defense of Claims. Promptly after the receipt by the Buyer of notice of the commencement of any action or the assertion by any third party of any claim with respect to which, in its judgment, the Buyer may be entitled to indemnification under Section 8.02 hereof, the Buyer shall use its best efforts to notify BEA in writing of the commencement of such action or the assertion of such claim. In case any such action is brought or any such claim is asserted, and upon notice thereof to BEA in accordance with this Section 8.03, BEA shall be entitled, but shall not be required, to elect to have the sole and exclusive right to control the defense of and settlement of any such claim, and, in such case, Buyer shall have the right to participate in the defense thereof (at its own expense). If, however, BEA does not elect to have sole and exclusive control of the defense of such claim or action, or if BEA fails to make such an election within 15 days after notice of such claim or action, then the Buyer shall assume such defense and BEA shall be entitled to participate in such defense (at its own expense); provided that in no event shall the Buyer settle or otherwise dispose of any such claim or action without BEA's prior written consent.

ARTICLE IX

MISCELLANEOUS PROVISIONS

9.01. Further Assurances. Each party hereto agrees to use its best efforts to cause the conditions to the other party's obligations herein set forth to be satisfied at or prior to the Closing. Each of the parties hereto agrees to execute and deliver any and all further agreements, documents or instruments necessary to effectuate this Agreement and the transactions contemplated hereby or reasonably requested by the other party to perfect or evidence their rights hereunder. Each party shall promptly notify the other party of any information delivered to or obtained by such party which would prevent the consummation of the transactions contemplated by this Agreement, or would indicate a breach of the representations or warranties of any of the parties to this Agreement.

9.02. Notices. All notices made pursuant to this Agreement shall be duly made and given if given in person or sent by United States mail, registered mail, return receipt requested, postage prepaid, to the parties at the addresses set forth below, or as set forth in any notice of change of address given in writing in the manner prescribed herein to all other parties hereto:

If to BEA: Beverly Enterprises-Alabama, Inc.
873 South Fair Oaks Avenue
Post Office Box 90130
Pasadena, California 91109
Attention: President or Chairman of the Board

With a copy to: Steven Della Rocca, Esq.
Latham & Watkins
555 South Flower Street
Los Angeles, California 90071

If to the Buyer: First American Health Care, Inc.
P.O. Box 207
401 Franklin Street
Huntsville, Alabama 35801
Attention: President

Any such notice sent by United States mail shall be deemed to have been given three business days after posting, addressed and prepaid as set forth above, and notices delivered in person shall be deemed to have been given when delivered.

9.03. Expenses. Whether or not the transactions contemplated hereby are consummated, each party agrees to pay all of its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

9.04. Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alabama.

9.05. Non-Assignment. This Agreement may not be assigned by any party; provided that any party hereto may assign its rights hereunder to a wholly-owned subsidiary or a parent corporation; provided, further, that any such

arrangement shall not relieve the assignee of liability hereunder.

9.06. Waiver. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be or be construed as a further or continuing waiver of any such term, provision or condition or as a waiver of any other terms, provision or condition of this Agreement.

9.07. Captions. The captions of the several sections and paragraphs of this Agreement are for convenience only and shall not be considered or referred to in resolving questions of interpretation with respect to this Agreement.

9.08. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute a single original agreement.

9.09. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction nor shall it invalidate or render unenforceable in any jurisdiction any other provision herein.

9.10. Legal Expenses. If any legal action, arbitration or other proceeding is brought for the

enforcement of this Agreement, or because of an alleged or actual dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees and other costs incurred in such action or proceeding in addition to any other relief to which it may be entitled.

9.11. Entire Agreement. This Agreement (including all attachments hereto) constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and preliminary agreements. This Agreement may not be changed except by a written instrument executed by all of the parties hereto.

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

BEVERLY ENTERPRISES

By _____
Name: Larry B. Cornish
Title: Vice-President

BEVERLY ENTERPRISES-ALABAMA, INC.

By _____
Name: Larry B. Cornish
Title: Vice President

BEVERLY ENTERPRISES-GEORGIA, INC.

By _____
Name: Larry B. Cornish
Title: Vice President

FIRST AMERICAN HEALTH CARE, INC.

By _____
Name: Bryson F. Hill, Jr.
Title: President

EXHIBIT A

Corporation

Southern Medical of Huntsville, Inc.
4320 Judith Lane, S.W.
Huntsville, AL 35804

Lynwood Management Co., Inc.
P.O. Box 9427
4164 Halls Mill Road
Mobile, AL 36609

Perry Hill Health Facility, Inc.
100 Perry Hill Road
Montgomery, AL 36193

Southern Medical of Springhill, Inc.
37137 Dauphine Street
Mobile, AL 36690

Southern Medical of Augusta, Inc.
P.O. Box 5778
2021 Scott Road
Augusta, GA 30906

Southern Medical of East Macon, Inc.
1060 Old Clinton Road
Macon, GA 31201

Southern Medical of North Macon, Inc.
P.O. Box 2505
2255 Anthony Road
Macon, GA 31204

EXHIBIT B

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT is made and entered into this 1st day of March, 1984, between First American Health Care, Inc., an Alabama corporation ("Pledgor"), and Beverly Enterprises, a California corporation ("Pledgee").

R E C I T A L S

WHEREAS, pursuant to a Pledge Agreement dated February __, 1984, by and among Pledgor, Pledgee and certain other parties (the "Purchase Agreement"), Pledgee is transferring to Pledgor all of its right, title and interest in and to all of the outstanding capital stock of each of the corporations set forth on Exhibit A attached hereto in exchange for, among other things, a certain Secured Promissory Note of even date herewith in the original principal amount of $400,000 made by Pledgor in favor of Pledgee (the "Note"); and

WHEREAS, Pledgor and Pledgee desire that payment of the Note be secured by the Collateral (as defined in Section 1 hereof).

A G R E E M E N T

NOW, THEREFORE, in consideration of the foregoing premises and the agreements and covenants hereinafter set forth, the parties hereto do hereby agree as follows:

1. Pledge. Pledgor hereby pledges, creates and grants a security interest to Pledgee in the following collateral:

> All of the outstanding capital stock of each of the corporations set forth on Exhibit A (collectively, the Corporations"), evidenced by certificates designated on Exhibit A;

together with all securities, certificates and instruments representing or evidencing ownership of the Collateral hereunder, and all proceeds and products of any Collateral hereunder, including, without limitation, stock, cash, property or other dividends, securities, rights and other property now or hereafter at any time or from time to time received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all of such Collateral;

all options, warrants and other rights to subscribe for or purchase voting or non-voting capital stock of the Corporations, whether now existing or hereafter arising during the term of this Agreement with respect to any of the other Collateral; all securities of the Corporations now or hereafter owned or acquired by Pledgee and all options, warrants and other rights to subscribe for or purchase voting or non-voting capital stock of the Corporations now owned or hereafter acquired by Pledgee and any present or future notes, bonds, the ventures or other evidence of indebtedness owned by Pledgee that (i) are at any time convertible into capital stock of the Corporations or (ii) have or at any time would have voting rights with respect to the Corporations, hereinafter collectively referred to as the "Collateral." The security interest hereunder shall secure payment in full when due of all indebtedness of Pledgor to Pledgee under the Note and any modifications, consolidations, replacements, extensions or renewals thereof, payment of all other indebtedness and performance of all other obligations under this Agreement and payment of all other indebtedness of Pledgor to Pledgee now existing or hereafter arising, and any modifications, consolidations, replacements, extensions or renewals thereof. Pledgor agrees to endorse or assign the Collateral in blank and to deliver the Collateral so endorsed or assigned to Pledgee upon the execution hereof.

2. Term of Pledge. This Agreement shall continue and Pledgee shall retain possession of, and retain its security interest in, the Collateral until payment in full of all amounts payable by Pledgor under or by virtue of the Note or under any provision of this Agreement. Pledgee shall redeliver the Collateral upon final payment of all such amounts.

3. Pledgee's Remedies Upon Default. Upon (a) the failure to pay when due the principal of or interest on the Note or any other indebtedness of Pledgor to Pledgee secured hereby or (b) the failure of Pledgor to perform or observe any of the other terms, conditions or covenants contained in the Note, any other indebtedness of Pledgor to Pledgee secured hereby, this Agreement or any other instrument or agreement constituting additional security for the Note, which failure to perform or observe shall not have been cured or remedied by Pledgor within ten (10) days after the occurrence thereof, Pledgor expressly covenants and agrees that Pledgee may, at its option, exercise any one or more of the rights set forth as follows:

(1) declare all unpaid principal, accrued interest and any other sums due and payable under the Note immediately due and payable;

(2) sell all or any part of the Collateral, at one or more public or private sales in any commercially reasonable manner and upon any commercially reasonable terms and conditions, consistent with obtaining a fair and reasonable price for such Collateral, and Pledgee shall be entitled, but shall not be required, to purchase any or all of the Collateral at any such sale; or

(3) hold the Collateral and apply all proceeds thereof against the indebtedness secured hereunder.

The remedies set forth above shall not be exclusive, and Pledgee shall have available to it any and all other remedies with respect to the Collateral that may be available to a secured party pursuant to the Alabama Uniform Commercial Code and any and all other rights or remedies available under any other applicable law, as the same may from time to time be in effect. Pledgee may exercise its rights under this Agreement independently of any other collateral or guaranty that Pledgor may have granted or provided to Pledgee in order to secure payment and performance of the Note, and Pledgee shall be under no obligation or duty to foreclose or levy upon any other collateral given by Pledgor to secure the obligation or to proceed against any guarantor before enforcing its rights under this Agreement. The remedies granted herein shall be cumulative and the exercise of any one remedy shall not preclude the exercise of any other, and any sale of the Collateral pursuant to the terms hereof shall not operate to release Pledgor until full payment in cash of any deficiency has been made to Pledgee.

4. Pledgor's Representations and Warranties. Subject only to the validity of Pledgee's conveyance of its right, title and interest in the Collateral to Pledgor pursuant to the Purchase Agreement, Pledgor represents and warrants that:

(a) Pledgor is the sole owner of the Collateral; there are no security interests, liens or encumbrances, or adverse claims of title or any other interest whatsoever therein

except that created by this Agreement; and no financing statement, pledge or other security agreement of any kind covering the Collateral or any portion thereof or any proceeds thereof exists or is on file in any public office;

(b) Each instrument or document constituting the Collateral is genuine and in all respects what it purports to be, and the Collateral has not been altered in any way;

(c) Pledgor has the full power and authority, without obtaining the consent of any other person, entity or governmental authority, to enter into and perform this Agreement;

(d) Upon delivery of the Collateral to Pledgee, Pledgee shall have a valid and duly perfected first priority security interest in the Collateral;

(e) The Collateral includes all of the issued and outstanding capital stock of the Corporations, and all such capital stock is validly issued, fully paid and nonassessable; and

(f) Neither the execution and delivery of this Agreement by Pledgor nor the consummation of the transactions herein contemplated nor the fulfillment of the terms hereof will result in a breach of any of the terms or provisions of, or constitute a default under, or constitute an event which with notice or lapse of time or both will result in a breach of or constitute a default under, Pledgor's Articles of Incorporation or Bylaws or any agreement, indenture, mortgage, deed of trust, equipment lease, instrument or other document to which Pledgor is a party or by which Pledgor or its properties are bound or will conflict with any law, order, rule or regulation applicable to Pledgor of any court or any federal or state government, regulatory body or administrative agency, or any other governmental body having jurisdiction over Pledgor or its properties.

5. Covenants of Pledgor. Subject only to the validity of the Pledgee's conveyance of its right, title and interest in the Collateral to Pledgor pursuant to the Purchase Agreement, Pledgor covenants that:

(a) Pledgor will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein except as expressly provided herein;

(b) Pledgor will procure or execute and deliver any document, deliver to Pledgee any instrument, give any notices and take any other actions which are necessary or appropriate in the reasonable judgment of Pledgee to perfect or to continue the perfection and first priority of Pledgee's security interest created hereby or to protect the Collateral against the rights, claims, or interests of third persons, and Pledgor will pay all costs incurred in connection therewith. At and in accordance with the request of Pledgee, Pledgor shall instruct some or all of the Corporations to pay all sums payable or to make all distributions in respect of the Collateral to Pledgee or as Pledgee directs, if such notice has not previously been given pursuant to this Agreement. Pledgee may also so instruct the Corporations, or any of them, directly without first requesting Pledgor to do so;

(c) Pledgor will not, without the prior written consent of Pledgee, in any way encumber, or hypothecate, or create or permit to exist any lien, security interest or encumbrance on or other interest in the Collateral except that created by this Agreement nor will Pledgor sell, transfer, assign, exchange or otherwise dispose of the Collateral. If the Collateral or any part thereof is sold, transferred, assigned, exchanged or otherwise disposed of in violation of these provisions, the security interest of Pledgee shall continue in such Collateral or part thereof notwithstanding such sale, transfer, assignment, exchange or other disposition, and Pledgor will hold the proceeds thereof in a separate account for Pledgee's benefit. Pledgor will, at Pledgee's

request, transfer such proceeds to Pledgee in kind;

(d) Pledgor will pay and discharge all taxes, assessments and governmental charges or levies against the Collateral prior to the delinquency thereof and will keep the Collateral free of all unpaid charges whatsoever;

(e) Pledgee shall have the right at any time, but shall not be obligated, to make any payments and do any other acts Pledgee may deem necessary to protect its security interest in the Collateral, including, without limitation, the rights to pay, purchase, contest or compromise any encumbrance, charge or lien which in the judgment of Pledgee appears to be prior to or superior to the security interest granted hereunder, and to appear in and defend any action or proceeding purporting to affect its security interest in the Collateral or the value of the Collateral and, in exercising any such powers or authority, to pay all expenses incurred in connection therewith, including attorneys' fees, the repayment of which by Pledgor shall be secured under this Agreement. Pledgor hereby agrees that it shall be bound by any such payment made or such action taken by Pledgee hereunder. Pledgee shall have no obligation to make any of the foregoing payments or perform any of the foregoing acts;

(f) Pledgor hereby authorizes Pledgee, its employees or agents, at Pledgee's option, to collect, in the name of Pledgor or in the name of Pledgee as assignee, any payments or distributions in respect of any of the Collateral;

(g) Pledgor hereby irrevocably appoints Pledgee its attorney in fact, coupled with an interest to the extent necessary, to give payment instructions to the Corporations, or any of them, in accordance with this Agreement to collect all amounts payable and all distributions in respect of the Collateral, to endorse and cash checks and other instruments representing proceeds of Collateral and to perform all other acts under this Agreement as

Pledgee in its sole judgment reasonably exercised shall deem necessary or desirable;

(h) Pledgee is hereby authorized to pay all reasonable costs and expenses incurred in the exercise or enforcement of its rights hereunder, including attorneys' fees, and then to credit or use any further proceeds of the Collateral for the payment of any other amounts secured hereunder; and

(i) Pledgee shall only be accountable for monies which it actually receives from or in respect of the Collateral.

6. Miscellaneous Provisions.

(a) Notice. All notices, requests and other communications required or permitted to be made hereunder shall, except as otherwise provided, be in writing and may be delivered personally or sent by certified mail, postage prepaid, addressed as follows:

To Pledgee: Beverly Enterprises
873 South Fair Oaks Avenue
Post Office Box 90130
Pasadena, California 91109
Attention: Chairman of the
Board of Directors
or President

To Pledgor: First American Health Care, Inc.
P.O. Box 207
401 Franklin Street
Huntsville, Alabama 35801
Attention: President

Such notices, requests and other communications sent shall be effective exactly three (3) business days after so deposited in the United States Mail. Either party may change its address by giving notice thereof to the other party herein in conformity with this Paragraph 6(a).

(b) Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alabama.

(c) Amendments. This Agreement or any provision hereof may be modified, amended, changed, waived or terminated only by a statement in writing signed by the party against which such modification, amendment, change, waiver or termination is sought to be enforced.

(d) No Waiver. No delay in enforcing or failing to enforce any right under this Agreement by Pledgee shall constitute a waiver by Pledgee of such right. No waiver by Pledgee of any default hereunder shall be effective unless in writing, nor shall any waiver operate as a waiver of any other default or of the same default on a future occasion.

(e) Time of the Essence. Time is of the essence of each provision of this Agreement of which time is an element.

(f) Binding Agreement. All rights of Pledgee hereunder shall inure to the benefit of its successor and assigns. Pledgor shall not assign any of its interest under this Agreement without the prior written consent of Pledgee. Any purported assignment inconsistent with this provision shall, at the option of Pledgee, be null and void.

(g) Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Agreement or to seek damages for a breach of any provision hereof or where any provision hereof is validly asserted as a defense, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees in addition to any other available remedy.

(h) Statute of Limitations. Pledgor waives the right to plead any statute of limitations as a defense to any indebtedness or obligation hereunder or secured hereunder to the full extent permitted by law.

(i) Severability. If any provision of this Agreement should be found to be invalid or unenforceable, all of the other provisions shall nonetheless remain in full force and effect to the maximum extent permitted by law.

(j) Survival of Provisions. All representations, warranties and covenants of Pledgor contained herein shall survive the execution and delivery of this Agreement and shall terminate only upon the full payment and

performance by Pledgor of its indebtedness and obligations secured hereunder.

(k) Entire Agreement. This Agreement, together with any other agreement executed in connection herewith, is intended by the parties as a final expression of their agreement and is intended as a complete and exclusive statement of the terms and conditions thereof. Acceptance of or acquiescence in a course of performance rendered under this Agreement shall not be relevant to determine the meaning of this Agreement even though the accepting or acquiescing party had knowledge of the nature of the performance and opportunity for objection.

(l) Duty of Care. Pledgee shall have no duty or obligation to care for the Collateral hereunder or to take any actions to protect the value of the Collateral or any rights or privileges the Pledgor might have with respect thereto, except that Pledgee shall exercise reasonable caution in the physical care of the Collateral in Pledgee's possession.

(m) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same agreement.

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

FIRST AMERICAN HEALTH CARE, INC.

By: _____
Name: Bryson F. Hill, Jr.
Title: President

BEVERLY ENTERPRISES

By: _____
Name: William M. Wright
Title: Executive Vice President

EXHIBIT C

SECURED PROMISSORY NOTE

$400,000.00 March 1, 1984

First American Health Care, Inc., an Alabama corporation ("Maker"), for value received, hereby promises to pay to Beverly Enterprises, a California corporation ("Beverly"), at its offices at 873 South Fair Oaks Avenue, P.O. Box 90130, Pasadena, California 91109, the principal sum of Four Hundred Thousand Dollars ($400,000.00), together with interest on unpaid principal at a rate of twelve percent (12%) per annum, principal and interest to be payable in equal monthly installments (based on full amortization of the principal amount hereof over 20 years) on the twentieth day of each month commencing with April 20, 1984 and continuing through February 20, 1994, with a payment of the unpaid principal amount hereof, and all accrued interest thereon, on March 20, 1994.

This Note may be prepaid in whole or in part by Maker without premium or penalty. Any prepayment hereunder shall be first credited to accrued and unpaid interest and then to principal installments in the order of their maturity. Payments of principal and interest shall be made in such coin and currency of the United States of America is

at the time of payment is legal tender for the payment of public and private debts. If any payment of principal of, or interest on, this Note falls due on a Saturday, Sunday or any legal holiday for state or federal banks, then such due date shall be extended to the next following business day.

This Note is secured by a pledge of certain securities pursuant to a Pledge Agreement of even date herewith made by Maker in favor of Beverly, and reference is hereby made to said Pledge Agreement for a description of the nature and extent of the security for this Note. The entire balance of the unpaid principal hereof, and the accrued interest thereon, shall, at the option of Beverly, and without necessity of presentation or demand of any kind, become immediately due and payable upon the occurrence of any event of default under Section 3 of said Pledge Agreement.

If any legal action or other arbitration or other proceeding is brought for the enforcement of this Note, Beverly shall be entitled to recover reasonable attorney's fees and other costs incurred in that action or proceeding in addition to any other relief to which Beverly may be entitled. The right to plead any and all statutes of limitation as a defense to a demand hereunder is hereby waived by Maker to the full extent permitted by law. None of the provisions hereof and none of Beverly's rights or remedies hereunder on account of any past or future defaults shall be deemed to

have been waived by Beverly's acceptance of any past due payments or by any indulgence granted by Beverly to Maker. Maker hereby waives demand for payment, notice of dishonor, presentment for payment or for acceleration of maturity and protest, together with all of the notices to which Maker might otherwise be entitled.

IN WITNESS WHEREOF, Maker has caused this Note to be duly executed the day and year first above written.

FIRST AMERICAN HEALTH CARE, INC.

By _____
Name: Bryson F. Hill, Jr.
Title: President

EXHIBIT B

MANAGEMENT AGREEMENT

THIS AGREEMENT dated this ___ day of _____, 1984, between BEVERLY ENTERPRISES, a California corporation, of 873 South Fair Oaks Avenue, Pasadena, California 91105 (hereinafter referred to as "Beverly"), and FIRST AMERICAN HEALTH CARE, INC., an Alabama corporation of P.O. Box 207, 401 Franklin Street, Huntsville, Alabama, 35801 (hereinafter referred to as the "Manager").

WHEREAS, Beverly is licensed to operate a 129-bed skilled nursing facility (the "Huntsville Facility") located at 4320 Judith Lane, S.W., Huntsville, Alabama 35804.

WHEREAS, by a Stock Purchase Agreement dated of even date herewith (the "Purchase Agreement"), Beverly has agreed to sell the Facility to Manager, upon the occurrence of certain conditions precedent.

WHEREAS, in anticipation of a transfer of ownership, Beverly has requested the Manager to operate and manage the Facility on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual convenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Management. The Manager hereby agrees to operate and manage the Facility for its own account and to indemnify and hold harmless Beverly from any and all claims, losses, damages and expenses arising from the operation and management of the Facility by Manager during the term of this Management Agreement. The Manager shall pay, from its own funds or from the revenues of the Facility, the following expenses of operation which arise after the Management Date and prior to the Termination Date:

(a) All social security taxes, unemployment insurance taxes or premiums, withholding taxes and similar charges imposed on Beverly in connection with any employees or personnel of the Facility during the management period;

(b) Proper claims which, if unpaid, might by law become a lien or charge upon the Facility;

(c) Any lien or claim for lien upon the Facility or its personal property or equipment; and

(d) All costs and expenses of maintaining and operating the Facility, including without limitation the salaries of employees, proper expenditures for repairs and maintenance, the cost and expense of utilities and related services, and any other

charge, item or expense relating to or arising out of the operation of the business of nursing.

2. Term and Termination. This Management Agreement shall commence on _____, 1984 (herein the "Management Date") and shall terminate upon the earliest of the following to occur:

(a) the Effective Date (as defined in the Purchase Agreement);

(b) on the first day of the month following termination of the obligations of the Manager and Operator under the Purchase Agreement;

(c) after September 1, 1984, on the first day of the month following expiration of thirty (30) days from receipt of written notice from the other party terminating this Agreement; and

(d) by mutual agreement of the parties.

Said termination date is herein referred to as the "Termination Date." The obligation of the Manager to indemnify and hold harmless Beverly shall survive termination of this Agreement. The parties recognize and agree that this Management Agreement is an

interim step pending the Closing pursuant to the Purchase Agreement. In the event of termination of the Management Agreement for reasons other than Closing, pursuant to the Purchase Agreement, Manager agrees to return the Facility to Beverly in the same condition as received, reasonable wear and tear excepted, and Manager agrees to assist Beverly to achieve an orderly transfer of operation and management back to Beverly. In such event, Manager shall promptly provide Beverly with an accounting for the period of Manager's operation of the Facility.

3. Compensati n. The Manager shall retain as a fee for its management services any excess of revenues of the Facility over expenses of operation of the Facility The Manager shall receive revenues of the Facility and shall bear all expenses of the Facility. The expenses of operation, as such term is used in this paragraph, shall include all expenses incurred in the operation and maintenance of the Facility during the term of this Management Agreement, including the follow ng

All payments and sums due under that certain first mortgage dated October 1, 1974, between Southern Medical of Huntsville, Inc., as Mortgagor and First Tennessee Bank as Mortgagee; all payments and sums due under that certain second mortgage dated July 1, 1981 between Southern Medical of

Huntsville, Inc., as Mortgagor and Hill, uthrie and Associates as Mortgagee.

4. Employees All employees of the facility shall become employees of the Manager as of the Management Date Manager shall employ on its own behalf and shall supervise, direct the work of, promote and discharge such employees and personnel as are necessary for the proper operation of the Facility. Manager shall pay such employees from its own funds, or from the revenues of the Facility. Manager will use care to select qualified, competent, licensed and trustworthy employees and personnel. In this connection, Manager shall provide worker's compensation coverage and shall be responsible for all employees' wages and benefits for all services rendered by such employees after the Management Date. Beverly shall be responsible for and shall pay, all employees' wages and benefits for all services rendered by employees of the Facility prior to the Management Date.

5. Insurance. Manager agrees that it will maintain all policies of insurance which are presently in effect, or replace with equivalent coverage during the term of this Management Agreement, including fire and extended coverage insurance on the Facility, comprehensive liability coverages at current levels with the same insurance companies currently providing such coverage,

unless otherwise approved by Beverly in writing, which approval shall not be unreasonably withheld.

6. Utilities; Taxes; Debt Service; Maintenance. During the term hereof, Manager agrees to pay all utility expenses incurred in connection with the operation of the Facility and agrees to pay, in addition to any tax escrow payments made under Section 3 hereof, all real and personal property taxes and assessments with respect to the Facility which become finally due and payable without penalty after the Management Date. Utilities, utility deposits, maintenance expenses, prepaid insurance and accrued employee sick leave and vacation shall be borne as of the Management Date in accordance with the Agreement.

7. Licenses and Authority. Beverly hereby assigns to Manager as of the Management Date its right to operate the Facility under all licenses issued by the Alabama Department of Health or other authorities having jurisdiction over the Facility, and assigns to Manager Beverly's rights to use the Medicare and Medicaid provider numbers issued to Beverly. All licenses, certifications and provider agreements issued by the Alabama Department of Health and the U.S. Department of Health and Human Resources, and all provider numbers issued thereunder, shall remain the property of Beverly, and Beverly and Manager each agree to use their best efforts to maintain all of the same in full force and effect

during the term hereof Beverly hereby designates the governing body of Manager as the governing body of the Facility. Manager shall keep the Facility and equipment therein in good order, repair and condition, and in compliance with all licensing rules and regulations.

8. Access to Records. Beverly shall not obtain, directly or indirectly, from Manager any confidential competitive or proprietary information with respect to the operation of the Facility except (a) information that is clearly necessary to effectuate its sale or (b) information that is clearly necessary for Beverly to comply with federal, state or local laws or regulations. All financial and patient records of the Facility, including patient trust and records thereof, shall remain in the possession and control of Beverly at the Facility until the Termination Date; provided, however, Manager shall have the full, complete and unrestricted right at all times and without prior notification to inspect and copy all of said rec ds and to receive copies of all reports or other filings with and communications from the Alabama Department of Health, and any other governmental authority or agency having jurisdiction over the Facility. All of the same shall be turned over to the Manager at the Closing Date and thereafter Beverly shall have full access to all of said records to the extent it deems necessary in connection with the

preparation of its own financial reports, tax returns, cost reports and in connection with any audits or claims against it.

9. Patient Trust Funds. As soon after the Management Date as possible, Beverly shall provide Manager with a detailed accounting of patient trust funds as of the Management Date. The said accounting shall be updated to the Effective Date by Beverly and delivered to Manager at the Closing. All of said funds shall be transferred to the Manager at the Closing Date in exchange for Manager's duly executed receipt for the same.

10 Records. Manager shall keep accurate, true and complete books and records which shall accurately reflect the operation of the Facility during the management period, and shall provide required operational information to Beverly to ensure the timely filing of cost reports and information.

11 Relationship Manager and Beverly shall not be construed as joint venturers or partners and neither shall have the power to bind or obligate the other, except to the extent expressly set forth in this Agreement. Beverly authorizes Manager to perform any act or to do anything necessary or desirable in the Manager's judgment to carry out the Manager's undertakings contained in this Agreement. All actions taken by Manager under the provisions of this Agreement shall be done as principal, and not as agent of

Beverly, and all obligations or expenses incurred thereunder shall be at the expense of Manager, as provided for in this Agreement. It is the intention of Beverly and Manager that the Manager shall have the full authority to perform all of the acts which are necessary or desirable in its judgment to supervise and manage the day-to-day operation of the Facility, including the establishment and setting of charges at Facility.

12. Notices. All notices to be given by either party to th s Agreement to the other party shall be in writing, and shall be given in person or by depositing such notice in the United States mail, certified or registered, postage prepaid, return receipt requested addressed as follows·

BEVERLY ENTERPRISES:

Beverly Enterprises
Attn: President
873 South Fair Oaks Avenue
Post Office Box 90130
Pasadena, California 91109

MANAGER:

First American Health Care, Inc
P.O. Box 207
401 Franklin Street
Huntsville, Alabama 35801

Any such notice so deposited in the United States mail shall be deemed to have been received three (3) days after deposit. Any

party to whom notices are to be sent pursuant to this Agreement may from time to time change its address for further communications by giving notice in the manner prescribed by this paragraph to all other parties hereto.

13. Assignment. Beverly and Manager agree that this Agreement or the obligations hereunder may not be assigned without the prior written consent of the other party in each instance. Any assignment in contravention of this paragraph shall be null and void.

14. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original, but all of which shall constitute one and the same agreement.

15. Choice of Law. It is the intention of the parties hereto that all questions with respect to the interpretation and enforcement of this Agreement and the rights and liabilities of the parties to this Agreement shall be determined in accordance with the laws of the State of California.

16. Termination. If this Agreement is terminated, the books and records shall be closed as of the Termination Date and Manager and Beverly shall each render such account of the activities of the other under this Agreement as shall be necessary to terminate their relationship in an orderly manner.

17. Conflict with Agreement. Except to the extent this Management Agreement conflicts with the Purchase Agreement, the provisions of the Purchase Agreement and the obligations of the parties thereunder shall continue.

IN WITNESS WHEREOF, the parties hereto have caused this Management Agreement to be executed as of the day and year first above written.

MANAGER

FIRST AMERICAN HEALTH CARE, INC.

By _____
Bryson F. Hill, Jr.

Its President

BEVERLY ENTERPRISES

By: _____
Larr, B Cornish

Its. Vice President