

**GROUND LEASE AGREEMENT**

**by and between**

**PENINSULA HEALTHCARE DISTRICT,  
a political subdivision of the  
State of California**

**and**

**MILLS-PENINSULA HEALTH SERVICES,  
a California nonprofit public benefit corporation**

**GROUND LEASE**

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EXHIBITS:

- Exhibit A-1 Diagram of Overall Property
- Exhibit A-2 Description of Initial Premises
- Exhibit A-3 Diagram of Initial Premises
- Exhibit A-4 Description of Final Premises
- Exhibit A-5 Diagram of Final Premises
- Exhibit B Preliminary Title Report
- Exhibit C Lease Term Commencement Memorandum
- Exhibit D Memorandum of Lease

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**GROUND LEASE**

This lease (this "**Lease**") is dated for reference purposes only as of \_\_\_\_\_, 2005 (the "**Execution Date**"), and is entered into by and between Peninsula Healthcare District, a political subdivision of the State of California ("**District**"), and Mills-Peninsula Health Services, a California nonprofit public benefit corporation ("**MPHS**").

**RECITALS**

A. District is or will be the owner of certain real property located in the City of Burlingame, County of San Mateo, State of California, commonly known as 1515 Trousdale Drive Avenue, 1791 El Camino Real (commonly known as the Blood Bank and Front Lawn), and certain contiguous property comprising a portion of 1783 El Camino Real, the site of the existing hospital grounds described and depicted on the site diagram attached as **Exhibit A-1** (collectively, the "**Property**"). The initial premises at the Effective Date, as defined below, is described and depicted on **Exhibit A-2** and **Exhibit A-3** (the "**Initial Premises**"). The parties intend to record a final map after which a portion of the Initial Premises shall be removed from the Property subject to this Lease, the remainder of which is described and depicted on **Exhibit A-4** and **Exhibit A-5** and which may be referred to as the "**Final Premises**". The portions of the Property subject to this Lease after the Effective Date and at the time such Initial Premises or Final Premises are subject to the terms of this Lease may be referred to as the "**Premises**".

B. District and MPHS are parties to the Master Agreement of even date herewith ("**Master Agreement**"), pursuant to which District and MPHS entered into a restructured relationship (the "**Restructured Relationship**") for MPHS to develop, construct and operate a new general acute care hospital and other related improvements on the Premises under the terms described therein, lease the Final Premises from District, and establish certain rights and obligations with respect to the Restructured Relationship of the parties and the operation of the new general acute care hospital. Capitalized terms not defined in this Lease shall have the meanings ascribed to them in the Master Agreement.

C. District desires to lease the Premises (together with all easements, rights, and appurtenances in connection therewith) for the purpose of operating a new general acute care hospital (the "**New Facility**"), appurtenant parking facility and parking areas, a medical office building, helipad and other related improvements and landscaping (the "**Related Improvements**") in accordance with the agreement of the parties as set forth in this Lease. The New Facility and the Related Improvements may be collectively referred to herein as the "**Improvements**".

D. District and MPHS are also parties to a Construction Ground Lease of even date herewith (the "**Construction Ground Lease**") pursuant to which MPHS leases the Initial Premises from District. Pursuant to the Master Agreement, the Construction Ground Lease will expire on the Start Service Date, and the Lease Term will commence. During the term of the Construction Ground Lease, MPHS will be constructing some of the Improvements, and the balance of the Improvements will be constructed during the Lease Term.

E. District and MPHS are also parties to the Construction Agreement of even date herewith (the "**Construction Agreement**"), to establish certain rights and obligations with respect to the construction of the Improvements, the demolition of the existing hospital located on the Initial Premises and preparation of the District's 4.15 Acre Parcel, as defined in the Construction Agreement.

F. NOW, THEREFORE, District and MPHS, in consideration of the various obligations set forth in this Lease, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, agree as follows:

**ARTICLE I.  
LEASE OF PREMISES AND TERM OF LEASE**

1.01. Agreement to Lease. For and in consideration of the rents to be paid and covenants to be performed by MPHS under this Lease, District agrees to lease the Premises to MPHS, and MPHS agrees to lease the Premises from District, on and subject to the terms and conditions set forth in this Lease, including, but not limited to, those conditions set forth in Section 1.04. Except as expressly otherwise provided in this Lease, the Initial Premises includes the real property plus any appurtenances and easements described in **Exhibit A-2** and shown on **Exhibit A-3** of this Lease, exclusive of any improvements now or subsequently located on the Premises, notwithstanding that any Improvements may or shall be construed as affixed to and as constituting part of the described Premises, and without regard to whether ownership of the Improvements is in District or in MPHS. The Final Premises are described in **Exhibit A-4** and shown on **Exhibit A-5**.

1.02. Status of Title. Title to the Property at the Execution Date is subject to all exceptions, easements, rights, rights-of-way, and other matters of record set forth in the Preliminary Report(s) issued by Old Republic Title Company, dated February 8, 2005, a copy of which is attached as **Exhibit B**. Prior to the Effective Date, the parties shall obtain updated Preliminary Report(s) to confirm the state of title as being consistent with the title approved by the parties. MPHS shall secure an ALTA Extended Leasehold (Interest) Policy of Title Insurance insuring MPHS with respect to the condition of title of the Premises at the Effective Date in the amount of the value of Improvements placed on the Premises by MPHS. The cost of the policy of title insurance and any related escrow or survey fees will be borne equally by District and MPHS.

1.03. Term of Lease. The Lease Term (the "**Lease Term**") shall be for a period commencing on the date all conditions precedent set forth in Section 1.04 are fulfilled (the "**Effective Date**"), and continuing for fifty (50) years, unless terminated earlier or extended as provided in this Lease. District and MPHS shall complete and execute a lease term commencement memorandum in the form of **Exhibit C** attached hereto upon commencement of this Lease. District and MPHS shall further complete and execute a memorandum in the form of **Exhibit D** attached hereto once the Effective Date has been determined.

1.04. Conditions to Effectiveness of this Lease. This Lease shall not be effective until the following basic conditions precedent have been satisfied:

A. The Start Service Date under the Master Agreement shall have occurred.

B. Neither party shall be in default under the Master Agreement, any agreement described in the Master Agreement and still in effect or the Construction Ground Lease. Notwithstanding the foregoing, the fact that a representation or warranty under the Construction Ground Lease may be untrue or misleading, but would not give rise to money damages to the other party, shall not be deemed the failure of this condition.

1.05. Extension of Term of Lease. The Lease Term may be extended for an additional twenty-five (25) year period upon MPHS' request and upon District's written consent, which shall not be unreasonably withheld, provided MPHS is not then in default under the Master Agreement or this Lease, and MPHS has performed satisfactorily. MPHS shall give District prior written notice of its intent to extend the Lease Term at least three (3) years prior to the expiration date of the initial Lease Term (the actual date of the notice shall be the "**Extension Notice Date**"), provided that MPHS' right to effectively give such notice shall not expire until the later to occur of: (a) the Extension Notice Date; or (b) the date ten (10) days after notice to MPHS from District that MPHS' right to extend shall expire on the later of the Extension Notice date or ten (10) days after the effective date of the notice from District to MPHS. The terms during the extended Lease Term shall be on the same terms as this Lease as it may have been amended as of the end of the initial Lease Term.

1.06. Expiration or Termination Simultaneous With Master Agreement. As provided in the Master Agreement, this Lease shall expire or earlier terminate simultaneously with the Master Agreement.

## ARTICLE II. RENT

2.01. Annual Rent. For the initial Lease Term and any extension thereof, MPHS shall pay District Annual Rent in an amount equal to the Annual Rent payable by MPHS to District under the Construction Ground Lease as of the day before the Start Service Date, (i.e., one million five hundred thousand dollars (\$1,500,000) (the "**Initial Rent**") as adjusted for inflation under the Pre-Closing Agreement or Construction Ground Lease). The Annual Rent amount shall be adjusted for inflation every three (3) years (each an "**Adjustment Date**") by the Consumer Price Index, Unadjusted, for All Urban Consumers (all items) as periodically published by the Department of Labor, Bureau of Labor Statistics (1982-84=100 Base) for the San Francisco - Oakland - San Jose area (the "**Index**"). Notwithstanding the foregoing, the first Adjustment Date under this Lease will occur on the date three (3) years after the final adjustment of the Annual Rent under the Construction Ground Lease. The payments set forth in this Section 2.01 shall be the only rent due from MPHS to District. The Index published in November, 2005 shall serve as the base index (the "**Base Index**"). The Annual Rent as of each Adjustment Date shall be the amount obtained by multiplying the Initial Rent by a fraction, the denominator of which is the Base Index, and the numerator of which is the Index as published for the month of November next preceding the Adjustment Date.

If at any relevant time the Index is no longer published, but the Department of Labor, Bureau of Labor Statistics does then publish a new or substitute index that serves essentially the same purposes, then such new or substitute index shall be deemed the Index to which references

