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August 30, 2012

Sent by Internet and U.S. Mail

Todd E. Swanson, Esq.  
Hooper, Lundy & Bookman, Inc.  
1875 Century Park East, Suite 1600  
Los Angeles, CA 90067

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Swanson:

The Attorney General hereby conditionally approves the request of Victor Valley Hospital Real Estate, LLC and Victor Valley Hospital Acquisition, Inc. to amend Conditions XIV and XVI of the Attorney General's Decision dated December 29, 2010. The Attorney General's approval is subject to the following conditions:

1. The transaction must close on or before September 30, 2012.
2. The Attorney General's Decision dated December 29, 2010 remains in effect except as to any amendments set forth in this letter and in the simultaneously issued letter conditionally approving the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012.
3. Condition XIV of the Attorney General's Decision dated December 29, 2010 is amended and reads in its entirety as follows:

**XIV.**

Pursuant to the process set forth below, Buyers shall deposit and maintain an ongoing fund balance of \$3,000,000 in a separate interest-bearing bank account ("Emergency Fund") at a California bank or California financial institution or a California branch of either a National bank or National financial institution, to be used only for emergency<sup>1</sup> operating and capital needs of

<sup>1</sup> Emergency is defined as "An occurrence or occasion that is unexpected or otherwise occurring outside of the ordinary course of business, requiring immediate action, including without limitation an unexpected shortfall or interruption in revenues or unbudgeted expenses."

Victor Valley Community Hospital, until the earlier of (1) such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: a) a positive "Adjusted Net Revenue" per the calculation and methodology shown in Exhibit 3 (i.e., an "Adjusted Net from Operations" that is greater than 5% of Total Operating Revenue), for three consecutive quarters, and b) a positive cash flow shown by the total cash collections by Victor Valley Community Hospital for categories related to Net Patient Revenue, as defined by OSHPD, are equal to or greater than Net Patient Revenue, as defined and reported to OSHPD, for three consecutive quarters; or (2) five years and two months from the date of the transaction closing (whether or not self-sustainability has been achieved). The Local Governing Board referenced in Condition XII shall be consulted prior to any withdrawals. Withdrawals are limited to a total of \$1,000,000 during any single quarter, and any and all withdrawn funds must be redeposited into the Emergency Fund before any further withdrawals can be made. Any and all withdrawn funds must be redeposited into the Emergency Fund within 90 days of the date the withdrawals were made.

The Emergency Fund shall be funded pursuant to the following process: Fifty percent of each of the "Excess Qualified Assurance Fee Payments" (as defined below) shall be deposited into the Emergency Fund until the Emergency Fund contains \$3,000,000. Once the managed care payments have been approved by the U.S. Department of Health and Human Services, Centers for Medicaid and Medicare Services, the fifty percent amount shall be reduced to twenty-five percent of each of the Excess Qualified Assurance Fee Payments and shall be deposited into the Emergency Fund until the Emergency Fund contains \$3,000,000. All such deposits of Excess Qualified Assurance Fee Payments to the Emergency Fund shall be made within 10 days following receipt by Buyers of each Excess Qualified Assurance Fee Payment. "Excess Qualified Assurance Fee Payments" shall mean all fee-for-service and managed care payments received by Buyers after the date of the transaction closing pursuant to Welfare & Institutions Code sections 14169.1- 14169.19 (and as described as "Stabilization Payments" in the amended section 1.8(n) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012) and all payments pursuant to similar or follow-on quality assurance or rate stabilization legislation (and as described as "QA Follow-on Legislation" in the amended section 1.8(n) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012). The Excess Qualified Assurance Fee Payments shall not include the first \$7,100,000 of the Qualified Assurance Fee Payments treated as an Excluded Asset (and payable to Seller) pursuant to the new section 1.9(u) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012.

Within 14 days of the end of each quarter, Buyers shall provide to the Attorney General quarterly reports including, but not limited to, statements concerning the Emergency Fund from the bank or financial institution in which the Emergency Fund is established. Once Victor Valley Community Hospital achieves operating self-sustainability as defined herein and proof is provided to the Attorney General, the Attorney General will release Buyers from the requirement to maintain this ongoing fund.

4. Condition XVI of the Attorney General's Decision dated December 29, 2010 is amended and reads in its entirety as follows:

**XVI.**

Pursuant to the process set forth below, Buyers shall deposit and maintain an ongoing fund balance of \$3,000,000 in a separate interest-bearing blocked bank account ("Blocked Fund") at a California bank or California financial institution or a California branch of either a National bank or National financial institution; or other financial institution account satisfactory to the Attorney General. Such Blocked Fund shall be held by the bank or financial institution in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The owner of the Blocked Fund shall be the bank or financial institution. The beneficiary of the Blocked Fund shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the Blocked Fund other than the reversionary interest described below. The Blocked Fund and any interest earned thereon shall be retained in the Blocked Fund until the earlier of the following: (1) five years and two months from the date of the transaction closing, (2) the date on which Buyers close Victor Valley Community Hospital, (3) the date on which Buyers sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or (4) the date on which Buyers file for bankruptcy. Within 14 days of the end of each quarter, Buyers shall provide to the Attorney General quarterly reports that include, but are not limited to, statements concerning the Blocked Fund from the bank or financial institution in which the Blocked Fund is established.

If, on or before five years and two months from the date of the transaction closing, Buyers close sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or file for bankruptcy, the funds held in the Blocked Fund shall be paid, at the direction of "The Community Foundation Serving Riverside and San Bernardino Counties," to the Victor Valley Community Hospital Health Fund, as described in Condition XV, for the uses specified therein except for the following: (1) if a sale, transfer, or lease of Victor Valley Community Hospital occurs and the funds remain in the Blocked Fund under the same terms and conditions as set forth in Condition XVI and if the buyer, transferee, or lessee is an entity, or "affiliated" (as defined in Corporations Code section 5031) with an entity, that currently operates at least one other general acute-care hospital in California, (2) if a lease of Victor Valley Community Hospital is between Victor Valley Hospital Acquisition, Inc. and Victor Valley Real Estate LLC, or (3) if Buyers grant a deed of trust of Victor Valley Community Hospital's real property or other security interest in, or affecting, the assets of Victor Valley Community Hospital and if Buyers use such borrowed funds directly for the operations or acquisition of Victor Valley Community Hospital and if such transfer does not result in a foreclosure by the lender. If any of the above exceptions apply, Buyers must first provide notice and a copy of all transactional

documents to the Attorney General at least 30 days in advance<sup>2</sup> of the effective date of the transaction.

The Blocked Fund shall be funded pursuant to the following process: Fifty percent of each of the "Excess Qualified Assurance Fee Payments" (as defined below) shall be deposited into the Blocked Fund until the Blocked Fund contains \$3,000,000. Once the managed care payments have been approved by the U.S. Department of Health and Human Services, Centers for Medicaid and Medicare Services, the fifty percent amount shall be reduced to twenty-five percent of each of the Excess Qualified Assurance Fee Payments and shall be deposited into the Blocked Fund until the Blocked Fund contains \$3,000,000. All such deposits of Excess Qualified Assurance Fee Payments to the Blocked Fund shall be made within 10 days following receipt by Buyers of each Excess Qualified Assurance Fee Payment. "Excess Qualified Assurance Fee Payments" shall mean all fee-for-service and managed care payments received by Buyers after the date of the transaction closing pursuant to Welfare & Institutions Code sections 14169.1- 14169.19 (and as described as "Stabilization Payments" in the amended section 1.8(n) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012) and all payments pursuant to similar or follow-on quality assurance or rate stabilization legislation (and as described as "QA Follow-on Legislation" in the amended section 1.8(n) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012). The Excess Qualified Assurance Fee Payments shall not include the first \$7,100,000 of the Qualified Assurance Fee Payments treated as an Excluded Asset (and payable to Seller) pursuant to the new section 1.9(u) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012.

If on or before five years and two months from the date of the transaction closing, Buyers have not closed, sold, transferred, leased, exchanged, optioned, conveyed, or otherwise disposed of Victor Valley Community Hospital, or Buyers have not filed for bankruptcy, Buyers shall be entitled to the return of all funds in the Blocked Fund, including without limitation all interest accrued thereon, within 10 days thereafter.

5. Once the Emergency Fund of Condition XIV of the Attorney General's Decision dated December 29, 2010 and the Blocked Fund of Condition XVI of the Attorney General's Decision dated December 29, 2010 each contain \$3,000,000, fifty percent of each of the "Excess Qualified Assurance Fee Payments" (as defined below) shall be paid to the California Department of Health Care Services ("CDHCS") as early re-payment of the Medi-Cal liability as set forth in the Repayment Agreement dated June 2004 (currently estimated at \$5,100,000). All such payments to CDHCS shall be made within 10 days following receipt by Buyers of each of

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<sup>2</sup> Thirty-days advance notice is not required for exceptions 2 and 3 if their effective date is within 30 days of the date of the transaction closing between the Seller and Buyers. Rather, such notice and a copy of all transactional documents must be provided to the Attorney General the earlier of 10 days after the transactional documents are executed or 10 days after the effective date of the transaction.

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the Excess Qualified Assurance Fee Payments. "Excess Qualified Assurance Fee Payments" shall mean all fee-for-service and managed care payments received by Buyers after the date of the transaction closing pursuant to Welfare & Institutions Code sections 14169.1- 14169.19 (and as described as "Stabilization Payments" in the amended section 1.8(n) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012) and all payments pursuant to similar or follow-on quality assurance or rate stabilization legislation (and as described as "QA Follow-on Legislation" in the amended section 1.8(n) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012). The Excess Qualified Assurance Fee Payments shall not include the first \$7,100,000 of the Qualified Assurance Fee Payments treated as an Excluded Asset (and payable to Seller) pursuant to the new section 1.9(u) of the Asset Sale Agreement as set forth in the Fourth Amendment to the Asset Sale Agreement dated June 28, 2012.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Charles E. Slyngstad