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May 12, 2011

**Sent by Internet and U.S. Mail**

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally approves the Fourth Amendment to the Asset Sale Agreement between Seller, Victor Valley Community Hospital, a California nonprofit public benefit corporation, and Buyers, Victor Valley Hospital Real Estate, LLC ("Real Estate LLC"), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. ("Acquisition, Inc."), a California for-profit corporation. (A copy of the Fourth Amendment is attached as Exhibit 1.) The Attorney General's approval is subject to the following:

1. The transaction must close on or before June 1, 2011.
2. Section (2) (c) and (2) (d) of the Emergency Fund Note must state in full as follows:

"(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("QAF Legislation"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "Excess Funds"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligors to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum." (See Exhibit 1.)

3. Buyers and Sellers must execute a "Security Agreement" and a "Deposit Account Control Agreement" for the Blocked Fund Note that mirrors the "Security Agreement" and a "Deposit Account Control Agreement" for the Emergency Fund Note. (See Exhibit 1.)

4. Buyers and Seller must execute all documents attached as Exhibit 1 on or before June 1, 2011.

5. The following clarifications are made to the referenced terms in the Conditions incorporated in the Attorney General's Decision dated December 29, 2010:

a. The use of the term "emergency" in Conditions XII and XIV shall mean "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."

b. With respect to Condition XIV, the Attorney General agrees to also release Buyers from the requirement to maintain the fund at any time after five years from the date of the transaction closing, whether or not self-sustainability has been achieved.

c. With respect to Condition XIV, total withdrawals are limited to \$1.0 million during any single quarter, and any and all withdrawn funds must be redeposited into the account before any further withdrawals can be made.

d. With respect to Condition XIV, the separate interest-bearing bank account must be held at a California bank or a California branch of a National bank.

e. The term "April 30, 2016," used several times in Condition XVI, is replaced each time with the phrase "five years and two months from the date of the transaction closing."

f. With respect to Condition XVI, the separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General must be held at a California bank or California financial institution or a California branch of a National bank or National financial institution.

g. Assignment pursuant to Condition VII(b) can be accomplished as follows: Before the transaction closes, (1) Buyers shall enter into a new contract with Inland Empire Health Plan ("IEHP") and IEHP Health Access, to become effective on the date on which Buyers are issued a license to operate Victor Valley Community Hospital as a general acute care hospital by the

Charles E. Slyngstad  
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California Department of Public Health and (2) Sellers shall reject, effective on the same date as Buyers become the licensee, the current IEHP and IEHP Health Access contract, pursuant to section 365 of the Bankruptcy Code. This approach shall ensure that IEHP and IEHP Health Access at all times remain contracted with the owners of Victor Valley Community Hospital without any loss, interruption, or gap in contracted hospital coverage at Victor Valley Community Hospital for five years from the date of the transaction closing.

h. Any references to a contract with IEHP in Condition VII(b) shall mean a contract with IEHP and IEHP Health Access.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Bill Thomas, Esq. (via Internet)  
Todd Swanson, Esq. (via Internet)

**EXHIBIT 1**

## FOURTH AMENDMENT TO ASSET SALE AGREEMENT

This Fourth Amendment to Asset Sale Agreement (the "**Amendment**") is made and entered into as of May 16, 2011 by and among Victor Valley Community Hospital, a California nonprofit public benefit corporation ("**Seller**") on the one hand, and Victor Valley Hospital Real Estate, LLC, a California limited liability corporation and Victor Valley Hospital Acquisition, Inc., a California corporation or its permitted assignee ("**Purchasers**"), on the other hand.

### RECITALS

A. Seller and Purchasers are parties to an Asset Sale Agreement, dated October 29, 2010, as amended (the "**ASA**"; terms defined in the ASA are used herein as therein defined), pursuant to which, among other things, Seller agreed to sell, and Purchasers agreed to buy, the Assets, including an acute care hospital located in Victorville, California.

B. On or about December 23, 2010 Seller and Purchasers amended the ASA pursuant to the Amendment to Asset Sale Agreement, dated December 23, 2010.

C. On or about February 24, 2011 Seller and Purchasers amended the ASA pursuant to the Second Amendment to Asset Sale Agreement, dated February 24, 2011.

D. On or about March 31, 2011 Seller and Purchasers amended the ASA pursuant to the Third Amendment to Asset Sale Agreement, dated March 31, 2011.

E. Seller and Purchasers desire to further amend the ASA as provided for herein.

In consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, Seller and Purchasers agree to amend the ASA as follows:

### AMENDMENT

1. Section 1.10(e) of the ASA is amended in its entirety to read as follows:

(e) all liabilities of Seller relating to the Seller Cost Reports, other than and excluding liabilities relating to Medi-Cal cost reports and related liabilities, with respect to periods ending prior to the Effective Time;

2. Section 1.2 of the ASA (Purchase Price) is hereby amended in its entirety to read as follows:

1.2 Purchase Price. Subject to the terms and conditions of this Agreement, the aggregate purchase price to be paid by Purchasers to Seller for the purchase of the Assets is up to a maximum amount of Thirty Seven Million Dollars (\$37,000,000.00) (the "**Purchase Price**"), subject to adjustments as provided for in this Agreement, including, without limitation, in Section 1.10(b). The Purchase Price is calculated as follows: (a) a cash component equal to the sum of (i) the Five Million Dollars (\$5,000,000) the remaining amount of which

is currently held by First American Title in escrow (the “**Good Faith Deposit**” or “**Deposit**”), after the Deposit was used as provided in paragraph 3(d) of the Order Authorizing the Sale of Substantially All of the Debtor’s Assets Free and Clear of Liens, Claims, Encumbrances and Interests etc., resulting from a November 9, 2010 hearing in the Bankruptcy Court without any requirement of replenishment by the Purchasers after such use, plus (ii) the additional amount of Ten Million Five Hundred Thousand Dollars (\$10,500,000.00) (the “**Additional Cash Amount**”) minus (iii) the amount equal to the result of (1) Four Million Five Hundred Thousand Dollars (\$4,500,000) minus (2) the amount outstanding at Closing on the Debtor-in-Possession Loan under a certain Post-Petition Revolving Credit and Security Agreement dated as of September 16, 2010 to which Seller is a party (“**DIP Loan Agreement**”), which amount outstanding currently is approximately Four Million Four Hundred Thousand Dollars (\$4,400,000), and which amount shall also include any other unpaid additional advances made under the DIP Loan Agreement until Closing (the “**Cash Purchase Price**”), in cash paid on the calendar day immediately preceding the Effective Time (the “**Operational Closing Date**”); plus (b) a debt assumption component comprised of (1) the assumption of the balance due at Closing, up to Six Million One Hundred Thousand Dollars (\$6,100,000), under the Medi-Cal Liability, plus (2) the assumption of the Accrued Payroll and Accrued Paid Time Off owed at Closing by Seller, plus (3) the assumption of the Physicians’ Hospital Secured Claim and the Corwin Secured Claim (the “**Secured Claims**”) at Closing assumed by Purchasers (the aggregate amount of the debt assumption component in (b) is estimated to be approximately Fifteen Million, Five Hundred Thousand Dollars (\$15,500,000) and is referred to collectively as the “**Assumed Debt**”), plus (c) an Emergency Fund Note in the principal amount of Three Million Dollars (\$3,000,000) from Purchasers as obligors to Seller as holder in the form attached as Exhibit 1.2.1 (the “**Emergency Fund Note**”) and a Blocked Fund Note in the principal amount of Three Million Dollars (\$3,000,000) from Purchasers as obligors to Seller as holder in the form attached as Exhibit 1.2.2 (the “**Blocked Fund Note**,” and together with the Emergency Fund Note, collectively, the “**Notes**”). To the extent the amount of the Assumed Debt is greater than \$15,500,000 at Closing, each dollar increment above \$15,500,000 shall reduce dollar for dollar the amount of the Additional Cash Amount. To the extent that, for whatever reason, Purchasers are unable to assume the Secured Claims and/or are unable to otherwise procure a full release for Seller with respect to the Secured Claims, the Cash Purchase Price shall be increased dollar for dollar for each dollar that must be paid by the Seller at Closing on account of the Secured Claims. The payment of the Cash Purchase Price at Closing shall be governed by Section 1.6.1.

3. The following is hereby added to the ASA as a new Section 1.2.1:

1.2.1 The Purchasers’ obligations under the Blocked Fund Note shall be secured by the grant by Purchasers of a security interest in the Blocked Fund pursuant to a Security Agreement in the form attached as Exhibit 1.2.3 (the “**Blocked Fund Security Agreement**”) and guaranteed by Kali P. Chaudhuri, M.D. pursuant to a Guaranty in the form attached as Exhibit 1.2.4 (the “**Guaranty**”). The Purchasers’ obligations under the

Emergency Fund Note shall be secured by the grant by Purchasers of a security interest in the Emergency Fund pursuant to a Security Agreement in the form attached as Exhibit 1.2.5 (the "Emergency Fund Security Agreement").

4. Section 1.5.7 of the ASA (Items to be Delivered by Seller at Closing) is hereby amended in its entirety to read as follows:

1.5.7 The Blocked Fund Security Agreement in the form of Exhibit 1.2.3 and the Emergency Fund Security Agreement in the form of Exhibit 1.2.5;

5. Section 1.6.7 of the ASA (Items to be Delivered by Purchasers at Closing) is hereby amended in its entirety to read as follows:

1.6.7 the Notes in the form of Exhibits 1.2.1 and 1.2.2, the Blocked Fund Security Agreement in the form of Exhibit 1.2.3, the Guaranty in the form of Exhibit 1.2.4, and the Emergency Fund Security Agreement in the form of Exhibit 1.2.5;

6. Section 2.7(b) of the ASA is amended by addition of the following to the end of this Section, and the representations in Section 2.7 and 2.5, as revised, are hereby remade and shall be deemed to be remade as of the Closing Date:

The Hospital currently meets applicable requirement to have 100 beds or more as sufficient for the Hospital to be treated more favorably than hospitals with fewer than 100 beds for purposes of payments under the Medicare Disproportionate Share program, under applicable laws and regulations including without limitation pursuant to 42 U.S.C. § 1395ww(d)(5)(F).

7. Article 7 (Conditions Precedent to Obligations of Seller) is hereby amended to add the following new Section 7.8:

7.8 The Bankruptcy Court shall have entered an order on or prior to May \_\_, 2011, in form and substance acceptable to Seller, in its reasonable discretion, which order shall, among other things, (i) approve the Fourth Amendment to the Asset Sale Agreement dated May 16, 2011 (the "Fourth Amendment") and this Agreement as so amended and (ii) authorize the Sale pursuant to the terms of this Agreement as so amended by the Fourth Amendment, and such order shall have become a Final Order provided that the Seller may waive the requirement that the order be a Final Order.

8. Article 8 (Conditions Precedent to Obligations of Purchasers) is hereby amended to add the following new Sections 8.8 and 8.9:

8.8 Stipulated Order with Federal Government. The Bankruptcy Court shall have entered an order, in form and substance satisfactory to the Purchasers in their reasonable discretion, approving a stipulated agreement, in form and substance satisfactory to the Purchasers in their reasonable discretion, by and among the Seller, the Purchasers and the Federal Government (the "CMS Settlement") which provides for the assumption by the Seller and the assignment

to the Purchasers of the Seller's Medicare Provider Agreement and provider number (the "CMS Agreement") which is the subject of the Seller's pending assumption and assignment motion [dkt # 466].

8.9 The Bankruptcy Court shall have entered an order on or prior to May \_\_, 2011, in form and substance acceptable to the Purchasers in their reasonable discretion, and which order shall, among other things, (i) include findings as to the good faith of the Purchasers and the fairness of the terms of the Sale transaction and this Agreement as amended by the Fourth Amendment, (ii) approve the Fourth Amendment and this Agreement as so amended, and (iii) authorize the Sale pursuant to the terms of this Agreement as so amended by the Fourth Amendment, and such order shall have become a Final Order; provided that the Purchasers may waive the requirement that the order be a Final Order.

9. Section 11.2.2(a)(v) of the ASA is amended by addition of the following language to the end of this provision:

; provided, however, that neither this Section 11.2.2(a)(v) nor Section 11.2.2(a)(iv) shall limit or restrict any of Purchaser's indemnification rights related to, or based upon Medi-Cal cost reports and related liabilities, with respect to periods ending prior to the Effective Time.

10. The ASA is hereby amended to insert attached Exhibit 1.2.1 into the ASA as Exhibit 1.2.1 to the ASA, to insert attached Exhibit 1.2.2 into the ASA as Exhibit 1.2.2 to the ASA, to insert attached Exhibit 1.2.3 into the ASA as Exhibit 1.2.3 to the ASA, to insert attached Exhibit 1.2.4 into the ASA as Exhibit 1.2.4 to the ASA, and to insert attached Exhibit 1.2.5 into the ASA as Exhibit 1.2.5 to the ASA.

11. For purposes of this Amendment and the ASA, the term Final Order shall mean an order or judgment entered by the Bankruptcy Court or any other court exercising jurisdiction over the subject matter and the parties: (i) that has not been reversed, rescinded, stayed, modified or amended; (ii) as to which no appeal, certiorari proceeding, petition for re-argument or review, or request for other review or rehearing has been filed, requested or is pending; and (iii) as to which the time for filing a notice of appeal or a request or petition for certiorari, review, re-argument or rehearing shall have expired.

12. The effectiveness of this Amendment and of the obligations of the Purchasers hereunder and to close the Sale under the terms of the ASA is contingent upon the entry of order on or prior to May \_\_, 2011, in form and substance acceptable to Purchasers in their reasonable discretion, and which order shall, among other things, (i) include findings as to the good faith of the Purchasers and the fairness of the Sale transaction and the ASA as amended by this Amendment, (ii) approve this Amendment and the ASA as so amended, and (iii) authorize the Sale pursuant to the terms of the ASA as so amended by this Amendment, and such order shall have become a Final Order; provided that the Purchasers may waive the requirement that the order be a Final Order.



13. Except to the extent expressly set forth in this Amendment, all of the provisions of the ASA are, and shall continue to be, in full force and effect in accordance with their respective terms, and each Seller and Purchasers shall remain obligated to comply with all of such party's obligations contained in the ASA.

14. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, this Amendment has been duly executed by the parties set forth below as of the due first written above.

**PURCHASERS:**

VICTOR VALLEY HOSPITAL REAL ESTATE, LLC,  
a California limited liability corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

VICTOR VALLEY HOSPITAL ACQUISITION, INC.,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**SELLER:**

VICTOR VALLEY COMMUNITY HOSPITAL,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

EXHIBIT 1.2.1

**EMERGENCY FUND NOTE**

**\$3,000,000**

**May 31, 2011  
Victorville, California**

This EMERGENCY FUND NOTE (the "Note"), dated the date set forth above, is made and given by VICTOR VALLEY HOSPITAL REAL ESTATE, LLC, a California limited liability company and VICTOR VALLEY HOSPITAL ACQUISITION, INC., a California corporation (each, an "Obligor" and, collectively, the "Obligors"), in favor of VICTOR VALLEY COMMUNITY HOSPITAL, a California nonprofit public benefit corporation, or order (the "Holder").

1. Recitals. This Note is made with respect to the following facts and circumstances:

(a) Holder, as Seller, and Obligors, as Purchasers, are parties to that certain Asset Sale Agreement, dated as of October 29, 2010 (together with all amendments thereto, collectively, the "ASA") under which Holder is selling to Obligors and Obligors are purchasing from Holder certain property and assets, all as more particularly described in the ASA.

(b) The sale of the property and assets pursuant to the ASA is subject to the consent of the Attorney General of the State of California (the "Attorney General"), and, on December 29, 2010, the Attorney General conditionally consented to the sale subject to the Attorney General's "Conditions to Approval of Sale of Victor Valley Community Hospital", a copy of which is attached hereto as Exhibit A, and on May 12, 2011 issued its conditional approval to the Fourth Amendment to ASA, a copy of which is attached hereto as Exhibit B (together with any modifications thereto, collectively, the "Conditions to Approval").

(c) Among the conditions imposed by the Attorney General in the Conditions to Approval is Condition XIV (the "Emergency Fund Condition") whereby the Obligors are required to deposit and maintain an ongoing balance of \$3,000,000 in a separate interest-bearing bank account (the "Emergency Fund") to be used only for emergency operating and capital needs of Victor Valley Community Hospital, all as more particularly set forth in the Emergency Fund Condition.

(d) Obligors are giving this Note to Holder in exchange for a \$3,000,000 reduction in the cash portion of the purchase price payable to Holder for the property and assets under the ASA, thereby enabling Obligors to fund the Emergency Fund.

(e) This Note is to be secured by a security interest in the Emergency Fund to be granted by the Obligors pursuant to a Security Agreement, in the form attached to the ASA as Exhibit 1.2.4 (the "Security Agreement"), to be entered into simultaneously with the establishment of the Emergency Fund.

2. Payment. The Obligors, for value received, promise to pay to the Holder at its principal executive office in the City of Victorville, State of California (or such other place or places indicated in writing by the Holder to the Obligors) at the times hereinafter provided the principal

sum of \$3,000,000 (the "**Principal Sum**"), together with interest on the unpaid balance thereof as provided below. Principal and interest are payable in lawful money of the United States.

(a) Interest. This Note shall bear interest on the unpaid Principal Sum from the date of this Note until paid in full at a rate of interest equal to the rate of interest being paid during each Interest Period (defined below) on the funds in the Emergency Fund during such Interest Period. Provided that the Attorney General consents to the withdrawal by Obligors of the interest earned on the Emergency Fund concurrent with each Interest Period, for purposes of applying such withdrawn interest sums to such interest payments hereunder, interest shall be paid not later than the 10th day of the calendar month immediately following the end of each Interest Period. As used in this Note, the term "**Interest Period**" means each period of 3 calendar months during the term of this Note ending on and including June 30, September 30, December 31, and March 31, except that the first Interest Period shall commence on the date of this Note and end on and including June 30, 2011 and the last Interest Period shall end on and including the date when all amounts owing under this Note have been paid in full. If the Attorney General does not consent to the withdrawal by Obligors of the interest earned on the Emergency Fund concurrent with each Interest Period, as provided above, then all accrued and outstanding interest owing hereunder shall not be paid based on Interest Periods but shall accrue and be paid not later than the Maturity Date.

(b) Principal. The unpaid Principal Sum, together with all accrued and unpaid interest thereon, shall be due and payable no later than 10 business days following the date on which the Attorney General releases Obligors from the requirement to maintain the Emergency Fund pursuant to the Emergency Fund Condition and all of the funds in the Emergency Fund are unconditionally released to Obligors ("**Maturity Date**"), which is expected to be the sixty-second (62<sup>nd</sup>) monthly anniversary of the Closing Date. Notwithstanding the foregoing to the contrary, the unpaid Principal Sum, together with all accrued and unpaid interest thereon, shall not be due and payable under this Section 2(b) on account of the withdrawal by Obligors of funds from the Emergency Fund for emergency operating and capital needs as permitted by the Emergency Fund Condition. If Holder receives any payments directly from the Emergency Fund, such payments shall be fully credited toward the amounts owing under this Note.

(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("**QAF Legislation**"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "**Excess Funds**"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligors to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum.

3. Certain Covenants. Obligors agree as follows:

(a) Reports. Until all amounts payable under this Note have been paid in full, Obligors shall provide to the Creditor Trust (“**Creditor Trust**”) to be established pursuant to Holder’s liquidation Plan of Reorganization in Holder’s bankruptcy proceedings pending in the United States Bankruptcy Court, Central District of California, Riverside Division, Case No. 6:10-39537 CB (“Liquidation Plan”), copies of all of the reports which Obligors are required to provide to the Attorney General under the terms of the Emergency Fund Condition and Condition XVI of the Conditions to Approval. All such reports will be used solely by the Creditor Trust for the purpose of evaluating its interests under the Note, and will not be disclosed to any other persons or entities except to the extent otherwise required by applicable law, regulation or legal process or to extent the information contained therein has already become publicly know through no action of the Creditor Trust.

(b) Board Member. Until all amounts payable under this Note have been paid in full, Holder shall have the right to have one representative seated on the local governing board of Victor Valley Community Hospital required to be established pursuant to Section 5.8 of the ASA (which will not be the corporate governing board of Victor Valley Hospital Acquisition, Inc.), subject to Obligor’s reasonable approval of such representative.

(c) Notice of Draws. Until all amounts payable under this Note have been paid in full, Obligors shall provide Holder with prior notice of any withdrawals of funds from the Emergency Fund, and Obligors agree to replenish the Emergency Fund following any such withdrawals as required for compliance with the Emergency Fund Condition, as may be amended or modified by the Attorney General.

(d) Best Efforts. Obligors agree to use their best efforts to promptly provide the Attorney General, if and when operating self-sustainability is achieved, the proof of operating self-sustainability required by the Emergency Fund Condition.

(e) Security Agreement. Simultaneously with the establishment of the Emergency Fund, Obligors agree to execute and deliver the Security Agreement.

4. Default. If Obligors fail to make any payment of principal or interest on this Note when due, or if obligors fail to observe and perform any covenant or agreement to which they are bound under this Note, then, in addition to any other rights and remedies available to Holder hereunder, under the Security Agreement, or at law or in equity, Holder shall be entitled, at its option, to accelerate the entire Principal Sum hereof upon the giving of a written notice of acceleration to the Obligors; provided that Obligors shall have a period of thirty (30) days from such notice of acceleration to cure any non-monetary obligation or five (5) business days from such notice of acceleration to cure any monetary default and if such cure is timely completed the Note shall be reinstated and the acceleration nullified.

5. Maximum Interest. In no event shall the amount paid or agreed to be paid to the Holder as interest under this Note exceed the highest lawful rate allowed to be received by the Holder in the State of California. If, from any circumstance whatsoever, fulfillment of any provision in this Note or of any other agreement between the Obligors and the Holder related to this Note shall, at the time of such fulfillment, involve payment of interest in excess of that authorized to be received by the Holder under the law of the State of California, then the obligation to be fulfilled shall be reduced to the limits so authorized by law, and if from any circumstance the Holder shall ever receive a sum as interest in excess of that authorized to be received by the Holder under the law of the State of California, it shall not be deemed interest but shall be applied to reduce the Principal Sum.

6. Costs of Collection. The Obligors further promise to pay all costs of collection, including, without limitation, reasonable attorneys' fees and costs incurred in the collection of this Note, and hereby waive diligence, presentment, protest, demand and notice of every kind, and hereby agree that no failure on the part of the Holder to exercise any power, right or privilege under this Note, or to insist upon prompt compliance with the terms of this Note shall constitute a waiver thereof.

7. Assignment. Obligors may not assign, transfer or otherwise dispose of this Note or any of their obligations under this Note except that the obligations under this Note may be assigned to any purchaser, lessee, optionee or other transferee of Victor Valley Community Hospital provided that the purchaser, lessee, optionee or other transferee assumes and agrees to abide by the Emergency Fund Condition and Condition XVI of the Conditions to Approval and assumes the obligations of Obligors under this Note and the Security Agreement. The Holder may not assign, transfer or otherwise dispose this Note or its rights under this Note except to the Creditor Trust or The Community Foundation Serving Riverside and San Bernardino Counties as permitted pursuant to the Plan of Liquidation.

8. Coordination With Conditions to Approval. Nothing in this Note is intended to, or will, alter the treatment of the Emergency Fund in compliance with the requirements of the Emergency Fund Condition and the Conditions to Approval and in the event of any conflict between the terms of this Note and the terms of the Emergency Fund Condition or the Conditions to Approval, the terms of the Emergency Fund Condition and the Conditions to Approval shall control.

9. Miscellaneous. This Note may not be amended, modified or changed except by an instrument in writing signed by the duly authorized officers or representatives of Holder and Obligors. The terms, provisions and conditions of this Note may not be waived either orally or by a course of conduct, but only by a written instrument specifically referring to the terms, provisions or conditions being waived and signed by the duly authorized officer or representative of the Holder. This Note has been freely negotiated by the parties, each of whom has been represented by legal counsel of its choosing. Therefore, this Note shall be interpreted in accordance with its fair meaning and shall not be interpreted for or against either of the parties on the grounds that such party drafted or caused to be drafted this Note or any part of this Note. Any provision of this Note that is invalid, illegal or unenforceable shall be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating, diminishing or rendering unenforceable the rights and obligations of the parties under the remaining provisions

of this Note. This Note shall be governed by and construed in accordance with the laws of the State of California. The obligations of the Obligor under this Note are joint and several.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK,  
SIGNATURES ARE ON THE FOLLOWING PAGE]**

Obligors have caused this Note to be duly executed by their respective duly authorized officers or representatives as of the date first set forth above

**VICTOR VALLEY HOSPITAL REAL ESTATE,  
LLC,  
a California limited liability corporation**

**VICTOR VALLEY HOSPITAL ACQUISITION,  
INC.,  
a California corporation**

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Exhibit A  
To Emergency Fund Note

Conditions to Approval of Sale of Victor Valley Community Hospital

(See Attached)



EDMUND G. BROWN JR.  
Attorney General

State of California  
DEPARTMENT OF JUSTICE



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

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December 29, 2010

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally consents, pursuant to Corporations Code section 5914 *et seq.*, to the sale of Victor Valley Community Hospital to Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., as set forth in the Notice filed on November 19, 2010. Corporations Code section 5917 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations, set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and the purchasers throughout the review process.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For EDMUND G. BROWN JR.  
Attorney General

Attachment  
cc: Bill Thomas, Esq.

LA2010600780/60587768.doc

## Conditions to Approval of Sale of Victor Valley Community Hospital

### I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyers” shall mean Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., a California for-profit corporation, the proposed acquirers of Victor Valley Community Hospital<sup>1</sup>, any other subsidiary, parent, general partner, affiliate, successor, or assignee of Victor Valley Hospital Real Estate, LLC or Victor Valley Hospital Acquisition, Inc., any entity succeeding thereto by consolidation, merger or acquisition of all or substantially all of the assets of Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located, any entity owned by the Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any entity that owns Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any future entity that purchases Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located from Buyers, and any entity owned by a future purchaser that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located. These conditions shall be legally binding on any and all current and future owners or operators of Victor Valley Community Hospital and owners of the real property on which Victor Valley Community Hospital is located. The term “Seller” shall mean Victor Valley Community Hospital, a California nonprofit public benefit corporation.

### II.

The transaction approved by the Attorney General between Buyers and Seller consists of the Asset Sale Agreement dated October 29, 2010, Amendment to Asset Sale Agreement dated December 23, 2010, Interim Management and Lease Agreement dated on or about the time of the transaction closing, Good Faith Deposit Agreement dated December 17, 2010, Limited Power of Attorney for Use of DEA Registration Numbers and DEA Order Forms dated on or about the time of the transaction closing, and any other documents referenced in Sections 1.5 and 1.6 in the Asset Sale Agreement. Buyers and Seller shall fulfill the terms and conditions of the transaction. Buyers and Seller shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the above-enumerated agreements. Such notification shall be provided at least thirty (30) days prior to the effective date of such modification in order to allow the Attorney General to consider

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<sup>1</sup>Throughout this document, the term Victor Valley Community Hospital shall mean the general acute care hospital currently called Victor Valley Community Hospital (located at 15248 11th Street, Victorville, California), the Victor Valley Community Hospital Women’s Health Center and Outpatient Imaging, and any other clinics, laboratories, units, services, or beds included on the license issued to Victor Valley Community Hospital by the California Department of Public Health to operate Victor Valley Community Hospital, effective November 1, 2010, unless otherwise indicated.

whether the proposed modification affects the factors set forth in Corporations Code section 5917.

### III.

Buyers and all future owners or operators of Victor Valley Community Hospital shall be required to provide written notice to the Attorney General sixty (60) days prior to entering into any agreement or transaction to do either of the following:

(A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital.

(B) Transfer control, responsibility, or governance of Victor Valley Community Hospital. The substitution of a new corporate member or members of Buyers that transfers the control of, responsibility for or governance of Buyers shall be deemed a transfer for purposes of this condition. The substitution of one or more members of the governing body of Buyers, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Buyers, shall also be deemed a transfer for purposes of this Condition.

### IV.

For five years from the date of the transaction closing, Buyers shall operate and maintain Victor Valley Community Hospital as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services:

- a) Twenty-four hour emergency medical services as currently licensed (minimum of 13 Emergency beds/stations) with the same types and levels of services as currently provided<sup>2</sup>;
- b) Intensive Care Services as currently licensed (minimum of 10 Intensive Care beds) with the same types and levels of services as currently provided;
- c) Obstetrical services as currently licensed (minimum of 9 Perinatal and 4 Labor, Delivery and Recovery beds) with the same types and levels of services as currently provided;
- d) Pediatric services as currently licensed (minimum of 16 Pediatric beds) with the same types and levels of services as currently provided;

Buyers shall not place all or any portion of its above-listed licensed-bed capacity in voluntary suspension or surrender its license for any of these beds.

### V.

For five years from the date of the transaction closing, Buyers shall operate the Victor Valley Community Hospital Women's Health Center and Outpatient Imaging and provide the same types and levels of services as currently provided.

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<sup>2</sup> The term "currently provided" means types and levels of services provided as of November 1, 2010.

## VI.

For five years from the date of the transaction closing, Buyers shall cause Victor Valley Community Hospital, and any other related structures, to be in compliance with all requirements of a general acute care hospital under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

## VII.

For five years from the date of the transaction closing, Buyers shall:

- a) Be certified to participate in the Medi-Cal program.
- b) Accept assignment of the Inland Empire Health Plan's current contract and amendments with Victor Valley Community Hospital, a California nonprofit public benefit corporation, (which expires December 31, 2011) and shall not terminate the contract without cause until a new contract has been entered into with the Inland Empire Health Plan, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services for Medi-Cal, Healthy Families, Healthy Kids, and Inland Empire Health Plan's Medicare Special Needs Plan, to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries as required in these Conditions, and shall maintain such a contract with the Inland Empire Health Plan;
- c) Provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries (Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions.
- d) Have a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## VIII.

For five years from the date of the transaction closing, Buyers shall maintain the following contracts and amendments, without interruption of service or diminution in quality, unless terminated for cause, and shall provide the same services specified in the contracts: San Bernardino County Superintendant of Schools- Regional Occupational Program Agreement for Affiliation; San Bernardino County Department of Public Health-Automated Birth Registration Program (Automated Vital Statistics System); County of San Bernardino Department of Child Support Services-Paternity Opportunity Program Agreement; County of San Bernardino Transitional Assistance Department-Outstationed Medi-Cal Eligibility Worker Services; Inland Counties Emergency Medical Agency-Hospital Preparedness Program; Hospital Association of Southern California Restatement of Reddinet Master Agreement-Emergency Communications System; and County of San Bernardino Arrowhead Regional Medical Center-Medically Indigent Adult Medical Care Program.

## IX.

For five years from the date of the transaction closing, Buyers shall provide an annual amount of Charity Care (as defined below) at Victor Valley Community Hospital equal to or greater than \$1,380,000 (the "Minimum Charity Care Amount"). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Buyers in connection with the operation and provision of services at Victor Valley Community Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.<sup>3</sup> Buyers shall use charity care and collection policies that comply with Federal and California law. Creation of, and any subsequent changes to, the charity care and collection policies and charity care services provided at Victor Valley Community Hospital shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

Buyers' obligation under this condition for the period from the transaction closing date through the end of Buyers' first fiscal year following the transaction closing date shall be prorated on a daily basis if the transaction closing date is a date other than the first day of Buyers' fiscal year.

For each calendar year after 2011, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of Charity Care provided by Buyers at Victor Valley Community Hospital for any calendar year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such year, Buyers shall pay an amount equal to the deficiency to the "Victor Valley Community Hospital Health Fund" specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## X.

For five years from the date of the transaction closing, Buyers shall provide community benefit services at Victor Valley Community Hospital at an annual cost of \$27,500 (hereafter "the Minimum Community Benefit Services Amount"). Community benefit commitments shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

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<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

The Minimum Community Benefit Services Amount shall be annually increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the “12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided by Buyers at Victor Valley Community Hospital for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such year, Buyers shall pay the deficiency to the “Victor Valley Community Hospital Health Fund” specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## XI.

For five years from the date of the transaction closing, Buyers shall spend no less than \$25,000,000 at Victor Valley Community Hospital for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital; of said amount, no less than \$15,000,000 shall be designated for capital improvements, equipment, information technology, infrastructure improvements at Victor Valley Community Hospital. For calendar years 2011, 2012 and 2013, Buyers shall spend no less than \$4,000,000 per year for capital improvements, equipment, information technology, and infrastructure improvements at Victor Valley Community Hospital. Buyers shall consult with the Local Governing Board, referenced in Condition XII, prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements.

## XII.

For five years from the date of the transaction closing, Buyers shall maintain a Local Governing Board, as set forth in Section 5.8 of the Asset Sale Agreement. (Exhibit 1) Said Board should include physicians from the medical staff at Victor Valley Community Hospital, the Chief of Staff at Victor Valley Community Hospital, and community representatives from Victor Valley Community Hospital’s service area (as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010 and attached here to as Exhibit 2). In addition to the duties of the Local Governing Board designated in Section 5.8 of the Asset Sale Agreement, Buyers shall consult with the Local Governing Board prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements, making any withdrawals from the separate interest-bearing bank account required in Condition XIV, making any changes to medical services, making any changes to community benefit programs, and making any changes to the charity care and collection policies and charity care services provided at Victor Valley Community Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes or actions unless done so based upon an emergency. The Local Governing Board shall also approve any reports submitted to the Attorney General regarding compliance with these Conditions.

### XIII.

Within 30 days of the date of the transaction closing, Seller shall transfer all remaining restricted charitable funds held by Victor Valley Community Hospital, a California nonprofit public benefit corporation, to "The Community Foundation Serving Riverside and San Bernardino Counties," a California nonprofit public benefit corporation, to be used in accordance with the purposes for which said funds are restricted.

### XIV.

Within 30 days of the date of the transaction closing, Buyers shall deposit and maintain an ongoing fund balance of \$3 million in a separate interest-bearing bank account, to be used only for emergency operating and capital needs of Victor Valley Community Hospital, until such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: 1) 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 2) 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. The Local Governing Board referenced in Condition XII, shall be consulted prior to any withdrawals. Withdrawals are limited to \$1.5 million for any quarter. Any withdrawals must be redeposited into the account within 30 days of the date the withdrawal is made. 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 this account from the bank in which the separate interest-bearing bank account 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.

### XV.

As soon as practicable, but no more than sixty (60) days after entry of an order closing the bankruptcy matter entitled *In re: VICTOR VALLEY COMMUNITY HOSPITAL* (U.S. Bankruptcy Court, Central Districts, Riverside Division Case No. 6:10-39537 CB), Seller shall transfer all net proceeds from the transaction (expected to be \$1,700,000) and any unrestricted charitable assets (expected to be \$320,325) to the "The Community Foundation Serving Riverside and San Bernardino Counties" for deposit in a Donor-Advised Pass-Through Fund called "Victor Valley Community Hospital Health Fund" for the purpose of making grants to charitable healthcare facilities and clinics exempt from taxation pursuant to IRC §501(c)(3) to provide healthcare services to residents in Victor Valley Community Hospital's service area (11 ZIP codes) as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010. (Exhibit 2) These funds shall be maintained and used for a period of at least five years but not more than 10 years from the date of the transaction closing. Seller shall select the initial members of the Advisory Committee to the Donor-Advised Pass-Through Fund which will include the Vice-President of Grant Programs of "The Community Foundation Serving Riverside and San Bernardino Counties."

## XVI.

Within 30 days of the date of the transaction closing, Buyers shall deposit the sum of \$3 million in a separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General. Such account shall be held by the bank or other financial institution in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The owner of the account shall be the bank or other financial institution. The beneficiary of the account shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the account other than the reversionary interest described below. The initial \$3 million deposit and any interest earned shall be retained in the separate interest-bearing blocked account until the earlier of the following: (1) April 30, 2016, (2) the date on which the Buyers close, sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or (3) the date on which Buyers file for bankruptcy. If on or before April 30, 2016, 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 account 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 XIV, for the uses specified therein. If on or before April 30, 2016, Buyers have not closed, sold, transferred, leased, exchanged, optioned, conveyed, or otherwise disposed of Victor Valley Community Hospital, or filed for bankruptcy, Buyers shall be entitled to request return of the funds in the account after April 30, 2016. 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 this account from the bank or financial institution in which the separate interest-bearing blocked account is established.

## XVII.

For five years from the date of the transaction closing, Buyers shall submit to the Attorney General, no later than four (4) months after the conclusion of each calendar year, a report describing in detail its compliance with each Condition set forth herein including, but not limited to, an itemization and the actual costs of the capital improvements, equipment, information technology, and infrastructure improvements. The Chief Executive Officers and Chief Financial Officers of Buyers shall certify that the report is true and correct and provide documentation of approval by the Local Governing Board for Victor Valley Community Hospital.

## XVIII.

At the request of the Attorney General, Buyers and Seller shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret, or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.



## XIX.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

Exhibit 1

Operational Closing Date or such more liberal or generous policies and practices on charity care as Purchasers may have in effect or implement from time to time, (b) continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by the Hospital and (c) assure access to high-quality healthcare services to all persons seeking medical care, regardless of their ability to pay.

5.7 Medical Staff. To ensure continuity of care in the community, Purchasers agree that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then in effect.

5.8 Local Governing Board.

(a) Immediately after the Effective Time, Purchasers shall form a local governing board at the Hospital in accordance with the terms of this Section 5.8. Such local governing board shall be an advisory committee to the board of directors of Purchasers comprised of medical staff members, community leaders and the Hospital's Chief Executive Officer. The local governing board shall be subject to the authority of Purchasers' board of directors and the terms of Purchasers' Articles of Incorporation, Bylaws and other organizational documents. The individuals on the local governing board should (i) represent the Hospital in the community and represent the views of the community to the local governing board in its deliberations, (ii) participate in Purchasers' community outreach programs and (iii) supervise the Hospital's charity care policies and practices.

(b) The local governing board of the Hospital shall have responsibilities that are consistent with similar local governing boards at other hospitals, or in other markets, respectively, which are owned directly or indirectly by affiliates of Purchasers. Purchasers shall consult with Seller or a successor established by Seller as to the appointment of community members to serve as members of the local governing board.

5.9 Capital Expenditures. During the period commencing on the Operational Closing Date and ending on the five (5) year anniversary date of the Closing, Purchasers agree that they will invest no less than Twenty-Five Million Dollars (\$25,000,000.00) for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital at the Hospital with no less than Fifteen Million Dollars (\$15,000,000.00) of said amount being spent on capital improvements, equipment, information technology, and infrastructure improvements.

5.10 Maintenance of Services. Purchasers agree that following the Closing, Purchasers will operate the Hospital as a licensed acute care hospital with essential services including labor and delivery, and open and accessible emergency departments. Obstetrics and pediatrics services shall be maintained by Purchasers at the hospital facility for five years following the Closing, *provided, however*, that Purchasers have not yet entered into any agreements to provide such services or agreed on any particular rates.

Exhibit 2

## VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA ANALYSIS

### *Victor Valley Community Hospital's Service Area Definition*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009						
ZIP Codes	Community	VCH Discharges	% of Discharges	Cumulative % of Discharges	Total Discharges	Market Share
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
Sub Total		6,160	85.8%		39,843	15.5%
Other ZIPs		177	14.2%	100%		
Total		7,085	100%			

Source: OSHPD Patient Discharge Database

Exhibit 3

Condition XIV: Calculation of Adjusted Net Revenue (FN 1.)

	FISCAL YEAR 2009	2nd QTR 2010
<b>Total Operating Revenue</b>	\$ 56,561,319	\$ 14,969,074
<b>Minus Total Operating Expenses</b>	\$ (55,256,254)	\$ (15,603,030)
<u><b>Equals Net from Operations</b></u>	<u>\$ 1,305,065</u>	<u>\$ (633,956)</u>
<b>Minus Provision for Bad Debts</b>	\$ (7,817,703)	\$ (1,706,554)
<b>Plus Amortization and Depreciation (FN 2.)</b>	\$ 1,749,268	\$ 588,600
<u><b>Equals Adjusted Net from Operations</b></u>	<u>\$ (4,763,370)</u>	<u>\$ (1,751,910)</u>
<b>Adjusted Net from Operations</b>	\$ (4,763,370)	\$ (1,751,910)
<b>Minus 5% of Total Operating Revenue</b>	\$ (2,828,066)	\$ (748,454)
<u><b>Equals Adjusted Net Revenue</b></u>	<u>\$ (7,591,436)</u>	<u>\$ (2,500,364)</u>

FN. 1: The definition and methodology for calculating the terms in bold shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes. The amounts used for the terms in bold shall be the same as those reported to OSHPD on a quarterly basis (Quarterly Financial Data). The FY 2009 figures were based upon the FY 2009 OSHPD Annual Financial Disclosure Report and Independently Audited Financial Statements dated September 30, 2009.

FN. 2: Amortization and Depreciation shall be obtained from the internally prepared quarterly financial statements using methods acceptable under Generally Accepted Accounting Principles. Amortization and Depreciation can only be added back in if the Total Operating Expenses reported to OSHPD included Amortization and Depreciation. The definition and methodology for calculating the term "Depreciation" shall be the same as that used by OSHPD for annual hospital reporting purposes.

Exhibit B  
To Emergency Fund Note

Conditional Approval to the Fourth Amendment to ASA

(See Attached)





300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
Telephone: (213) 897-2178  
Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

May 12, 2011

Sent by Internet and U.S. Mail

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally approves the Fourth Amendment to the Asset Sale Agreement between Seller, Victor Valley Community Hospital, a California nonprofit public benefit corporation, and Buyers, Victor Valley Hospital Real Estate, LLC ("Real Estate LLC"), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. ("Acquisition, Inc."), a California for-profit corporation. (A copy of the Fourth Amendment is attached as Exhibit 1.) The Attorney General's approval is subject to the following:

1. The transaction must close on or before June 1, 2011.
2. Section (2) (c) and (2) (d) of the Emergency Fund Note must state in full as follows:

"(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("QAF Legislation"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "**Excess Funds**"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligors to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum.” (See Exhibit 1.)

3. Buyers and Sellers must execute a “Security Agreement” and a “Deposit Account Control Agreement” for the Blocked Fund Note that mirrors the “Security Agreement” and a “Deposit Account Control Agreement” for the Emergency Fund Note. (See Exhibit 1.)

4. Buyers and Seller must execute all documents attached as Exhibit 1 on or before June 1, 2011.

5. The following clarifications are made to the referenced terms in the Conditions incorporated in the Attorney General’s Decision dated December 29, 2010:

a. The use of the term “emergency” in Conditions XII and XIV shall mean “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.”

b. With respect to Condition XIV, the Attorney General agrees to also release Buyers from the requirement to maintain the fund at any time after five years from the date of the transaction closing, whether or not self-sustainability has been achieved.

c. With respect to Condition XIV, total withdrawals are limited to \$1.0 million during any single quarter, and any and all withdrawn funds must be redeposited into the account before any further withdrawals can be made.

d. With respect to Condition XIV, the separate interest-bearing bank account must be held at a California bank or a California branch of a National bank.

e. The term “April 30, 2016,” used several times in Condition XVI, is replaced each time with the phrase “five years and two months from the date of the transaction closing.”

f. With respect to Condition XVI, the separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General must be held at a California bank or California financial institution or a California branch of a National bank or National financial institution.

g. Assignment pursuant to Condition VII(b) can be accomplished as follows: Before the transaction closes, (1) Buyers shall enter into a new contract with Inland Empire Health Plan (“IEHP”) and IEHP Health Access, to become effective on the date on which Buyers are issued a license to operate Victor Valley Community Hospital as a general acute care hospital by the

Charles E. Slyngstad  
May 12, 2011  
Page 3

California Department of Public Health and (2) Sellers shall reject, effective on the same date as Buyers become the licensee, the current IEHP and IEHP Health Access contract, pursuant to section 365 of the Bankruptcy Code. This approach shall ensure that IEHP and IEHP Health Access at all times remain contracted with the owners of Victor Valley Community Hospital without any loss, interruption, or gap in contracted hospital coverage at Victor Valley Community Hospital for five years from the date of the transaction closing.

h. Any references to a contract with IEHP in Condition VII(b) shall mean a contract with IEHP and IEHP Health Access.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Bill Thomas, Esq. (via Internet)  
Todd Swanson, Esq. (via Internet)

**EXHIBIT 1.2.2**

**BLOCKED FUND NOTE**

**\$3,000,000**

**May 31, 2011  
Victorville, California**

This BLOCKED FUND NOTE (the “**Note**”), dated the date set forth above, is made and given by VICTOR VALLEY HOSPITAL REAL ESTATE, LLC, a California limited liability company and VICTOR VALLEY HOSPITAL ACQUISITION, INC., a California corporation (each, an “**Obligor**” and, collectively, the “**Obligors**”), in favor of VICTOR VALLEY COMMUNITY HOSPITAL, a California nonprofit public benefit corporation, or order (the “**Holder**”).

10. **Recitals.** This Note is made with respect to the following facts and circumstances:

(a) Holder, as Seller, and Obligors, as Purchasers, are parties to that certain Asset Sale Agreement, dated as of October 29, 2010 (together with all amendments thereto, collectively, the “**ASA**”) under which Holder is selling to Obligors and Obligors are purchasing from Holder certain property and assets, all as more particularly described in the ASA.

(b) The sale of the property and assets pursuant to the ASA is subject to the consent of the Attorney General of the State of California (the “**Attorney General**”), and, on December 29, 2010, the Attorney General conditionally consented to the sale subject to the Attorney General’s “Conditions to Approval of Sale of Victor Valley Community Hospital”, a copy of which is attached hereto as Exhibit A, and on May 12, 2011 issued its conditional approval to the Fourth Amendment to ASA, a copy of which is attached hereto as Exhibit B (together with any modifications thereto, collectively, the “**Conditions to Approval**”).

(c) Among the conditions imposed by the Attorney General in the Conditions to Approval is Condition XVI (the “**Blocked Fund Condition**”) whereby the Obligors are required to deposit the sum of \$3,000,000 in an interest-bearing, blocked bank or other financial institution account satisfactory to the Attorney General (the “**Blocked Fund**”) to be held in trust for the benefit of The Community Foundation Serving Riverside and San Bernardino Counties (the “**Community Foundation**”), all as more particularly set forth in the Blocked Fund Condition.

(d) Obligors are giving this Note to Holder in exchange for a \$3,000,000 reduction in the cash portion of the purchase price payable to Holder for the property and assets under the ASA, thereby enabling Obligors to fund the Blocked Fund.

(e) The obligations of Obligors under this Note are guaranteed by Kali P. Chaudhuri, M.D. under the terms of a Guaranty dated the date hereof (the “**Guaranty**”).

11. **Payment.** The Obligors, for value received, promise to pay to the Holder at its principal executive office in the City of Victorville, State of California (or such other place or places indicated in writing by the Holder to the Obligors) at the times hereinafter provided the principal

sum of \$3,000,000 (the "**Principal Sum**"), together with interest on the unpaid balance thereof as provided below. Principal and interest are payable in lawful money of the United States.

(a) Interest. This Note shall bear interest on the unpaid Principal Sum from the date of this Note until paid in full at a rate of interest equal to the rate of interest being paid during each Interest Period (defined below) on the funds in the Blocked Fund during such Interest Period. Provided that the Attorney General consents to the withdrawal by Obligors of the interest earned on the Blocked Fund concurrent with each Interest Period, for purposes of applying such withdrawn interest sums to such interest payments hereunder, interest shall be paid not later than the 10th day of the calendar month immediately following the end of each Interest Period. As used in this Note, the term "**Interest Period**" means each period of 3 calendar months during the term of this Note ending on and including June 30, September 30, December 31, and March 31, except that the first Interest Period shall commence on the date of this Note and end on and including June 30, 2011 and the last Interest Period shall end on and including the date when all amounts owing under this Note have been paid in full. If the Attorney General does not consent to the withdrawal by Obligors of the interest earned on the Blocked Fund concurrent with each Interest Period, as provided above, then all accrued and outstanding interest owing hereunder shall not be paid based on Interest Periods but shall accrue and be paid not later than the Maturity Date.

(b) Principal. The Principal Sum, together with all accrued and unpaid interest thereon, shall be due and payable on a maturity date ("**Maturity Date**") consisting of the first to occur of the following: (i) not later than 10 business days following the date on which the Blocked Fund Condition expires and the funds therein are unconditionally released in their entirety to the Obligors in accordance with the Blocked Fund Condition, which is expected to be the sixty-second (62<sup>nd</sup>) monthly anniversary of the Closing Date (the "**Release Date**"); (ii) except as provided in the immediately following paragraph, not later than 60 days following the date on which the funds in the Blocked Fund are released, at the direction of the Community Foundation, to the Victor Valley Community Hospital Health Fund (the "**Hospital Health Fund**") in accordance with the terms and conditions of the Blocked Fund Condition (that is, Obligors close, sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital (a "**Hospital Disposition**")); (iii) not later than 60 days following the date on which Obligors file for bankruptcy; and (iv) not later than 10 business days following the date on which all of the funds in the Blocked Fund are for any other reason unconditionally released to Obligors. Notwithstanding the foregoing to the contrary, the Principal Sum, together with all accrued and unpaid interest thereon, shall not be due and payable under clause (ii) of this Section 2(b) on account of a Hospital Disposition (other than a closure) if (A) the Attorney General waives or modifies the Blocked Fund Condition such that the Blocked Fund is maintained and the funds held therein are not paid, at the direction of the Community Foundation, to the Hospital Health Fund, (B) the purchaser, lessee, optionee or other transferee assumes and agrees to abide by the Blocked Fund Condition and Condition XIV of the Conditions to Approval, (C) the obligations under this Note are assigned to and assumed by the purchaser, lessee, optionee or other transferee, and (D) the Attorney General's waiver or modification of the Blocked Fund Condition does not extend the Release Date set forth in the Blocked Fund Condition. If Holder receives any payments directly from the Blocked Fund, such payments shall be fully credited toward the amounts owing under this Note.

In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee.

12. Certain Covenants. Obligors agree as follows:

(a) Reports. Until all amounts payable under this Note have been paid in full, Obligors shall provide to the Creditor Trust (the "**Creditor Trust**") to be established pursuant to Holder's Liquidating Plan of Reorganization on file in Holder's bankruptcy proceedings pending in the United States Bankruptcy Court, Central District of California, Riverside Division, Case No. 6:10-39537 CB ("Plan of Liquidation"), copies of all of the reports which Obligors are required to provide to the Attorney General under the terms of the Blocked Fund Condition and Condition XIV of the Conditions to Approval. Such reports shall be provided to the Creditor Trust at the same time as the same are provided to the Attorney General. All such reports will be used solely by the Creditor Trust for the purpose of evaluating its interests under the Note, and will not be disclosed to any other persons or entities except to the extent otherwise required by applicable law, regulation or legal process or to extent the information contained therein has already become publicly know through no action of the Creditor Trust.

(b) Board Member. Until all amounts payable under this Note have been paid in full, Holder shall have the right to have one representative seated on the local governing board of Victor Valley Community Hospital required to be established pursuant to Section 5.8 of the ASA (which will not be the corporate governing board of Victor Valley Hospital Acquisition, Inc.), subject to Obligor's reasonable approval of such representative.

13. Default. If Obligors fail to make any payment of principal or interest on this Note when due, or if obligors fail to observe and perform any covenant or agreement to which they are bound under this Note, then, in addition to any other rights and remedies available to Holder hereunder, under the Guaranty, or at law or in equity, Holder shall be entitled, at its option, to accelerate the entire Principal Sum hereof upon the giving of a written notice of acceleration to the Obligors; provided that Obligors shall have a period of thirty (30) days from such notice of acceleration to cure any non-monetary obligation or five (5) business days from such notice of acceleration to cure any monetary default and if such cure is timely completed the Note shall be reinstated and the acceleration nullified.

14. Maximum Interest. In no event shall the amount paid or agreed to be paid to the Holder as interest under this Note exceed the highest lawful rate allowed to be received by the Holder in the State of California. If, from any circumstance whatsoever, fulfillment of any provision in this Note or of any other agreement between the Obligors and the Holder related to this Note shall, at the time of such fulfillment, involve payment of interest in excess of that authorized to be received by the Holder under the law of the State of California, then the obligation to be fulfilled shall be reduced to the limits so authorized by law, and if from any circumstance the Holder shall ever receive a sum as interest in excess of that authorized to be received by the Holder under the law of the State of California, it shall not be deemed interest but shall be applied to reduce the Principal Sum.

15. Costs of Collection. The Obligors further promise to pay all costs of collection, including, without limitation, reasonable attorneys' fees and costs incurred in the collection of

this Note, and hereby waive diligence, presentment, protest, demand and notice of every kind, and hereby agree that no failure on the part of the Holder to exercise any power, right or privilege under this Note, or to insist upon prompt compliance with the terms of this Note shall constitute a waiver thereof.

16. Assignment. Except for an assignment in accordance with Section 2(b), Obligors may not assign, transfer or otherwise dispose of this Note or any of their obligations under this Note. The Holder may not assign, transfer or otherwise dispose this Note or its rights under this Note except to the Creditor Trust or Community Foundation as permitted pursuant to the Plan of Liquidation.

17. Coordination With Conditions to Approval. Nothing in this Note is intended to, or will, alter the treatment of the Blocked Fund in compliance with the requirements of the Blocked Fund Condition and the Conditions to Approval and in the event of any conflict between the terms of this Note and the terms of the Blocked Fund Condition or the Conditions to Approval, the terms of the Blocked Fund Condition and the Conditions to Approval shall control.

18. Miscellaneous. This Note may not be amended, modified or changed except by an instrument in writing signed by the duly authorized officers or representatives of Holder and Obligors. The terms, provisions and conditions of this Note may not be waived either orally or by a course of conduct, but only by a written instrument specifically referring to the terms, provisions or conditions being waived and signed by the duly authorized officer or representative of the Holder. This Note has been freely negotiated by the parties, each of whom has been represented by legal counsel of its choosing. Therefore, this Note shall be interpreted in accordance with its fair meaning and shall not be interpreted for or against either of the parties on the grounds that such party drafted or caused to be drafted this Note or any part of this Note. Any provision of this Note that is invalid, illegal or unenforceable shall be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating, diminishing or rendering unenforceable the rights and obligations of the parties under the remaining provisions of this Note. This Note shall be governed by and construed in accordance with the laws of the State of California. The obligations of the Obligors under this Note are joint and several.

Obligors have caused this Note to be duly executed by their respective duly authorized officers or representatives as of the date first set forth above

**VICTOR VALLEY HOSPITAL REAL ESTATE,  
LLC,  
a California limited liability corporation**

**VICTOR VALLEY HOSPITAL ACQUISITION,  
INC.,  
a California corporation**

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Exhibit A  
To Blocked Fund Note

Conditions to Approval of Sale of Victor Valley Community Hospital

(See Attached)



EDMUND G. BROWN JR.  
Attorney General

State of California  
DEPARTMENT OF JUSTICE



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
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E-Mail: wendi.horwitz@doj.ca.gov

December 29, 2010

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally consents, pursuant to Corporations Code section 5914 *et seq.*, to the sale of Victor Valley Community Hospital to Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., as set forth in the Notice filed on November 19, 2010. Corporations Code section 5917 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations, set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and the purchasers throughout the review process.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For EDMUND G. BROWN JR.  
Attorney General

Attachment  
cc: Bill Thomas, Esq.

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## Conditions to Approval of Sale of Victor Valley Community Hospital

### I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyers” shall mean Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., a California for-profit corporation, the proposed acquirers of Victor Valley Community Hospital<sup>1</sup>, any other subsidiary, parent, general partner, affiliate, successor, or assignee of Victor Valley Hospital Real Estate, LLC or Victor Valley Hospital Acquisition, Inc., any entity succeeding thereto by consolidation, merger or acquisition of all or substantially all of the assets of Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located, any entity owned by the Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any entity that owns Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any future entity that purchases Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located from Buyers, and any entity owned by a future purchaser that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located. These conditions shall be legally binding on any and all current and future owners or operators of Victor Valley Community Hospital and owners of the real property on which Victor Valley Community Hospital is located. The term “Seller” shall mean Victor Valley Community Hospital, a California nonprofit public benefit corporation.

### II.

The transaction approved by the Attorney General between Buyers and Seller consists of the Asset Sale Agreement dated October 29, 2010, Amendment to Asset Sale Agreement dated December 23, 2010, Interim Management and Lease Agreement dated on or about the time of the transaction closing, Good Faith Deposit Agreement dated December 17, 2010, Limited Power of Attorney for Use of DEA Registration Numbers and DEA Order Forms dated on or about the time of the transaction closing, and any other documents referenced in Sections 1.5 and 1.6 in the Asset Sale Agreement. Buyers and Seller shall fulfill the terms and conditions of the transaction. Buyers and Seller shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the above-enumerated agreements. Such notification shall be provided at least thirty (30) days prior to the effective date of such modification in order to allow the Attorney General to consider

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<sup>1</sup>Throughout this document, the term Victor Valley Community Hospital shall mean the general acute care hospital currently called Victor Valley Community Hospital (located at 15248 11th Street, Victorville, California), the Victor Valley Community Hospital Women’s Health Center and Outpatient Imaging, and any other clinics, laboratories, units, services, or beds included on the license issued to Victor Valley Community Hospital by the California Department of Public Health to operate Victor Valley Community Hospital, effective November 1, 2010, unless otherwise indicated.

whether the proposed modification affects the factors set forth in Corporations Code section 5917.

### III.

Buyers and all future owners or operators of Victor Valley Community Hospital shall be required to provide written notice to the Attorney General sixty (60) days prior to entering into any agreement or transaction to do either of the following:

(A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital.

(B) Transfer control, responsibility, or governance of Victor Valley Community Hospital. The substitution of a new corporate member or members of Buyers that transfers the control of, responsibility for or governance of Buyers shall be deemed a transfer for purposes of this condition. The substitution of one or more members of the governing body of Buyers, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Buyers, shall also be deemed a transfer for purposes of this Condition.

### IV.

For five years from the date of the transaction closing, Buyers shall operate and maintain Victor Valley Community Hospital as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services:

- a) Twenty-four hour emergency medical services as currently licensed (minimum of 13 Emergency beds/stations) with the same types and levels of services as currently provided<sup>2</sup>;
- b) Intensive Care Services as currently licensed (minimum of 10 Intensive Care beds) with the same types and levels of services as currently provided;
- c) Obstetrical services as currently licensed (minimum of 9 Perinatal and 4 Labor, Delivery and Recovery beds) with the same types and levels of services as currently provided;
- d) Pediatric services as currently licensed (minimum of 16 Pediatric beds) with the same types and levels of services as currently provided;

Buyers shall not place all or any portion of its above-listed licensed-bed capacity in voluntary suspension or surrender its license for any of these beds.

### V.

For five years from the date of the transaction closing, Buyers shall operate the Victor Valley Community Hospital Women's Health Center and Outpatient Imaging and provide the same types and levels of services as currently provided.

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<sup>2</sup> The term "currently provided" means types and levels of services provided as of November 1, 2010.

## VI.

For five years from the date of the transaction closing, Buyers shall cause Victor Valley Community Hospital, and any other related structures, to be in compliance with all requirements of a general acute care hospital under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

## VII.

For five years from the date of the transaction closing, Buyers shall:

- a) Be certified to participate in the Medi-Cal program.
- b) Accept assignment of the Inland Empire Health Plan's current contract and amendments with Victor Valley Community Hospital, a California nonprofit public benefit corporation, (which expires December 31, 2011) and shall not terminate the contract without cause until a new contract has been entered into with the Inland Empire Health Plan, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services for Medi-Cal, Healthy Families, Healthy Kids, and Inland Empire Health Plan's Medicare Special Needs Plan, to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries as required in these Conditions, and shall maintain such a contract with the Inland Empire Health Plan;
- c) Provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries (Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions.
- d) Have a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## VIII.

For five years from the date of the transaction closing, Buyers shall maintain the following contracts and amendments, without interruption of service or diminution in quality, unless terminated for cause, and shall provide the same services specified in the contracts: San Bernardino County Superintendent of Schools- Regional Occupational Program Agreement for Affiliation; San Bernardino County Department of Public Health-Automated Birth Registration Program (Automated Vital Statistics System); County of San Bernardino Department of Child Support Services-Paternity Opportunity Program Agreement; County of San Bernardino Transitional Assistance Department-Outstationed Medi-Cal Eligibility Worker Services; Inland Counties Emergency Medical Agency-Hospital Preparedness Program; Hospital Association of Southern California Restatement of Reddinet Master Agreement-Emergency Communications System; and County of San Bernardino Arrowhead Regional Medical Center-Medically Indigent Adult Medical Care Program.

## IX.

For five years from the date of the transaction closing, Buyers shall provide an annual amount of Charity Care (as defined below) at Victor Valley Community Hospital equal to or greater than \$1,380,000 (the "Minimum Charity Care Amount"). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Buyers in connection with the operation and provision of services at Victor Valley Community Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.<sup>3</sup> Buyers shall use charity care and collection policies that comply with Federal and California law. Creation of, and any subsequent changes to, the charity care and collection policies and charity care services provided at Victor Valley Community Hospital shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

Buyers' obligation under this condition for the period from the transaction closing date through the end of Buyers' first fiscal year following the transaction closing date shall be prorated on a daily basis if the transaction closing date is a date other than the first day of Buyers' fiscal year.

For each calendar year after 2011, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of Charity Care provided by Buyers at Victor Valley Community Hospital for any calendar year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such year, Buyers shall pay an amount equal to the deficiency to the "Victor Valley Community Hospital Health Fund" specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## X.

For five years from the date of the transaction closing, Buyers shall provide community benefit services at Victor Valley Community Hospital at an annual cost of \$27,500 (hereafter "the Minimum Community Benefit Services Amount"). Community benefit commitments shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

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<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ... charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

The Minimum Community Benefit Services Amount shall be annually increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the “12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided by Buyers at Victor Valley Community Hospital for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such year, Buyers shall pay the deficiency to the “Victor Valley Community Hospital Health Fund” specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## XI.

For five years from the date of the transaction closing, Buyers shall spend no less than \$25,000,000 at Victor Valley Community Hospital for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital; of said amount, no less than \$15,000,000 shall be designated for capital improvements, equipment, information technology, infrastructure improvements at Victor Valley Community Hospital. For calendar years 2011, 2012 and 2013, Buyers shall spend no less than \$4,000,000 per year for capital improvements, equipment, information technology, and infrastructure improvements at Victor Valley Community Hospital. Buyers shall consult with the Local Governing Board, referenced in Condition XII, prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements.

## XII.

For five years from the date of the transaction closing, Buyers shall maintain a Local Governing Board, as set forth in Section 5.8 of the Asset Sale Agreement. (Exhibit 1) Said Board should include physicians from the medical staff at Victor Valley Community Hospital, the Chief of Staff at Victor Valley Community Hospital, and community representatives from Victor Valley Community Hospital’s service area (as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010 and attached here to as Exhibit 2). In addition to the duties of the Local Governing Board designated in Section 5.8 of the Asset Sale Agreement, Buyers shall consult with the Local Governing Board prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements, making any withdrawals from the separate interest-bearing bank account required in Condition XIV, making any changes to medical services, making any changes to community benefit programs, and making any changes to the charity care and collection policies and charity care services provided at Victor Valley Community Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes or actions unless done so based upon an emergency. The Local Governing Board shall also approve any reports submitted to the Attorney General regarding compliance with these Conditions.

### XIII.

Within 30 days of the date of the transaction closing, Seller shall transfer all remaining restricted charitable funds held by Victor Valley Community Hospital, a California nonprofit public benefit corporation, to "The Community Foundation Serving Riverside and San Bernardino Counties," a California nonprofit public benefit corporation, to be used in accordance with the purposes for which said funds are restricted.

### XIV.

Within 30 days of the date of the transaction closing, Buyers shall deposit and maintain an ongoing fund balance of \$3 million in a separate interest-bearing bank account, to be used only for emergency operating and capital needs of Victor Valley Community Hospital, until such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: 1) 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 2) 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. The Local Governing Board referenced in Condition XII, shall be consulted prior to any withdrawals. Withdrawals are limited to \$1.5 million for any quarter. Any withdrawals must be redeposited into the account within 30 days of the date the withdrawal is made. 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 this account from the bank in which the separate interest-bearing bank account 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.

### XV.

As soon as practicable, but no more than sixty (60) days after entry of an order closing the bankruptcy matter entitled *In re: VICTOR VALLEY COMMUNITY HOSPITAL* (U.S. Bankruptcy Court, Central Districts, Riverside Division Case No. 6:10-39537 CB), Seller shall transfer all net proceeds from the transaction (expected to be \$1,700,000) and any unrestricted charitable assets (expected to be \$320,325) to the "The Community Foundation Serving Riverside and San Bernardino Counties" for deposit in a Donor-Advised Pass-Through Fund called "Victor Valley Community Hospital Health Fund" for the purpose of making grants to charitable healthcare facilities and clinics exempt from taxation pursuant to IRC §501(c)(3) to provide healthcare services to residents in Victor Valley Community Hospital's service area (11 ZIP codes) as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010. (Exhibit 2) These funds shall be maintained and used for a period of at least five years but not more than 10 years from the date of the transaction closing. Seller shall select the initial members of the Advisory Committee to the Donor-Advised Pass-Through Fund which will include the Vice-President of Grant Programs of "The Community Foundation Serving Riverside and San Bernardino Counties."

## XVI.

Within 30 days of the date of the transaction closing, Buyers shall deposit the sum of \$3 million in a separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General. Such account shall be held by the bank or other financial institution in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The owner of the account shall be the bank or other financial institution. The beneficiary of the account shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the account other than the reversionary interest described below. The initial \$3 million deposit and any interest earned shall be retained in the separate interest-bearing blocked account until the earlier of the following: (1) April 30, 2016, (2) the date on which the Buyers close, sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or (3) the date on which Buyers file for bankruptcy. If on or before April 30, 2016, 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 account 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 XIV, for the uses specified therein. If on or before April 30, 2016, Buyers have not closed, sold, transferred, leased, exchanged, optioned, conveyed, or otherwise disposed of Victor Valley Community Hospital, or filed for bankruptcy, Buyers shall be entitled to request return of the funds in the account after April 30, 2016. 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 this account from the bank or financial institution in which the separate interest-bearing blocked account is established.

## XVII.

For five years from the date of the transaction closing, Buyers shall submit to the Attorney General, no later than four (4) months after the conclusion of each calendar year, a report describing in detail its compliance with each Condition set forth herein including, but not limited to, an itemization and the actual costs of the capital improvements, equipment, information technology, and infrastructure improvements. The Chief Executive Officers and Chief Financial Officers of Buyers shall certify that the report is true and correct and provide documentation of approval by the Local Governing Board for Victor Valley Community Hospital.

## XVIII.

At the request of the Attorney General, Buyers and Seller shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret, or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.



## XIX.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Exhibit 1**

Operational Closing Date or such more liberal or generous policies and practices on charity care as Purchasers may have in effect or implement from time to time, (b) continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by the Hospital and (c) assure access to high-quality healthcare services to all persons seeking medical care, regardless of their ability to pay.

5.7 Medical Staff. To ensure continuity of care in the community, Purchasers agree that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then in effect.

5.8 Local Governing Board.

(a) Immediately after the Effective Time, Purchasers shall form a local governing board at the Hospital in accordance with the terms of this Section 5.8. Such local governing board shall be an advisory committee to the board of directors of Purchasers comprised of medical staff members, community leaders and the Hospital's Chief Executive Officer. The local governing board shall be subject to the authority of Purchasers' board of directors and the terms of Purchasers' Articles of Incorporation, Bylaws and other organizational documents. The individuals on the local governing board should (i) represent the Hospital in the community and represent the views of the community to the local governing board in its deliberations, (ii) participate in Purchasers' community outreach programs and (iii) supervise the Hospital's charity care policies and practices.

(b) The local governing board of the Hospital shall have responsibilities that are consistent with similar local governing boards at other hospitals, or in other markets, respectively, which are owned directly or indirectly by affiliates of Purchasers. Purchasers shall consult with Seller or a successor established by Seller as to the appointment of community members to serve as members of the local governing board.

5.9 Capital Expenditures. During the period commencing on the Operational Closing Date and ending on the five (5) year anniversary date of the Closing, Purchasers agree that they will invest no less than Twenty-Five Million Dollars (\$25,000,000.00) for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital at the Hospital with no less than Fifteen Million Dollars (\$15,000,000.00) of said amount being spent on capital improvements, equipment, information technology, and infrastructure improvements.

5.10 Maintenance of Services. Purchasers agree that following the Closing, Purchasers will operate the Hospital as a licensed acute care hospital with essential services including labor and delivery, and open and accessible emergency departments. Obstetrics and pediatrics services shall be maintained by Purchasers at the hospital facility for five years following the Closing, *provided, however*, that Purchasers have not yet entered into any agreements to provide such services or agreed on any particular rates.

Exhibit 2

## VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA ANALYSIS

### *Victor Valley Community Hospital's Service Area Definition*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009						
ZIP Codes	Community	VVCH Discharges	% of Discharges	Cumulative		Market Share
				% of Discharges	Total Discharges	
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
Sub Total		6,160	85.8%		39,843	15.5%
Other ZIPs		177	14.2%	100%		
Total		7,085	100%			

Source: OSHPD Patient Discharge Database

Exhibit 3

**Condition XIV: Calculation of Adjusted Net Revenue (FN 1.)**

	FISCAL YEAR 2009	2nd QTR 2010
<b>Total Operating Revenue</b>	\$ 56,561,319	\$ 14,969,074
<b>Minus Total Operating Expenses</b>	\$ (55,256,254)	\$ (15,603,030)
<b><u>Equals Net from Operations</u></b>	<u>\$ 1,305,065</u>	<u>\$ (633,956)</u>
<b>Minus Provision for Bad Debts</b>	\$ (7,817,703)	\$ (1,706,554)
<b>Plus Amortization and Depreciation (FN 2.)</b>	\$ 1,749,268	\$ 588,600
<b><u>Equals Adjusted Net from Operations</u></b>	<u>\$ (4,763,370)</u>	<u>\$ (1,751,910)</u>
<b>Adjusted Net from Operations</b>	\$ (4,763,370)	\$ (1,751,910)
<b>Minus 5% of Total Operating Revenue</b>	\$ (2,828,066)	\$ (748,454)
<b><u>Equals Adjusted Net Revenue</u></b>	<u>\$ (7,591,436)</u>	<u>\$ (2,500,364)</u>

Fn. 1: The definition and methodology for calculating the terms in bold shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes. The amounts used for the terms in bold shall be the same as those reported to OSHPD on a quarterly basis (Quarterly Financial Data). The FY 2009 figures were based upon the FY 2009 OSHPD Annual Financial Disclosure Report and Independently Audited Financial Statements dated September 30, 2009.

Fn. 2: Amortization and Depreciation shall be obtained from the internally prepared quarterly financial statements using methods acceptable under Generally Accepted Accounting Principles. Amortization and Depreciation can only be added back in if the Total Operating Expenses reported to OSHPD included Amortization and Depreciation. The definition and methodology for calculating the term "Depreciation" shall be the same as that used by OSHPD for annual hospital reporting purposes.

Exhibit B  
To Blocked Fund Note

Conditional Approval to the Fourth Amendment to ASA

(See Attached)





May 12, 2011

Sent by Internet and U.S. Mail

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally approves the Fourth Amendment to the Asset Sale Agreement between Seller, Victor Valley Community Hospital, a California nonprofit public benefit corporation, and Buyers, Victor Valley Hospital Real Estate, LLC ("Real Estate LLC"), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. ("Acquisition, Inc."), a California for-profit corporation. (A copy of the Fourth Amendment is attached as Exhibit 1.) The Attorney General's approval is subject to the following:

1. The transaction must close on or before June 1, 2011.
2. Section (2) (c) and (2) (d) of the Emergency Fund Note must state in full as follows:

"(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("QAF Legislation"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "**Excess Funds**"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligors to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum.” (See Exhibit 1.)

3. Buyers and Sellers must execute a “Security Agreement” and a “Deposit Account Control Agreement” for the Blocked Fund Note that mirrors the “Security Agreement” and a “Deposit Account Control Agreement” for the Emergency Fund Note. (See Exhibit 1.)

4. Buyers and Seller must execute all documents attached as Exhibit 1 on or before June 1, 2011.

5. The following clarifications are made to the referenced terms in the Conditions incorporated in the Attorney General’s Decision dated December 29, 2010:

a. The use of the term “emergency” in Conditions XII and XIV shall mean “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.”

b. With respect to Condition XIV, the Attorney General agrees to also release Buyers from the requirement to maintain the fund at any time after five years from the date of the transaction closing, whether or not self-sustainability has been achieved.

c. With respect to Condition XIV, total withdrawals are limited to \$1.0 million during any single quarter, and any and all withdrawn funds must be redeposited into the account before any further withdrawals can be made.

d. With respect to Condition XIV, the separate interest-bearing bank account must be held at a California bank or a California branch of a National bank.

e. The term “April 30, 2016,” used several times in Condition XVI, is replaced each time with the phrase “five years and two months from the date of the transaction closing.”

f. With respect to Condition XVI, the separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General must be held at a California bank or California financial institution or a California branch of a National bank or National financial institution.

g. Assignment pursuant to Condition VII(b) can be accomplished as follows: Before the transaction closes, (1) Buyers shall enter into a new contract with Inland Empire Health Plan (“IEHP”) and IEHP Health Access, to become effective on the date on which Buyers are issued a license to operate Victor Valley Community Hospital as a general acute care hospital by the

Charles E. Slyngstad  
May 12, 2011  
Page 3

California Department of Public Health and (2) Sellers shall reject, effective on the same date as Buyers become the licensee, the current IEHP and IEHP Health Access contract, pursuant to section 365 of the Bankruptcy Code. This approach shall ensure that IEHP and IEHP Health Access at all times remain contracted with the owners of Victor Valley Community Hospital without any loss, interruption, or gap in contracted hospital coverage at Victor Valley Community Hospital for five years from the date of the transaction closing.

h. Any references to a contract with IEHP in Condition VII(b) shall mean a contract with IEHP and IEHP Health Access.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Bill Thomas, Esq. (via Internet)  
Todd Swanson, Esq. (via Internet)

**EXHIBIT 1.2.3**

**SECURITY AGREEMENT  
(Blocked Fund)**

This SECURITY AGREEMENT (the "**Agreement**") is entered into and effective as of \_\_\_\_\_, 2011 by and between VICTOR VALLEY COMMUNITY HOSPITAL, a California nonprofit public benefit corporation (the "**Secured Party**"), and VICTOR VALLEY HOSPITAL REAL ESTATE, LLC, a California limited liability company and VICTOR VALLEY HOSPITAL ACQUISITION, INC., a California corporation (each, a "**Debtor**" and, collectively, the "**Debtors**"), who agree as follows:

1. **Recitals.** This Agreement is made with respect to the following facts and circumstances:

Secured Party, as Seller, and Debtors, as Purchasers, are parties to that certain Asset Sale Agreement, dated as of October 29, 2010 (together with all amendments thereto, collectively, the "**ASA**") under which Secured Party sold to Debtors and Debtors purchased from Secured Party certain property and assets, all as more particularly described in the ASA.

The sale of the property and assets pursuant to the ASA was subject to the consent of the Attorney General of the State of California (the "**Attorney General**"), and, on December 29, 2010, the Attorney General conditionally consented to the sale subject to the Attorney General's "Conditions to Approval of Sale of Victor Valley Community Hospital", a copy of which is attached hereto as Exhibit A, and on May 12, 2011 issued its conditional approval to the Fourth Amendment to ASA, a copy of which is attached hereto as Exhibit B (together with any modifications thereto, collectively, the "**Conditions to Approval**").

Among the conditions imposed by the Attorney General in the Conditions to Approval was Condition XVI (the "**Blocked Fund Condition**") whereby the Debtors were required to deposit and maintain \$3,000,000 in a separate interest-bearing blocked bank account, all as more particularly set forth in the Blocked Fund Condition.

Debtors have now established Account No. \_\_\_\_\_ (the "**Blocked Fund Account**") with [INSERT NAME & ADDRESS OF BANK] (the "**Bank**") and have made the \$3,000,000 deposit to the Blocked Fund Account as required by the Blocked Fund Condition.

In connection with the purchase of the property and assets pursuant to the ASA, Debtors gave a Blocked Fund Note (the "**Note**"; unless otherwise defined herein, terms defined in the Note are used herein as therein defined), dated May 31, 2011, to Secured Party in exchange for a \$3,000,000 reduction in the cash portion of the purchase price payable to Secured Party for the property and assets under the ASA, thereby enabling Debtors to fund the Blocked Fund.

In order to secure their obligations under the Note, the Debtors agreed to pledge to and grant Secured Party a security interest in certain Collateral (as defined below), and the parties are entering into this Agreement for the purpose of creating such security interest.

2. **Security Interest.** Debtors hereby pledge and grant to Secured Party a continuing security interest in the Collateral (as defined in Section 3) to secure the Note and each and every one of Debtors' obligations and liabilities under this Agreement and the Note. The security interest

granted herein, and this Agreement, shall terminate upon full performance by Debtors of their obligations and liabilities under the Note.

3. Collateral. The term "Collateral" as used in this Agreement means (i) the Blocked Fund Account, (ii) all funds on deposit in the Blocked Fund Account, (iii) all interest accruing thereon, (iv) all renewals and replacements thereof (whether or not any such renewal or replacement is evidenced by a certificate or other evidence of deposit), (v) any and all certificates of deposit or other instruments that may constitute a part of or an investment of funds in, or that may replace all or any part of, the Blocked Fund Account, and (vi) all proceeds of any of the foregoing.

4. Representations and Warranties. Debtors represent, warrant and covenant as follows:

Debtors each have all requisite power and authority to execute and deliver this Agreement.

This Agreement and the Note have each been duly authorized, executed and delivered by Debtors, and each constitutes a legal, valid and binding obligation of the Debtors, enforceable against the Debtors, and each of them, in accordance with its terms.

Debtors have not, either individually or jointly, made any pledge of, or granted or placed any security interest, lien or other encumbrance with respect to, any of the Collateral, other than the pledge and security interest granted to Secured Party under this Agreement and the rights of the Attorney General and/or The Community Foundation Serving Riverside and San Bernardino Counties (the "**Community Foundation**") pursuant to the Conditions to Approval.

Provided the Attorney General has approved this Agreement and the granting of a security interest in the Collateral, neither the execution and delivery of this Agreement, nor the taking of any action in compliance with it, will (i) violate or breach any law, regulation, rule, order, decree or judicial action binding on Debtors, or either of them, or any agreement or instrument to which Debtors, or either of them, are a party or are subject, or (ii) result in the creation of any lien or encumbrance against the Collateral, except that created by this Agreement.

No event has occurred which constitutes, or which with the giving of notice or the passage of time, or both, would constitute, a default under this Agreement.

5. Covenants. Until each and every one of Debtor's obligations and liabilities under this Agreement have been fully performed and discharged, Debtor covenants that it will:

Pay and perform each and every one of Debtor's obligations under this Agreement and the Note as and when they are due.

Pay all expenses, including attorneys' fees and costs, incurred by Secured Party in connection with the enforcement and exercise of its rights under this Agreement and the Note.

Indemnify, protect and hold harmless Secured Party, and its officers, agents and employees, against and from all claims, losses, liabilities, actions, judgments and expenses (including attorneys' fees and costs) which they, or any of them, may suffer or incur, arising out of or in any way relating to this Agreement or the Note or Secured Party's interest in the

Collateral, except with respect to any claims, losses, liabilities, actions, judgments and expenses (including attorneys' fees and costs) arising out of or in any way relating to any gross negligence or willful misconduct by Secured Party or any of its officers, agents and employees.

Give Secured Party notice of any pending or threatened claim or litigation that may concern or affect the Collateral.

Not permit any liens or encumbrances on the Collateral, except only for the pledge and security interest created under this Agreement and other liens or encumbrances in favor of Secured Party and the rights of the Attorney General and/or the Community Foundation under the Conditions to Approval.

Notify Secured Party of any event which constitutes, or which with the giving of notice or the passage of time, or both, would constitute a default under this Agreement, or any development that might have an adverse effect on the Collateral or any part of it.

Promptly and duly execute and deliver to Secured Party all financing statements and other documents and instruments that Secured Party reasonably requests in order to establish and/or maintain a perfected first priority security interest in the Collateral.

6. Deposit Account Control Agreement. In order to perfect Secured Party's security interest in the Collateral by means of control, Debtors' agree to enter into, execute and deliver a Deposit Account Control Agreement (the "**Control Agreement**"), by and among Debtor, Secured Party and Bank, in substantially the form attached hereto as Exhibit C, with such changes or modifications thereto as may be approved by Secured Party or required by Bank. Secured Party agrees to provide notice of termination of the Control Agreement to the Bank promptly upon termination of this Agreement.

7. Defaults. The occurrence of any one or more of the following shall constitute a default by Debtors:

Debtors fail to make any payment required by the Note when due, which is not cured within any applicable cure period, whether at stated maturity, on acceleration or otherwise.

Debtors fail to fully perform when due any other obligation or agreement under this Agreement or the Note, or under any present or future amendment, rider or supplement to this Agreement or the Note, and such failure is not cured within any applicable cure period.

Any covenant, warranty, representation or statement, made by or on behalf of Debtors in or with respect to this Agreement or the Note, is materially false.

There is any seizure or attachment of, or any levy on, the Collateral or any part of it.

8. Remedies. Upon the occurrence and during the continuance of any default by Debtors, Secured Party shall have all rights and remedies provided by law, the Agreement and the Note, including, without limitation, all of the rights and remedies of a secured party under the California Commercial Code. Debtors hereby authorize Secured Party, upon the occurrence of a default, to take whatever actions may be necessary to realize upon the Collateral and to apply the proceeds realized in accordance with the Note. Debtors expressly authorize such action by

Secured Party in advance of and to the exclusion of any realization upon any other collateral securing any indebtedness of Debtors to Secured Party, and hereby waive as to the Secured Party any right of subrogation or marshalling of any such other collateral. Notwithstanding the foregoing, subject to the terms of the Note, Secured Party shall not be obligated to take action to realize upon the Collateral prior to exercising any other rights or remedies it may have as provided by law, the Note or this Agreement.

9. Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including facsimile) or overnight courier, or five (5) calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Seller: Victor Valley Community Hospital  
15428 11<sup>th</sup> Street  
Victorville, California 92392  
Attention: Chief Executive Officer  
Facsimile No. (760) 843-6020

With a copies to:  
(which copies shall  
not constitute notice)

Burke Williams & Sorensen, LLP  
444 S. Flower Street, Suite 2400  
Los Angeles, California 90071  
Attention: Charles E. Slyngstad, Esq.  
Facsimile No. (213) 236-2700

Pachulski Stang Ziehl & Jones  
10100 Santa Monica Boulevard, 11<sup>th</sup> Floor  
Los Angeles, California 90067  
Attention: Samuel R. Maizel, Esq.  
Facsimile No. (310) 201-0760

If to Purchasers: Victor Valley Hospital Acquisition, Inc.  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

Victor Valley Hospital Real Estate, LLC  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

With a copy to:  
(which copy shall  
not constitute notice)

Hooper, Lundy & Bookman, P.C.  
1875 Century Park East, Suite 1600  
Los Angeles, California 90067  
Attention: Todd E. Swanson, Esq.  
Facsimile No.: (310) 551-8181

A copy of any notices to Seller  
or Purchasers shall also be  
provided to:

Wendi Horwitz  
Deputy Attorney General  
Department of Justice  
Office of the Attorney General  
300 S. Spring St., Suite 1702  
Los Angeles, CA 90013  
Facsimile No.: (213) 897-7605

or at such other address as one party may designate by notice hereunder to the other parties.

10. Severability of Provisions. Any provision of this Agreement that is invalid, illegal or unenforceable shall be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating, diminishing or rendering unenforceable the rights and obligations of the parties under the remaining provisions of this Agreement.

11. Survival of Agreements. All agreements, covenants, representations and warranties in this Agreement, or made in writing by or on behalf of the Debtors in connection with the transactions contemplated by this Agreement, shall survive the execution and delivery of this Agreement and the Note and any investigation at any time made by Secured Party or on its behalf.

12. Successors and Assigns; Assignment. Except as otherwise expressly provided in this Agreement, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors and assigns of the parties to this Agreement; provided, however, no assignment of this Agreement or of Debtors' rights or obligations hereunder may be made by Debtors, or either of them, at any time except that the Debtors' rights and obligations under this Agreement may be assigned to any permitted assignee of Debtor's obligations under the Note, in accordance with any such assignment permitted under the Note. The Secured Party may not assign any of its rights or obligations under this Agreement except to the Creditor Trust or Community Foundation as permitted pursuant to the Plan of Liquidation, in connection with a concurrent permitted assignment of Secured Party's rights under the Note.

13. Entire Agreement. This Agreement, the Note and the ASA constitute the full and entire understanding and agreement between the parties with regard to the subject matter hereof and thereof, and supersede all prior and contemporaneous agreements and understandings of the parties whether written or oral.

14. Amendments and Waivers. No term or provision of this Agreement or the Note may be amended, altered, modified or waived orally or by a course of conduct, but only by an instrument in writing signed by a duly authorized official, officer or representative of the party against



which enforcement of such amendment, alteration, modification or waiver is sought. Any amendment, alteration, modification or waiver shall be for such period and subject to such conditions as shall be specified in the written instrument effecting the same. Any waiver shall be effective only in the specific instance and for the purpose for which given.

15. No Waiver; Remedies Cumulative. No delay or omission to exercise any right, power or remedy accruing to the Secured Party on any default by Debtors under this Agreement or the Note shall impair any such right, power or remedy of the Secured Party nor shall it be construed as a waiver of or acquiescence in any such default, or of or in any similar default occurring later; nor shall any waiver of any single default be deemed a waiver of any other default occurring before or after that waiver. All remedies, either under this Agreement or by law or otherwise afforded to the Secured Party shall be cumulative and not alternative.

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

17. Headings. The various headings of this Agreement are for convenience of reference only, shall not affect the meaning or interpretation of this Agreement, and shall not be considered in construing this Agreement.

18. Joint and Several. The agreements, covenants, warranties, representations, obligations and liabilities of Debtors under this Agreement are joint and several.

19. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California.

20. Coordination With Conditions to Approval. Notwithstanding any other provision in this Agreement, nothing in this Agreement is intended to, or will, alter the treatment of the Blocked Fund Account in compliance with the requirements of the Blocked Fund Condition and the Conditions to Approval and in the event of any conflict between the terms of this Agreement and the terms of the Blocked Fund Condition or the Conditions to Approval, the terms of the Blocked Fund Condition and the Conditions to Approval shall control.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]  
[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties set forth below as of the due first written above.

**DEBTORS:**

VICTOR VALLEY HOSPITAL REAL ESTATE, LLC,  
a California limited liability corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

VICTOR VALLEY HOSPITAL ACQUISITION, INC.,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**SECURED PARTY:**

VICTOR VALLEY COMMUNITY HOSPITAL,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Exhibit A  
To Security Agreement

Conditions to Approval of Sale of Victor Valley Community Hospital

(See Attached)

EDMUND G. BROWN JR.  
Attorney General

State of California  
DEPARTMENT OF JUSTICE



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
Telephone: (213) 897-2178  
Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

December 29, 2010

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally consents, pursuant to Corporations Code section 5914 *et seq.*, to the sale of Victor Valley Community Hospital to Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., as set forth in the Notice filed on November 19, 2010. Corporations Code section 5917 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations, set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and the purchasers throughout the review process.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For EDMUND G. BROWN JR.  
Attorney General

Attachment  
cc: Bill Thomas, Esq.

LA2010600780/60587768.doc

## Conditions to Approval of Sale of Victor Valley Community Hospital

### I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyers” shall mean Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., a California for-profit corporation, the proposed acquirers of Victor Valley Community Hospital<sup>1</sup>, any other subsidiary, parent, general partner, affiliate, successor, or assignee of Victor Valley Hospital Real Estate, LLC or Victor Valley Hospital Acquisition, Inc., any entity succeeding thereto by consolidation, merger or acquisition of all or substantially all of the assets of Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located, any entity owned by the Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any entity that owns Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any future entity that purchases Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located from Buyers, and any entity owned by a future purchaser that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located. These conditions shall be legally binding on any and all current and future owners or operators of Victor Valley Community Hospital and owners of the real property on which Victor Valley Community Hospital is located. The term “Seller” shall mean Victor Valley Community Hospital, a California nonprofit public benefit corporation.

### II.

The transaction approved by the Attorney General between Buyers and Seller consists of the Asset Sale Agreement dated October 29, 2010, Amendment to Asset Sale Agreement dated December 23, 2010, Interim Management and Lease Agreement dated on or about the time of the transaction closing, Good Faith Deposit Agreement dated December 17, 2010, Limited Power of Attorney for Use of DEA Registration Numbers and DEA Order Forms dated on or about the time of the transaction closing, and any other documents referenced in Sections 1.5 and 1.6 in the Asset Sale Agreement. Buyers and Seller shall fulfill the terms and conditions of the transaction. Buyers and Seller shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the above-enumerated agreements. Such notification shall be provided at least thirty (30) days prior to the effective date of such modification in order to allow the Attorney General to consider

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<sup>1</sup>Throughout this document, the term Victor Valley Community Hospital shall mean the general acute care hospital currently called Victor Valley Community Hospital (located at 15248 11th Street, Victorville, California), the Victor Valley Community Hospital Women’s Health Center and Outpatient Imaging, and any other clinics, laboratories, units, services, or beds included on the license issued to Victor Valley Community Hospital by the California Department of Public Health to operate Victor Valley Community Hospital, effective November 1, 2010, unless otherwise indicated.

whether the proposed modification affects the factors set forth in Corporations Code section 5917.

### III.

Buyers and all future owners or operators of Victor Valley Community Hospital shall be required to provide written notice to the Attorney General sixty (60) days prior to entering into any agreement or transaction to do either of the following:

(A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital.

(B) Transfer control, responsibility, or governance of Victor Valley Community Hospital. The substitution of a new corporate member or members of Buyers that transfers the control of, responsibility for or governance of Buyers shall be deemed a transfer for purposes of this condition. The substitution of one or more members of the governing body of Buyers, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Buyers, shall also be deemed a transfer for purposes of this Condition.

### IV.

For five years from the date of the transaction closing, Buyers shall operate and maintain Victor Valley Community Hospital as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services:

- a) Twenty-four hour emergency medical services as currently licensed (minimum of 13 Emergency beds/stations) with the same types and levels of services as currently provided<sup>2</sup>;
- b) Intensive Care Services as currently licensed (minimum of 10 Intensive Care beds) with the same types and levels of services as currently provided;
- c) Obstetrical services as currently licensed (minimum of 9 Perinatal and 4 Labor, Delivery and Recovery beds) with the same types and levels of services as currently provided;
- d) Pediatric services as currently licensed (minimum of 16 Pediatric beds) with the same types and levels of services as currently provided;

Buyers shall not place all or any portion of its above-listed licensed-bed capacity in voluntary suspension or surrender its license for any of these beds.

### V.

For five years from the date of the transaction closing, Buyers shall operate the Victor Valley Community Hospital Women's Health Center and Outpatient Imaging and provide the same types and levels of services as currently provided.

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<sup>2</sup> The term "currently provided" means types and levels of services provided as of November 1, 2010.

## VI.

For five years from the date of the transaction closing, Buyers shall cause Victor Valley Community Hospital, and any other related structures, to be in compliance with all requirements of a general acute care hospital under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

## VII.

For five years from the date of the transaction closing, Buyers shall:

- a) Be certified to participate in the Medi-Cal program.
- b) Accept assignment of the Inland Empire Health Plan's current contract and amendments with Victor Valley Community Hospital, a California nonprofit public benefit corporation, (which expires December 31, 2011) and shall not terminate the contract without cause until a new contract has been entered into with the Inland Empire Health Plan, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services for Medi-Cal, Healthy Families, Healthy Kids, and Inland Empire Health Plan's Medicare Special Needs Plan, to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries as required in these Conditions, and shall maintain such a contract with the Inland Empire Health Plan;
- c) Provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries (Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions.
- d) Have a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## VIII.

For five years from the date of the transaction closing, Buyers shall maintain the following contracts and amendments, without interruption of service or diminution in quality, unless terminated for cause, and shall provide the same services specified in the contracts: San Bernardino County Superintendent of Schools- Regional Occupational Program Agreement for Affiliation; San Bernardino County Department of Public Health-Automated Birth Registration Program (Automated Vital Statistics System); County of San Bernardino Department of Child Support Services-Paternity Opportunity Program Agreement; County of San Bernardino Transitional Assistance Department-Outstationed Medi-Cal Eligibility Worker Services; Inland Counties Emergency Medical Agency-Hospital Preparedness Program; Hospital Association of Southern California Restatement of Reddinet Master Agreement-Emergency Communications System; and County of San Bernardino Arrowhead Regional Medical Center-Medically Indigent Adult Medical Care Program.

## IX.

For five years from the date of the transaction closing, Buyers shall provide an annual amount of Charity Care (as defined below) at Victor Valley Community Hospital equal to or greater than \$1,380,000 (the "Minimum Charity Care Amount"). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Buyers in connection with the operation and provision of services at Victor Valley Community Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.<sup>3</sup> Buyers shall use charity care and collection policies that comply with Federal and California law. Creation of, and any subsequent changes to, the charity care and collection policies and charity care services provided at Victor Valley Community Hospital shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

Buyers' obligation under this condition for the period from the transaction closing date through the end of Buyers' first fiscal year following the transaction closing date shall be prorated on a daily basis if the transaction closing date is a date other than the first day of Buyers' fiscal year.

For each calendar year after 2011, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of Charity Care provided by Buyers at Victor Valley Community Hospital for any calendar year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such year, Buyers shall pay an amount equal to the deficiency to the "Victor Valley Community Hospital Health Fund" specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## X.

For five years from the date of the transaction closing, Buyers shall provide community benefit services at Victor Valley Community Hospital at an annual cost of \$27,500 (hereafter "the Minimum Community Benefit Services Amount"). Community benefit commitments shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

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<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ... charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."



The Minimum Community Benefit Services Amount shall be annually increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided by Buyers at Victor Valley Community Hospital for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such year, Buyers shall pay the deficiency to the "Victor Valley Community Hospital Health Fund" specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## XI.

For five years from the date of the transaction closing, Buyers shall spend no less than \$25,000,000 at Victor Valley Community Hospital for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital; of said amount, no less than \$15,000,000 shall be designated for capital improvements, equipment, information technology, infrastructure improvements at Victor Valley Community Hospital. For calendar years 2011, 2012 and 2013, Buyers shall spend no less than \$4,000,000 per year for capital improvements, equipment, information technology, and infrastructure improvements at Victor Valley Community Hospital. Buyers shall consult with the Local Governing Board, referenced in Condition XII, prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements.

## XII.

For five years from the date of the transaction closing, Buyers shall maintain a Local Governing Board, as set forth in Section 5.8 of the Asset Sale Agreement. (Exhibit 1) Said Board should include physicians from the medical staff at Victor Valley Community Hospital, the Chief of Staff at Victor Valley Community Hospital, and community representatives from Victor Valley Community Hospital's service area (as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010 and attached here to as Exhibit 2). In addition to the duties of the Local Governing Board designated in Section 5.8 of the Asset Sale Agreement, Buyers shall consult with the Local Governing Board prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements, making any withdrawals from the separate interest-bearing bank account required in Condition XIV, making any changes to medical services, making any changes to community benefit programs, and making any changes to the charity care and collection policies and charity care services provided at Victor Valley Community Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes or actions unless done so based upon an emergency. The Local Governing Board shall also approve any reports submitted to the Attorney General regarding compliance with these Conditions.

### XIII.

Within 30 days of the date of the transaction closing, Seller shall transfer all remaining restricted charitable funds held by Victor Valley Community Hospital, a California nonprofit public benefit corporation, to "The Community Foundation Serving Riverside and San Bernardino Counties," a California nonprofit public benefit corporation, to be used in accordance with the purposes for which said funds are restricted.

### XIV.

Within 30 days of the date of the transaction closing, Buyers shall deposit and maintain an ongoing fund balance of \$3 million in a separate interest-bearing bank account, to be used only for emergency operating and capital needs of Victor Valley Community Hospital, until such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: 1) 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 2) 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. The Local Governing Board referenced in Condition XII, shall be consulted prior to any withdrawals. Withdrawals are limited to \$1.5 million for any quarter. Any withdrawals must be redeposited into the account within 30 days of the date the withdrawal is made. 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 this account from the bank in which the separate interest-bearing bank account 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.

### XV.

As soon as practicable, but no more than sixty (60) days after entry of an order closing the bankruptcy matter entitled *In re: VICTOR VALLEY COMMUNITY HOSPITAL* (U.S. Bankruptcy Court, Central Districts, Riverside Division Case No. 6:10-39537 CB), Seller shall transfer all net proceeds from the transaction (expected to be \$1,700,000) and any unrestricted charitable assets (expected to be \$320,325) to the "The Community Foundation Serving Riverside and San Bernardino Counties" for deposit in a Donor-Advised Pass-Through Fund called "Victor Valley Community Hospital Health Fund" for the purpose of making grants to charitable healthcare facilities and clinics exempt from taxation pursuant to IRC §501(c)(3) to provide healthcare services to residents in Victor Valley Community Hospital's service area (11 ZIP codes) as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010. (Exhibit 2) These funds shall be maintained and used for a period of at least five years but not more than 10 years from the date of the transaction closing. Seller shall select the initial members of the Advisory Committee to the Donor-Advised Pass-Through Fund which will include the Vice-President of Grant Programs of "The Community Foundation Serving Riverside and San Bernardino Counties."

## XVI.

Within 30 days of the date of the transaction closing, Buyers shall deposit the sum of \$3 million in a separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General. Such account shall be held by the bank or other financial institution in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The owner of the account shall be the bank or other financial institution. The beneficiary of the account shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the account other than the reversionary interest described below. The initial \$3 million deposit and any interest earned shall be retained in the separate interest-bearing blocked account until the earlier of the following: (1) April 30, 2016, (2) the date on which the Buyers close, sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or (3) the date on which Buyers file for bankruptcy. If on or before April 30, 2016, 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 account 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 XIV, for the uses specified therein. If on or before April 30, 2016, Buyers have not closed, sold, transferred, leased, exchanged, optioned, conveyed, or otherwise disposed of Victor Valley Community Hospital, or filed for bankruptcy, Buyers shall be entitled to request return of the funds in the account after April 30, 2016. 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 this account from the bank or financial institution in which the separate interest-bearing blocked account is established.

## XVII.

For five years from the date of the transaction closing, Buyers shall submit to the Attorney General, no later than four (4) months after the conclusion of each calendar year, a report describing in detail its compliance with each Condition set forth herein including, but not limited to, an itemization and the actual costs of the capital improvements, equipment, information technology, and infrastructure improvements. The Chief Executive Officers and Chief Financial Officers of Buyers shall certify that the report is true and correct and provide documentation of approval by the Local Governing Board for Victor Valley Community Hospital.

## XVIII.

At the request of the Attorney General, Buyers and Seller shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret, or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

## XIX.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Exhibit 1**

Operational Closing Date or such more liberal or generous policies and practices on charity care as Purchasers may have in effect or implement from time to time, (b) continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by the Hospital and (c) assure access to high-quality healthcare services to all persons seeking medical care, regardless of their ability to pay.

5.7 Medical Staff. To ensure continuity of care in the community, Purchasers agree that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then in effect.

5.8 Local Governing Board.

(a) Immediately after the Effective Time, Purchasers shall form a local governing board at the Hospital in accordance with the terms of this Section 5.8. Such local governing board shall be an advisory committee to the board of directors of Purchasers comprised of medical staff members, community leaders and the Hospital's Chief Executive Officer. The local governing board shall be subject to the authority of Purchasers' board of directors and the terms of Purchasers' Articles of Incorporation, Bylaws and other organizational documents. The individuals on the local governing board should (i) represent the Hospital in the community and represent the views of the community to the local governing board in its deliberations, (ii) participate in Purchasers' community outreach programs and (iii) supervise the Hospital's charity care policies and practices.

(b) The local governing board of the Hospital shall have responsibilities that are consistent with similar local governing boards at other hospitals, or in other markets, respectively, which are owned directly or indirectly by affiliates of Purchasers. Purchasers shall consult with Seller or a successor established by Seller as to the appointment of community members to serve as members of the local governing board.

5.9 Capital Expenditures. During the period commencing on the Operational Closing Date and ending on the five (5) year anniversary date of the Closing, Purchasers agree that they will invest no less than Twenty-Five Million Dollars (\$25,000,000.00) for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital at the Hospital with no less than Fifteen Million Dollars (\$15,000,000.00) of said amount being spent on capital improvements, equipment, information technology, and infrastructure improvements.

5.10 Maintenance of Services. Purchasers agree that following the Closing, Purchasers will operate the Hospital as a licensed acute care hospital with essential services including labor and delivery, and open and accessible emergency departments. Obstetrics and pediatrics services shall be maintained by Purchasers at the hospital facility for five years following the Closing, *provided, however*, that Purchasers have not yet entered into any agreements to provide such services or agreed on any particular rates.

Exhibit 2

## VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA ANALYSIS

### *Victor Valley Community Hospital's Service Area Definition*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto.

<b>SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009</b>						
ZIP Codes	Community	VCH Discharges	% of Discharges	Cumulative % of Discharges	Total Discharges	Market Share
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
Sub Total		6,160	85.8%		39,843	15.5%
Other ZIPs		177	14.2%	100%		
Total		7,085	100%			

Source: OSHPD Patient Discharge Database



**Exhibit 3**

**Condition XIV: Calculation of Adjusted Net Revenue (FN 1.)**

	FISCAL YEAR 2009	2nd QTR 2010
<b>Total Operating Revenue</b>	\$ 56,561,319	\$ 14,969,074
<b>Minus Total Operating Expenses</b>	\$ (55,256,254)	\$ (15,603,030)
<u><b>Equals Net from Operations</b></u>	<u>\$ 1,305,065</u>	<u>\$ (633,956)</u>
<b>Minus Provision for Bad Debts</b>	\$ (7,817,703)	\$ (1,706,554)
<b>Plus Amortization and Depreciation (FN 2.)</b>	\$ 1,749,268	\$ 588,600
<u><b>Equals Adjusted Net from Operations</b></u>	<u>\$ (4,763,370)</u>	<u>\$ (1,751,910)</u>
<b>Adjusted Net from Operations</b>	\$ (4,763,370)	\$ (1,751,910)
<b>Minus 5% of Total Operating Revenue</b>	\$ (2,828,066)	\$ (748,454)
<u><b>Equals Adjusted Net Revenue</b></u>	<u>\$ (7,591,436)</u>	<u>\$ (2,500,364)</u>

Fn. 1: The definition and methodology for calculating the terms in bold shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes. The amounts used for the terms in bold shall be the same as those reported to OSHPD on a quarterly basis (Quarterly Financial Data). The FY 2009 figures were based upon the FY 2009 OSHPD Annual Financial Disclosure Report and Independently Audited Financial Statements dated September 30, 2009.

Fn. 2: Amortization and Depreciation shall be obtained from the internally prepared quarterly financial statements using methods acceptable under Generally Accepted Accounting Principles. Amortization and Depreciation can only be added back in if the Total Operating Expenses reported to OSHPD included Amortization and Depreciation. The definition and methodology for calculating the term "Depreciation" shall be the same as that used by OSHPD for annual hospital reporting purposes.

Exhibit B  
To Security Agreement

Conditional Approval to the Fourth Amendment to ASA

(See Attached)



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

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Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

May 12, 2011

Sent by Internet and U.S. Mail

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally approves the Fourth Amendment to the Asset Sale Agreement between Seller, Victor Valley Community Hospital, a California nonprofit public benefit corporation, and Buyers, Victor Valley Hospital Real Estate, LLC ("Real Estate LLC"), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. ("Acquisition, Inc."), a California for-profit corporation. (A copy of the Fourth Amendment is attached as Exhibit 1.) The Attorney General's approval is subject to the following:

1. The transaction must close on or before June 1, 2011.
2. Section (2) (c) and (2) (d) of the Emergency Fund Note must state in full as follows:

"(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("QAF Legislation"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "**Excess Funds**"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligors to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum.” (See Exhibit 1.)

3. Buyers and Sellers must execute a “Security Agreement” and a “Deposit Account Control Agreement” for the Blocked Fund Note that mirrors the “Security Agreement” and a “Deposit Account Control Agreement” for the Emergency Fund Note. (See Exhibit 1.)

4. Buyers and Seller must execute all documents attached as Exhibit 1 on or before June 1, 2011.

5. The following clarifications are made to the referenced terms in the Conditions incorporated in the Attorney General’s Decision dated December 29, 2010:

a. The use of the term “emergency” in Conditions XII and XIV shall mean “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.”

b. With respect to Condition XIV, the Attorney General agrees to also release Buyers from the requirement to maintain the fund at any time after five years from the date of the transaction closing, whether or not self-sustainability has been achieved.

c. With respect to Condition XIV, total withdrawals are limited to \$1.0 million during any single quarter, and any and all withdrawn funds must be redeposited into the account before any further withdrawals can be made.

d. With respect to Condition XIV, the separate interest-bearing bank account must be held at a California bank or a California branch of a National bank.

e. The term “April 30, 2016,” used several times in Condition XVI, is replaced each time with the phrase “five years and two months from the date of the transaction closing.”

f. With respect to Condition XVI, the separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General must be held at a California bank or California financial institution or a California branch of a National bank or National financial institution.

g. Assignment pursuant to Condition VII(b) can be accomplished as follows: Before the transaction closes, (1) Buyers shall enter into a new contract with Inland Empire Health Plan (“IEHP”) and IEHP Health Access, to become effective on the date on which Buyers are issued a license to operate Victor Valley Community Hospital as a general acute care hospital by the

Charles E. Slyngstad  
May 12, 2011  
Page 3

California Department of Public Health and (2) Sellers shall reject, effective on the same date as Buyers become the licensee, the current IEHP and IEHP Health Access contract, pursuant to section 365 of the Bankruptcy Code. This approach shall ensure that IEHP and IEHP Health Access at all times remain contracted with the owners of Victor Valley Community Hospital without any loss, interruption, or gap in contracted hospital coverage at Victor Valley Community Hospital for five years from the date of the transaction closing.

h. Any references to a contract with IEHP in Condition VII(b) shall mean a contract with IEHP and IEHP Health Access.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Bill Thomas, Esq. (via Internet)  
Todd Swanson, Esq. (via Internet)

Exhibit C  
To Security Agreement

**DEPOSIT ACCOUNT CONTROL AGREEMENT**  
**(Blocked Fund)**

This Deposit Account Control Agreement (the "**Agreement**") is made and entered into as of \_\_\_\_\_, 2011, by and among \_\_\_\_\_, a \_\_\_\_\_ ("**Bank/Financial Institution**"), VICTOR VALLEY HOSPITAL REAL ESTATE, LLC, a California limited liability company and VICTOR VALLEY HOSPITAL ACQUISITION, INC., a California corporation (each, a "**Debtor**" and, collectively, the "**Debtors**"), and VICTOR VALLEY COMMUNITY HOSPITAL, a California nonprofit public benefit corporation (the "**Secured Party**"), who agree as follows:

1. Recitals. This Agreement is made with reference to the following facts and circumstances:

(a) Secured Party, as Seller, and Debtors, as Purchasers, are parties to that certain Asset Sale Agreement, dated as of October 29, 2010 (together with all amendments thereto, collectively, the "**ASA**") under which Secured Party sold to Debtors and Debtors purchased from Secured Party certain property and assets, all as more particularly described in the ASA.

(b) The sale of the property and assets pursuant to the ASA was subject to the consent of the Attorney General of the State of California (the "**Attorney General**"), and, on December 29, 2010, the Attorney General conditionally consented to the sale subject to the Attorney General's "Conditions to Approval of Sale of Victor Valley Community Hospital", a copy of which is attached hereto as Exhibit 1, and on May 12, 2011 issued its conditional approval to the Fourth Amendment to ASA, a copy of which is attached hereto as Exhibit 2 (together with any modifications thereto, collectively, the "**Conditions to Approval**"), .

(c) Among the conditions imposed by the Attorney General in the Conditions to Approval was Condition XVI (the "**Blocked Fund Condition**") whereby the Debtors were required to deposit and maintain an ongoing balance of \$3,000,000 in a separate interest-bearing account with a bank or financial institution satisfactory to the Attorney General, all as more particularly set forth in the Blocked Fund Condition.

(d) Debtors have now established Account No. \_\_\_\_\_ (the "**Deposit Account**") with Bank/Financial Institution and have made the \$3,000,000 deposit to the Deposit Account as required by the Blocked Fund Condition.

(e) In connection with the purchase of the property and assets pursuant to the ASA, Debtors gave a Blocked Fund Note (the "**Note**"), dated May 31, 2011, to Secured Party in exchange for a \$3,000,000 reduction in the cash portion of the purchase price payable to Secured Party for the property and assets under the ASA, thereby enabling Debtors to fund the Deposit Account.

(f) The parties hereto are entering into this Agreement in order to set forth their respective rights and duties with respect to the Deposit Account and all funds on deposit therein from time to time.

2. Security Interest. Pursuant to a Security Agreement dated as of the date hereof, Debtors have pledged and granted to Secured Party a continuing security interest in (i) the Deposit Account, (ii) all funds on deposit in the Deposit Account, (iii) all interest accruing thereon, (iv) all renewals and replacements thereof (whether or not any such renewal or replacement is evidenced by a certificate or other evidence of deposit), (v) any and all certificates of deposit or other instruments that may constitute a part of or an investment of funds in, or that may replace all or any part of, the Deposit Account, and (vi) all proceeds of any of the foregoing.

3. Control of Deposit Account. The Deposit Account shall be under the sole dominion and control of Secured Party and Bank/Financial Institution will comply with Secured Party's instructions directing disposition of the funds in the Deposit Account without the necessity of consent by Debtors; provided however, that Bank/Financial Institution shall provide the Debtors and the Attorney General with at least ten (10) days' advance written notice (including a copy of the applicable Secured Party's instructions) before honoring any instructions by Secured Party which would result in disbursement or depletion of any of the funds held in the Deposit Account.

4. Statements and Other Information. Upon Secured Party's request, Bank/Financial Institution shall provide Secured Party with copies of the regular monthly bank statements provided to Debtors and such other information relating to the Deposit Account as shall reasonably be requested by Secured Party. Bank/Financial Institution shall also deliver a copy of all notices and statements required to be sent to Debtors pursuant to any agreement governing or related to the Deposit Account to Secured Party at such times as provided therein.

5. Fees. Debtors agree to pay all service charges, transfer fees, account maintenance fees and other fees and charges (collectively, "Fees") of Bank/Financial Institution in connection with the Deposit Account and this Agreement. Secured Party shall not have any responsibility or liability for the payment of any Fees.

6. Setoff. Bank/Financial Institution agrees that it will not exercise or claim any right of setoff or security interest or banker's lien against the Deposit Account or any funds on deposit therein, and until all amounts owing to Secured Party under the Note have been irrevocably paid to Secured Party, Bank/Financial Institution waives any such right or lien that it may have against the Deposit Account or any funds on deposit therein.

7. Exculpation of Bank/Financial Institution; Indemnification. Debtors and Secured Party agree that Bank/Financial Institution shall have no liability to any of them for any loss or damage that they or any of them may claim to have suffered or incurred, either directly or indirectly, by reason of this Agreement or any transaction or service contemplated by its provisions, unless occasioned by the negligence or willful misconduct of Bank/Financial Institution. In no event shall Bank/Financial Institution be liable for losses or delays resulting from computer malfunction, interruption of communication facilities, labor difficulties, fire or other casualty, or other causes beyond Bank/Financial Institution's reasonable control or for indirect, special or consequential damages. Debtors, and each of them, agree to indemnify Bank/Financial Institution and hold it harmless from and against any and all claims, losses, damages, liabilities,



actions, judgments costs and expenses (including reasonable attorneys' fees and costs), other than those resulting from Bank/Financial Institution's negligence or willful misconduct, which Bank/Financial Institution may suffer or incur as a result of any transaction conducted or service performed as contemplated by this Agreement or as a result of Bank/Financial Institution's compliance with the terms of this Agreement.

8. Termination. This Agreement may be terminated by Debtors only upon delivery to Bank/Financial Institution of a written notification jointly executed by Debtors and Secured Party. This Agreement may be terminated by Secured Party at any time, with or without reason or cause, upon its delivery of written notice to Debtors and Bank/Financial Institution. This Agreement may be terminated by Bank/Financial Institution at any time on not less than 30 days' prior written notice delivered to Debtors and Secured Party. Upon delivery or receipt of such notice of termination to or by Bank/Financial Institution, Bank/Financial Institution will immediately transmit to such account as Secured Party may direct all funds, if any, then on deposit in, or otherwise to the credit of, the Deposit Account.

9. Irrevocable Agreements. Debtors acknowledge that the agreements made by them and the authorizations granted by them in Sections 2 and 3 are irrevocable and that the authorizations granted in Sections 3 and 4 are powers coupled with an interest.

10. Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including facsimile) or overnight courier, or five (5) calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Secured Party: Victor Valley Community Hospital  
15428 11<sup>th</sup> Street  
Victorville, California 92392  
Attention: Chief Executive Officer  
Facsimile No. (760) 843-6020

If to Debtors: Victor Valley Hospital Acquisition, Inc.  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

Victor Valley Hospital Real Estate, LLC  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

If to Bank/Financial  
Institution:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attention: \_\_\_\_\_  
Facsimile No.: \_\_\_\_\_

A copy of any notices to  
Secured Party, Debtor, or  
Bank/Financial Institution  
shall also be provided to:

Wendi Horwitz  
Deputy Attorney General  
Department of Justice  
Office of the Attorney General  
300 S. Spring St., Suite 1702  
Los Angeles, CA 90013  
Facsimile No.: (213) 897-7605

or at such other address as one party may designate by notice hereunder to the other parties.

11. Severability of Provisions. Any provision of this Agreement that is invalid, illegal or unenforceable shall be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating, diminishing or rendering unenforceable the rights and obligations of the parties under the remaining provisions of this Agreement.

12. Successors and Assigns. Except as otherwise expressly provided in this Agreement, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors and assigns of the parties to this Agreement; provided, however, no assignment of this Agreement or of Debtors' rights or obligations hereunder may be made by Debtors, or either of them, at any time. The Secured Party may transfer its rights and duties under this Agreement only to a transferee to which all of Secured Party's rights and duties under the Security Agreement are also concurrently transferred, as permitted under the Security Agreement.

13. Amendments and Waivers. No term or provision of this Agreement may be amended, altered, modified or waived orally or by a course of conduct, but only by an instrument in writing signed by a duly authorized official, officer or representative of the party against which enforcement of such amendment, alteration, modification or waiver is sought. Any amendment, alteration, modification or waiver shall be for such period and subject to such conditions as shall be specified in the written instrument effecting the same. Any waiver shall be effective only in the specific instance and for the purpose for which given. This Agreement does not amend or otherwise modify any of the other agreements between the Debtors and the Secured Party including without limitation the ASA, the Note or the Security Agreement.

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

15. Headings. The various headings of this Agreement are for convenience of reference only, shall not affect the meaning or interpretation of this Agreement, and shall not be considered in construing this Agreement.

16. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California.

17. Coordination With Conditions to Approval, Etc. Notwithstanding any other provision in this Agreement, nothing in this Agreement is intended to, or will, alter the treatment of the Blocked Fund in compliance with the requirements of the Blocked Fund Condition and the Conditions to Approval and in the event of any conflict between the terms of this Agreement and the terms of the Blocked Fund Condition or the Condition to Approval, the terms of the Blocked Fund Condition and the Conditions to Approval shall control. Secured Party agrees to exercise its control over the Deposit Account only as is consistent with and in compliance with the Security Agreement, the Note and the terms of the Blocked Fund Condition and the Conditions to Approval.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK  
SIGNATURES ARE ON THE FOLLOWING PAGE]**

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties set forth below as of the date first written above.

**DEBTORS:**

Victor Valley Hospital Real Estate, LLC, a  
California limited liability corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Victor Valley Hospital Acquisition, Inc., a  
California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SECURED PARTY:**

Victor Valley Community Hospital, a California  
corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**BANK:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Exhibit 1  
To Deposit Account Control Agreement

Conditions to Approval of Sale of Victor Valley Community Hospital

(See Attached)

EDMUND G. BROWN JR.  
Attorney General

State of California  
DEPARTMENT OF JUSTICE



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
Telephone: (213) 897-2178  
Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

December 29, 2010

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally consents, pursuant to Corporations Code section 5914 *et seq.*, to the sale of Victor Valley Community Hospital to Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., as set forth in the Notice filed on November 19, 2010. Corporations Code section 5917 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations, set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and the purchasers throughout the review process.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For EDMUND G. BROWN JR.  
Attorney General

Attachment  
cc: Bill Thomas, Esq.

LA2010600780/60587768.doc

## Conditions to Approval of Sale of Victor Valley Community Hospital

### I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyers” shall mean Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., a California for-profit corporation, the proposed acquirers of Victor Valley Community Hospital<sup>1</sup>, any other subsidiary, parent, general partner, affiliate, successor, or assignee of Victor Valley Hospital Real Estate, LLC or Victor Valley Hospital Acquisition, Inc., any entity succeeding thereto by consolidation, merger or acquisition of all or substantially all of the assets of Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located, any entity owned by the Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any entity that owns Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any future entity that purchases Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located from Buyers, and any entity owned by a future purchaser that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located. These conditions shall be legally binding on any and all current and future owners or operators of Victor Valley Community Hospital and owners of the real property on which Victor Valley Community Hospital is located. The term “Seller” shall mean Victor Valley Community Hospital, a California nonprofit public benefit corporation.

### II.

The transaction approved by the Attorney General between Buyers and Seller consists of the Asset Sale Agreement dated October 29, 2010, Amendment to Asset Sale Agreement dated December 23, 2010, Interim Management and Lease Agreement dated on or about the time of the transaction closing, Good Faith Deposit Agreement dated December 17, 2010, Limited Power of Attorney for Use of DEA Registration Numbers and DEA Order Forms dated on or about the time of the transaction closing, and any other documents referenced in Sections 1.5 and 1.6 in the Asset Sale Agreement. Buyers and Seller shall fulfill the terms and conditions of the transaction. Buyers and Seller shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the above-enumerated agreements. Such notification shall be provided at least thirty (30) days prior to the effective date of such modification in order to allow the Attorney General to consider

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<sup>1</sup>Throughout this document, the term Victor Valley Community Hospital shall mean the general acute care hospital currently called Victor Valley Community Hospital (located at 15248 11th Street, Victorville, California), the Victor Valley Community Hospital Women’s Health Center and Outpatient Imaging, and any other clinics, laboratories, units, services, or beds included on the license issued to Victor Valley Community Hospital by the California Department of Public Health to operate Victor Valley Community Hospital, effective November 1, 2010, unless otherwise indicated.

whether the proposed modification affects the factors set forth in Corporations Code section 5917.

### III.

Buyers and all future owners or operators of Victor Valley Community Hospital shall be required to provide written notice to the Attorney General sixty (60) days prior to entering into any agreement or transaction to do either of the following:

(A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital.

(B) Transfer control, responsibility, or governance of Victor Valley Community Hospital. The substitution of a new corporate member or members of Buyers that transfers the control of, responsibility for or governance of Buyers shall be deemed a transfer for purposes of this condition. The substitution of one or more members of the governing body of Buyers, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Buyers, shall also be deemed a transfer for purposes of this Condition.

### IV.

For five years from the date of the transaction closing, Buyers shall operate and maintain Victor Valley Community Hospital as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services:

- a) Twenty-four hour emergency medical services as currently licensed (minimum of 13 Emergency beds/stations) with the same types and levels of services as currently provided<sup>2</sup>;
- b) Intensive Care Services as currently licensed (minimum of 10 Intensive Care beds) with the same types and levels of services as currently provided;
- c) Obstetrical services as currently licensed (minimum of 9 Perinatal and 4 Labor, Delivery and Recovery beds) with the same types and levels of services as currently provided;
- d) Pediatric services as currently licensed (minimum of 16 Pediatric beds) with the same types and levels of services as currently provided;

Buyers shall not place all or any portion of its above-listed licensed-bed capacity in voluntary suspension or surrender its license for any of these beds.

### V.

For five years from the date of the transaction closing, Buyers shall operate the Victor Valley Community Hospital Women's Health Center and Outpatient Imaging and provide the same types and levels of services as currently provided.

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<sup>2</sup> The term "currently provided" means types and levels of services provided as of November 1, 2010.



## VI.

For five years from the date of the transaction closing, Buyers shall cause Victor Valley Community Hospital, and any other related structures, to be in compliance with all requirements of a general acute care hospital under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

## VII.

For five years from the date of the transaction closing, Buyers shall:

- a) Be certified to participate in the Medi-Cal program.
- b) Accept assignment of the Inland Empire Health Plan's current contract and amendments with Victor Valley Community Hospital, a California nonprofit public benefit corporation, (which expires December 31, 2011) and shall not terminate the contract without cause until a new contract has been entered into with the Inland Empire Health Plan, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services for Medi-Cal, Healthy Families, Healthy Kids, and Inland Empire Health Plan's Medicare Special Needs Plan, to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries as required in these Conditions, and shall maintain such a contract with the Inland Empire Health Plan;
- c) Provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries (Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions.
- d) Have a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## VIII.

For five years from the date of the transaction closing, Buyers shall maintain the following contracts and amendments, without interruption of service or diminution in quality, unless terminated for cause, and shall provide the same services specified in the contracts: San Bernardino County Superintendent of Schools- Regional Occupational Program Agreement for Affiliation; San Bernardino County Department of Public Health-Automated Birth Registration Program (Automated Vital Statistics System); County of San Bernardino Department of Child Support Services-Paternity Opportunity Program Agreement; County of San Bernardino Transitional Assistance Department-Outstationed Medi-Cal Eligibility Worker Services; Inland Counties Emergency Medical Agency-Hospital Preparedness Program; Hospital Association of Southern California Restatement of Reddinet Master Agreement-Emergency Communications System; and County of San Bernardino Arrowhead Regional Medical Center-Medically Indigent Adult Medical Care Program.

## IX.

For five years from the date of the transaction closing, Buyers shall provide an annual amount of Charity Care (as defined below) at Victor Valley Community Hospital equal to or greater than \$1,380,000 (the "Minimum Charity Care Amount"). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Buyers in connection with the operation and provision of services at Victor Valley Community Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.<sup>3</sup> Buyers shall use charity care and collection policies that comply with Federal and California law. Creation of, and any subsequent changes to, the charity care and collection policies and charity care services provided at Victor Valley Community Hospital shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

Buyers' obligation under this condition for the period from the transaction closing date through the end of Buyers' first fiscal year following the transaction closing date shall be prorated on a daily basis if the transaction closing date is a date other than the first day of Buyers' fiscal year.

For each calendar year after 2011, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of Charity Care provided by Buyers at Victor Valley Community Hospital for any calendar year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such year, Buyers shall pay an amount equal to the deficiency to the "Victor Valley Community Hospital Health Fund" specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## X.

For five years from the date of the transaction closing, Buyers shall provide community benefit services at Victor Valley Community Hospital at an annual cost of \$27,500 (hereafter "the Minimum Community Benefit Services Amount"). Community benefit commitments shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

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<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

The Minimum Community Benefit Services Amount shall be annually increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the “12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided by Buyers at Victor Valley Community Hospital for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such year, Buyers shall pay the deficiency to the “Victor Valley Community Hospital Health Fund” specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## XI.

For five years from the date of the transaction closing, Buyers shall spend no less than \$25,000,000 at Victor Valley Community Hospital for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital; of said amount, no less than \$15,000,000 shall be designated for capital improvements, equipment, information technology, infrastructure improvements at Victor Valley Community Hospital. For calendar years 2011, 2012 and 2013, Buyers shall spend no less than \$4,000,000 per year for capital improvements, equipment, information technology, and infrastructure improvements at Victor Valley Community Hospital. Buyers shall consult with the Local Governing Board, referenced in Condition XII, prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements.

## XII.

For five years from the date of the transaction closing, Buyers shall maintain a Local Governing Board, as set forth in Section 5.8 of the Asset Sale Agreement. (Exhibit 1) Said Board should include physicians from the medical staff at Victor Valley Community Hospital, the Chief of Staff at Victor Valley Community Hospital, and community representatives from Victor Valley Community Hospital’s service area (as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010 and attached here to as Exhibit 2). In addition to the duties of the Local Governing Board designated in Section 5.8 of the Asset Sale Agreement, Buyers shall consult with the Local Governing Board prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements, making any withdrawals from the separate interest-bearing bank account required in Condition XIV, making any changes to medical services, making any changes to community benefit programs, and making any changes to the charity care and collection policies and charity care services provided at Victor Valley Community Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes or actions unless done so based upon an emergency. The Local Governing Board shall also approve any reports submitted to the Attorney General regarding compliance with these Conditions.

### XIII.

Within 30 days of the date of the transaction closing, Seller shall transfer all remaining restricted charitable funds held by Victor Valley Community Hospital, a California nonprofit public benefit corporation, to "The Community Foundation Serving Riverside and San Bernardino Counties," a California nonprofit public benefit corporation, to be used in accordance with the purposes for which said funds are restricted.

### XIV.

Within 30 days of the date of the transaction closing, Buyers shall deposit and maintain an ongoing fund balance of \$3 million in a separate interest-bearing bank account, to be used only for emergency operating and capital needs of Victor Valley Community Hospital, until such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: 1) 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 2) 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. The Local Governing Board referenced in Condition XII, shall be consulted prior to any withdrawals. Withdrawals are limited to \$1.5 million for any quarter. Any withdrawals must be redeposited into the account within 30 days of the date the withdrawal is made. 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 this account from the bank in which the separate interest-bearing bank account 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.

### XV.

As soon as practicable, but no more than sixty (60) days after entry of an order closing the bankruptcy matter entitled *In re: VICTOR VALLEY COMMUNITY HOSPITAL* (U.S. Bankruptcy Court, Central Districts, Riverside Division Case No. 6:10-39537 CB), Seller shall transfer all net proceeds from the transaction (expected to be \$1,700,000) and any unrestricted charitable assets (expected to be \$320,325) to the "The Community Foundation Serving Riverside and San Bernardino Counties" for deposit in a Donor-Advised Pass-Through Fund called "Victor Valley Community Hospital Health Fund" for the purpose of making grants to charitable healthcare facilities and clinics exempt from taxation pursuant to IRC §501(c)(3) to provide healthcare services to residents in Victor Valley Community Hospital's service area (11 ZIP codes) as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010. (Exhibit 2) These funds shall be maintained and used for a period of at least five years but not more than 10 years from the date of the transaction closing. Seller shall select the initial members of the Advisory Committee to the Donor-Advised Pass-Through Fund which will include the Vice-President of Grant Programs of "The Community Foundation Serving Riverside and San Bernardino Counties."

## XVI.

Within 30 days of the date of the transaction closing, Buyers shall deposit the sum of \$3 million in a separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General. Such account shall be held by the bank or other financial institution in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The owner of the account shall be the bank or other financial institution. The beneficiary of the account shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the account other than the reversionary interest described below. The initial \$3 million deposit and any interest earned shall be retained in the separate interest-bearing blocked account until the earlier of the following: (1) April 30, 2016, (2) the date on which the Buyers close, sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or (3) the date on which Buyers file for bankruptcy. If on or before April 30, 2016, 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 account 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 XIV, for the uses specified therein. If on or before April 30, 2016, Buyers have not closed, sold, transferred, leased, exchanged, optioned, conveyed, or otherwise disposed of Victor Valley Community Hospital, or filed for bankruptcy, Buyers shall be entitled to request return of the funds in the account after April 30, 2016. 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 this account from the bank or financial institution in which the separate interest-bearing blocked account is established.

## XVII.

For five years from the date of the transaction closing, Buyers shall submit to the Attorney General, no later than four (4) months after the conclusion of each calendar year, a report describing in detail its compliance with each Condition set forth herein including, but not limited to, an itemization and the actual costs of the capital improvements, equipment, information technology, and infrastructure improvements. The Chief Executive Officers and Chief Financial Officers of Buyers shall certify that the report is true and correct and provide documentation of approval by the Local Governing Board for Victor Valley Community Hospital.

## XVIII.

At the request of the Attorney General, Buyers and Seller shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret, or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

## XIX.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Exhibit 1**

Operational Closing Date or such more liberal or generous policies and practices on charity care as Purchasers may have in effect or implement from time to time, (b) continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by the Hospital and (c) assure access to high-quality healthcare services to all persons seeking medical care, regardless of their ability to pay.

5.7 Medical Staff. To ensure continuity of care in the community, Purchasers agree that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then in effect.

5.8 Local Governing Board.

(a) Immediately after the Effective Time, Purchasers shall form a local governing board at the Hospital in accordance with the terms of this Section 5.8. Such local governing board shall be an advisory committee to the board of directors of Purchasers comprised of medical staff members, community leaders and the Hospital's Chief Executive Officer. The local governing board shall be subject to the authority of Purchasers' board of directors and the terms of Purchasers' Articles of Incorporation, Bylaws and other organizational documents. The individuals on the local governing board should (i) represent the Hospital in the community and represent the views of the community to the local governing board in its deliberations, (ii) participate in Purchasers' community outreach programs and (iii) supervise the Hospital's charity care policies and practices.

(b) The local governing board of the Hospital shall have responsibilities that are consistent with similar local governing boards at other hospitals, or in other markets, respectively, which are owned directly or indirectly by affiliates of Purchasers. Purchasers shall consult with Seller or a successor established by Seller as to the appointment of community members to serve as members of the local governing board.

5.9 Capital Expenditures. During the period commencing on the Operational Closing Date and ending on the five (5) year anniversary date of the Closing, Purchasers agree that they will invest no less than Twenty-Five Million Dollars (\$25,000,000.00) for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital at the Hospital with no less than Fifteen Million Dollars (\$15,000,000.00) of said amount being spent on capital improvements, equipment, information technology, and infrastructure improvements.

5.10 Maintenance of Services. Purchasers agree that following the Closing, Purchasers will operate the Hospital as a licensed acute care hospital with essential services including labor and delivery, and open and accessible emergency departments. Obstetrics and pediatrics services shall be maintained by Purchasers at the hospital facility for five years following the Closing, *provided, however*, that Purchasers have not yet entered into any agreements to provide such services or agreed on any particular rates.



Exhibit 2

## VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA ANALYSIS

### *Victor Valley Community Hospital's Service Area Definition*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009						
ZIP Codes	Community	VCH Discharges	% of Discharges	Cumulative	Total Discharges	Market Share
				% of Discharges		
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
Sub Total		6,160	85.8%		39,843	15.5%
Other ZIPs		177	14.2%	100%		
Total		7,085	100%			

Source: OSHPD Patient Discharge Database

Exhibit 3

**Condition XIV: Calculation of Adjusted Net Revenue (FN 1.)**

	FISCAL YEAR 2009	2nd QTR 2010
<b>Total Operating Revenue</b>	\$ 56,561,319	\$ 14,969,074
<b>Minus Total Operating Expenses</b>	\$ (55,256,254)	\$ (15,603,030)
<b><u>Equals Net from Operations</u></b>	<u>\$ 1,305,065</u>	<u>\$ (633,956)</u>
<b>Minus Provision for Bad Debts</b>	\$ (7,817,703)	\$ (1,706,554)
<b>Plus Amortization and Depreciation (FN 2.)</b>	\$ 1,749,268	\$ 588,600
<b><u>Equals Adjusted Net from Operations</u></b>	<u>\$ (4,763,370)</u>	<u>\$ (1,751,910)</u>
<b>Adjusted Net from Operations</b>	\$ (4,763,370)	\$ (1,751,910)
<b>Minus 5% of Total Operating Revenue</b>	\$ (2,828,066)	\$ (748,454)
<b><u>Equals Adjusted Net Revenue</u></b>	<u>\$ (7,591,436)</u>	<u>\$ (2,500,364)</u>

Fn. 1: The definition and methodology for calculating the terms in bold shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes. The amounts used for the terms in bold shall be the same as those reported to OSHPD on a quarterly basis (Quarterly Financial Data). The FY 2009 figures were based upon the FY 2009 OSHPD Annual Financial Disclosure Report and Independently Audited Financial Statements dated September 30, 2009.

Fn. 2: Amortization and Depreciation shall be obtained from the internally prepared quarterly financial statements using methods acceptable under Generally Accepted Accounting Principles. Amortization and Depreciation can only be added back in if the Total Operating Expenses reported to OSHPD included Amortization and Depreciation. The definition and methodology for calculating the term "Depreciation" shall be the same as that used by OSHPD for annual hospital reporting purposes.

Exhibit 2  
To Deposit Account Control Agreement

Conditional Approval to the Fourth Amendment to ASA

(See Attached)



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
Telephone: (213) 897-2178  
Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

May 12, 2011

**Sent by Internet and U.S. Mail**

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally approves the Fourth Amendment to the Asset Sale Agreement between Seller, Victor Valley Community Hospital, a California nonprofit public benefit corporation, and Buyers, Victor Valley Hospital Real Estate, LLC ("Real Estate LLC"), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. ("Acquisition, Inc."), a California for-profit corporation. (A copy of the Fourth Amendment is attached as Exhibit 1.) The Attorney General's approval is subject to the following:

1. The transaction must close on or before June 1, 2011.
2. Section (2) (c) and (2) (d) of the Emergency Fund Note must state in full as follows:

"(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("QAF Legislation"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "**Excess Funds**"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligors to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum.” (See Exhibit 1.)

3. Buyers and Sellers must execute a “Security Agreement” and a “Deposit Account Control Agreement” for the Blocked Fund Note that mirrors the “Security Agreement” and a “Deposit Account Control Agreement” for the Emergency Fund Note. (See Exhibit 1.)

4. Buyers and Seller must execute all documents attached as Exhibit 1 on or before June 1, 2011.

5. The following clarifications are made to the referenced terms in the Conditions incorporated in the Attorney General’s Decision dated December 29, 2010:

a. The use of the term “emergency” in Conditions XII and XIV shall mean “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.”

b. With respect to Condition XIV, the Attorney General agrees to also release Buyers from the requirement to maintain the fund at any time after five years from the date of the transaction closing, whether or not self-sustainability has been achieved.

c. With respect to Condition XIV, total withdrawals are limited to \$1.0 million during any single quarter, and any and all withdrawn funds must be redeposited into the account before any further withdrawals can be made.

d. With respect to Condition XIV, the separate interest-bearing bank account must be held at a California bank or a California branch of a National bank.

e. The term “April 30, 2016,” used several times in Condition XVI, is replaced each time with the phrase “five years and two months from the date of the transaction closing.”

f. With respect to Condition XVI, the separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General must be held at a California bank or California financial institution or a California branch of a National bank or National financial institution.

g. Assignment pursuant to Condition VII(b) can be accomplished as follows: Before the transaction closes, (1) Buyers shall enter into a new contract with Inland Empire Health Plan (“IEHP”) and IEHP Health Access, to become effective on the date on which Buyers are issued a license to operate Victor Valley Community Hospital as a general acute care hospital by the

Charles E. Slyngstad  
May 12, 2011  
Page 3

California Department of Public Health and (2) Sellers shall reject, effective on the same date as Buyers become the licensee, the current IEHP and IEHP Health Access contract, pursuant to section 365 of the Bankruptcy Code. This approach shall ensure that IEHP and IEHP Health Access at all times remain contracted with the owners of Victor Valley Community Hospital without any loss, interruption, or gap in contracted hospital coverage at Victor Valley Community Hospital for five years from the date of the transaction closing.

h. Any references to a contract with IEHP in Condition VII(b) shall mean a contract with IEHP and IEHP Health Access.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Bill Thomas, Esq. (via Internet)  
Todd Swanson, Esq. (via Internet)



## EXHIBIT 1.2.4

### GUARANTY

This Guaranty (the "**Guaranty**") is made as of May 31, 2011 ("**Effective Date**"), by KALI P. CHAUDHURI, M.D.(the "**Guarantor**") in favor of VICTOR VALLEY COMMUNITY HOSPITAL, a California nonprofit public benefit corporation (the "**Lender**").

1. Recitals. This Guaranty is made with respect to the following facts and circumstances:

(a) Lender, as Seller, and VICTOR VALLEY HOSPITAL REAL ESTATE, LLC, a California limited liability company and VICTOR VALLEY HOSPITAL ACQUISITION, INC., a California corporation (collectively, the "**Borrowers**"), as Purchasers, are parties to that certain Asset Sale Agreement, dated as of October 29, 2010 (together with all amendments thereto, collectively, the "**ASA**") under which Lender is selling to Borrowers and Borrowers are purchasing from Lender certain property and assets, all as more particularly described in the ASA.

(b) As a portion of the purchase price being paid by the Borrowers to the Lender under the ASA, the Borrowers are giving the Lender a Blocked Fund Note, dated the date hereof, in the principal amount of \$3,000,000 (the "**Note**"). Any defined terms used, but not defined, herein shall have the meaning, if any, given such terms in the Note.

(c) The Guarantor has a financial interest in the Borrowers and will benefit from the acceptance by Lender of the Note in partial payment of the purchase price under the ASA.

(d) Lender would not agree to accept the Note in partial payment of the purchase price under the ASA unless the Guarantor agreed to guarantee the obligations of the Borrowers thereunder as provided in this Guaranty, and the Guarantor, as a material inducement and consideration to Lender to accept the Note in partial payment of the purchase price under the ASA is willing to execute and deliver this Guaranty and to agree to and be bound by its terms.

2. Guaranty.

2.1. Guaranty of Obligations. The Guarantor unconditionally, absolutely and irrevocably guarantees to Lender and to its successors and assigns the full and prompt payment when due (whether by acceleration or otherwise) of all indebtedness of the Borrowers to Lender under the Note, and the full, prompt and complete performance when due of all obligations of the Borrower to Lender under the Note.

2.2. Guaranty of Payment. The liability of the Guarantor on this Guaranty is a guaranty of payment and performance and not of collectability, and is not conditional or contingent on the genuineness, validity, regularity or enforceability of the Note or the pursuit by Lender of any remedies that it now has or may hereafter have with respect thereto.

2.3. Continuing Guaranty. This Guaranty is a continuing guaranty of the indebtedness and obligations of the Borrowers under the Note, including any and all such indebtedness and

obligations pursuant to the Note which are renewed, extended, compromised, refinanced or restructured from time to time.

2.4. Independent Obligations. The Guarantor agrees that it is directly and primarily liable to Lender, that the Guarantor's obligations hereunder are independent of the indebtedness and the obligations of the Borrowers under the Note, and that a separate action or actions may be brought and prosecuted against the Guarantor, whether or not action is brought against the Borrowers or whether or not the Borrowers are joined in any such action or actions. The Guarantor agrees that any releases which may be given by Lender to the Borrowers or any other guarantor or endorser shall not release the Guarantor from this Guaranty.

3. Consents by Guarantor.

3.1. Consents. The Guarantor hereby authorizes Lender, without notice or demand and without affecting the Guarantor's liability hereunder, from time to time to:

3.1.1. Changes in Terms. Renew, compromise, extend, refinance, accept partial payments, accelerate or restructure the indebtedness and obligations of the Borrower under the Note or otherwise change the time for payment or the terms of any such indebtedness or obligations, or any part thereof, including, without limitation, increasing or decreasing the amount thereof (whether through the extension of new credit or otherwise) or increasing or decreasing the rate of interest thereon.

3.1.2. Amendment of Documents. Waive, amend, rescind, modify or otherwise change any of the terms or provisions of the Note.

3.1.3. Liquidation of Guaranteed Obligations. Settle, release, compromise, collect or otherwise liquidate any of the indebtedness or obligations of the Borrowers under the Note, or any part thereof, and any security or collateral therefor in any manner as Lender may determine in its sole and absolute discretion.

3.1.4. Collateral. Take and hold collateral to secure the payment and performance of the indebtedness and obligations of the Borrowers under the Note and exchange, enforce, waive and release any such collateral, and apply such collateral and direct the order or manner of sale thereof as Lender in its sole and absolute discretion may determine.

3.1.5. Releases. Release or substitute any one or more endorsers or other guarantors.

3.2. Non-Release of Guarantor. The Guarantor agrees that Lender may do any or all of the matters specified in Section 3.1 in such manner, upon such terms, and at such times, as Lender, in its sole and absolute discretion, deems advisable, without, in any way or respect, impairing, affecting, reducing or releasing the Guarantor from its undertakings hereunder and the Guarantor hereby consents to each and all of the matters specified in Section 3.1.

4. Waivers.

4.1. Defenses. The Guarantor hereby waives any right to assert against Lender as a defense, counterclaim, setoff or cross-claim, any defense (legal or equitable), counterclaim,

setoff or cross-claim which the Guarantor may now or at any time hereafter have under applicable law, rule, arrangement or relationship against the Borrowers, or either of them, or Lender or any other party. The Guarantor waives all defenses, counterclaims, cross-claims and setoffs of any kind or nature arising, directly or indirectly, from the present or future lack of perfection, sufficiency, validity or enforceability of the Note or any security interest thereunder.

4.2. Presentment, Demand and Notice. The Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protests, notices of dishonor, notices of default, notice of acceptance of this Guaranty, diligence and notices of the existence, creation or incurrence of the indebtedness and obligations of the Borrowers under the Note or of new or additional indebtedness or obligations of the Borrowers incurred or created after the date of this Guaranty, and all other demands, notices or formalities of whatsoever kind to which the Guarantor may be entitled under applicable law.

4.3. Remedies Against Borrowers. As a condition to payment or performance by the Guarantor under this Guaranty, Lender shall not be required to, and the Guarantor hereby waives any and all rights to require Lender to, prosecute or seek to enforce any remedies against the Borrowers, or either of them, or any other party liable to Lender on account of the indebtedness and obligations of the Borrowers under the Note or to require Lender to seek to enforce or resort to any remedies with respect to any security interests, liens or encumbrances granted to Lender by the Borrowers, or either of them, or any other party on account of the indebtedness and obligations of the Borrowers under the Note.

4.4. Subrogation Rights. Until all the terms, covenants and conditions of the Note on the Borrowers' part to be performed and observed are fully performed and observed, the Guarantor shall have no right of subrogation, reimbursement, exoneration, indemnity or contribution against the Borrowers, or either of them, by reason of any payments or acts of performance by the Guarantor in compliance with the obligations of the Guarantor under this Guaranty; provided that, notwithstanding the foregoing, the Guarantor shall have no right of subrogation, reimbursement, exoneration, indemnity, contribution or any other rights that would result in the Guarantor being deemed a creditor of the Borrower under the Federal Bankruptcy Code, and the Guarantor irrevocably waives all such rights and the right to assert any such rights until such time as Guarantor has fully and irrevocably performed under this Guaranty.

4.5. Qualification of Waivers. Notwithstanding any term in this Section 4 or elsewhere in this Guaranty to the contrary, to the extent that Borrowers, or either of them, have any counterclaim, set-off or cross-claim rights against Lender in connection with their obligations under the Note, the Guarantor shall be an additional, third party beneficiary of those counterclaim, set-off or cross-claim rights and Guarantor shall have the right to directly exert such counterclaim, set-off or cross-claim rights on Guarantor's behalf in connection with Guarantor's obligations under this Guaranty.

5. Waiver of Suretyship Defenses. The Guarantor agrees that nothing contained in this Guaranty shall prevent Lender from suing on the Note or from exercising any rights available to it under the Note, and that the exercise of any of these rights shall not constitute a legal or equitable discharge of the Guarantor. The Guarantor understands that the exercise by Lender of certain rights and remedies contained in the Note may affect or eliminate the Guarantor's right of subrogation against the Borrower and that the Guarantor may therefore

succeed to a partially or totally nonreimbursable liability hereunder. Nevertheless, the Guarantor hereby authorizes and empowers the Lender to exercise, in its sole and absolute discretion, any rights and remedies, or any combination of rights and remedies, that may then be available, since it is the intent and purpose of the Guarantor that the obligations hereunder shall be absolute, independent and unconditional under any and all circumstances. Without limiting the generality of the foregoing, the Guarantor expressly waives any and all benefits under California Civil Code §§ 2809, 2810, 2819, 2845, 2849, 2850 and 2855.

6. Subordination. At any time when Borrowers are in default, beyond any applicable cure periods, of any of their indebtedness or obligations under the Note, any and all indebtedness of the Borrowers, or either of them, now or hereafter held by the Guarantor shall be subordinated and junior in right of payment to the indebtedness and obligations of the Borrowers to Lender under the Note, and no payments on account of any such indebtedness shall be made by Borrowers, or either of them, nor received or collected by Guarantor, until all indebtedness and obligations of the Borrowers to Lender under the Note have been irrevocably paid and performed in full.

7. Bankruptcy.

7.1. Liability of Guarantor Unaffected. The liability of the Guarantor under this Guaranty shall in no way be affected by: the release or discharge of the Borrowers, or either of them, in any creditor proceeding, receivership, bankruptcy or other proceeding; the impairment, limitation or modification of the liability of the Borrowers, or either of them, or the estate of the Borrowers, or either of them, or any remedy for the enforcement of the liability of the Borrowers, or either of them, resulting from the operation of any present or future provision of the federal Bankruptcy Code or any bankruptcy, insolvency, debtor relief statute (state or federal), or any other statute, or from the decision of any court, the rejection or disaffirmance of the indebtedness or obligations of the Borrowers, or either of them, under the Note, or any portion thereof, in any such proceeding; or the cessation, from any cause whatsoever, whether consensual or by operation of law, of the liability of the Borrowers, or either of them, to Lender.

8. Financial Condition of Borrowers. The Guarantor is presently informed of the financial condition of the Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the indebtedness and obligations of the Borrowers under the Note. The Guarantor hereby covenants that it will keep itself informed of the Borrowers' financial condition and of all other circumstances which bear upon the risk of nonpayment. The Guarantor waives any duty on the part of Lender to disclose to the Guarantor any facts it may now or hereafter know about the Borrowers, or either of them, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond that which the Guarantor intends to assume, or has reason to believe that such facts are unknown to the Guarantor, or has a reasonable opportunity to communicate such facts to the Guarantor, it being understood and agreed that the Guarantor is fully responsible for being and keeping informed of the financial condition of the Borrowers and of all circumstances bearing on the risk of nonpayment of the indebtedness and obligations of the Borrowers under the Note.

9. Termination of Guaranty. The Guarantor's obligations under this Guaranty shall continue in full force and effect and this Guaranty shall not terminate until the indebtedness and obligations of the Borrowers under the Note are fully paid, performed and discharged. The

indebtedness and obligations of the Borrowers under the Note shall not be considered fully paid, performed and discharged unless and until all payments by the Borrowers to Lender are no longer subject to any right on the part of any person, including, without limitation, the Borrowers, or either of them, or the Borrowers, or either of them, as debtor-in-possession, or any trustee or receiver in bankruptcy, to set aside such payments or seek to recoup the amount of such payments, or any part thereof. The foregoing shall include, without limitation, all rights to recover preferences voidable under the federal Bankruptcy Code. In the event that any such payments by the Borrowers to Lender are set aside after the making thereof, in whole or in part, or settled without litigation, to the extent of any such settlement, all of which is within Lender's sole and absolute discretion, the Guarantor shall be liable for the full amount Lender is required to repay plus costs, interest, attorneys' fees and any and all expenses which Lender paid or incurred in connection therewith.

10. Other Provisions.

10.1. Expenses. The Guarantor agrees to pay all attorneys' fees and all other costs and expenses which may be incurred by Lender in the enforcement or collection of this Guaranty and the indebtedness and obligations of the Borrowers under the Note, whether or not suit is filed.

10.2. Interest. All amounts required to be paid to Lender by the Guarantor pursuant to the provisions of this Guaranty (including, without limitation, pursuant to Section 2 and 10.1 hereof) shall bear interest from the date upon which such amounts are due to the date of payment thereof at the highest rate permitted by law. All payments of such amounts by the Guarantor shall include any such accrued interest.

10.3. Governing Law. The validity, construction and performance of this Guarantee shall be governed by the laws, without regard to the laws as to choice or conflict of laws, of the State of California.

10.4. Entire Agreement. This Guaranty embodies the entire agreement and understanding between Lender and the Guarantor pertaining to the subject matter of this Guaranty, and supersedes all prior agreements, understandings, negotiations, representations and discussions, whether verbal or written, of such parties, pertaining to that subject matter. In executing this Guaranty, Guarantor is acting in his own capacity and not as an agent or other authorized party of Borrowers, and nothing herein is intended to or shall constitute a modification of the Note or any other agreements between Lender and Borrowers.

10.5. Assignment; Binding Effect Neither this Guaranty nor any rights or obligations under this Guaranty may be assigned by the Guarantor without the prior written consent of Lender, which Lender is under no obligation to give. However, in the event of any a permitted assignment of the Note, then Guarantor may request that this Guaranty be replaced by a new guaranty provided by a party affiliated with or otherwise designated by the permitted assignee of the Note, subject to Lender's consent, which consent will not unreasonably withheld or delayed. The Lender may not assign any of its rights or obligations under this Guaranty except to the Creditor Trust or Community Foundation as permitted pursuant to the Plan of Liquidation, in connection with a concurrent permitted assignment of Lender's rights under the Note. . Subject to the foregoing, the provisions of this Guaranty shall bind and inure to the benefit of Lender and

the Guarantor and their respective heirs, executors, personal representatives, successors and assigns.

10.6. Notices. Whenever Lender or the Guarantor desire or are required to give any notice, demand or request with respect to this Guaranty, each such communication shall be in writing and shall be given by personal service or mailed by Certified Mail, postage prepaid, return receipt requested, addressed as set forth in the first paragraph of this Guaranty. Such communications sent shall be effectively given when they are received by the addressee thereof, but if sent by Certified Mail, they shall be effectively given three (3) days after being deposited in the United States Mail. Lender and the Guarantor may change their respective address for such communications by giving notice to the other in conformity with this Section.

10.7. Amendment and Waiver. This Guaranty may not be amended, modified or supplemented except by a writing duly executed by the Guarantor and a duly authorized officer of Lender. No provision of this Guaranty or right of Lender under this Guaranty can be waived except by a writing duly executed by a duly authorized officer of Lender. No waiver by Lender of a breach of any provision of this Guaranty shall be construed as a waiver of any subsequent or different breach, and no forbearance by Lender to seek a remedy for noncompliance or breach by the Guarantor shall be construed as a waiver of any right or remedy with respect to such noncompliance or breach.

10.8. Time. Time is of the essence with respect to each provision of this Guaranty.

10.9. Severability. The invalidity or unenforceability of any particular provision of this Guaranty shall not affect the other provisions, and this Guaranty shall be construed in all respects as if any invalid or unenforceable provision were omitted.

10.10. Further Action. The Guarantor agrees to perform any further acts and to execute and deliver any other documents which may be necessary in the opinion of Lender to effect the provisions of this Guaranty.

10.11. Headings. The section and other headings contained in this Guaranty are for reference purposes only and shall not affect in any way the meaning or interpretation of this Guaranty.

IN WITNESS WHEREOF, the Guarantor, intending to be bound, has executed this Guaranty as of the year and date first above written.

GUARANTOR:

\_\_\_\_\_  
Kali P. Chaudhuri, M.D.

**EXHIBIT 1.2.5**

**SECURITY AGREEMENT  
(Emergency Fund)**

This SECURITY AGREEMENT (the "**Agreement**") is entered into and effective as of \_\_\_\_\_, 2011 by and between VICTOR VALLEY COMMUNITY HOSPITAL, a California nonprofit public benefit corporation (the "**Secured Party**"), and VICTOR VALLEY HOSPITAL REAL ESTATE, LLC, a California limited liability company and VICTOR VALLEY HOSPITAL ACQUISITION, INC., a California corporation (each, a "**Debtor**" and, collectively, the "**Debtors**"), who agree as follows:

1. **Recitals.** This Agreement is made with respect to the following facts and circumstances:

Secured Party, as Seller, and Debtors, as Purchasers, are parties to that certain Asset Sale Agreement, dated as of October 29, 2010 (together with all amendments thereto, collectively, the "**ASA**") under which Secured Party sold to Debtors and Debtors purchased from Secured Party certain property and assets, all as more particularly described in the ASA.

The sale of the property and assets pursuant to the ASA was subject to the consent of the Attorney General of the State of California (the "**Attorney General**"), and, on December 29, 2010, the Attorney General conditionally consented to the sale subject to the Attorney General's "Conditions to Approval of Sale of Victor Valley Community Hospital", a copy of which is attached hereto as Exhibit A, and on May 12, 2011 issued its conditional approval to the Fourth Amendment to ASA, a copy of which is attached hereto as Exhibit B (together with any modifications thereto, collectively, the "**Conditions to Approval**").

Among the conditions imposed by the Attorney General in the Conditions to Approval was Condition XIV (the "**Emergency Fund Condition**") whereby the Debtors were required to deposit and maintain an ongoing balance of \$3,000,000 in a separate interest-bearing bank account to be used only for emergency operating and capital needs of Victor Valley Community Hospital, all as more particularly set forth in the Emergency Fund Condition.

Debtors have now established Account No. \_\_\_\_\_ (the "**Emergency Fund Account**") with [INSERT NAME & ADDRESS OF BANK] (the "**Bank**") and have made the \$3,000,000 deposit to the Emergency Fund Account as required by the Emergency Fund Condition.

In connection with the purchase of the property and assets pursuant to the ASA, Debtors gave an Emergency Fund Note (the "**Note**"; unless otherwise defined herein, terms defined in the Note are used herein as therein defined), dated May 31, 2011, to Secured Party in exchange for a \$3,000,000 reduction in the cash portion of the purchase price payable to Secured Party for the property and assets under the ASA, thereby enabling Debtors to fund the Emergency Fund.

In order to secure their obligations under the Note, the Debtors agreed to pledge to and grant Secured Party a security interest in certain Collateral (as defined below), and the parties are entering into this Agreement for the purpose of creating such security interest.

2. Security Interest. Debtors hereby pledge and grant to Secured Party a continuing security interest in the Collateral (as defined in Section 3) to secure the Note and each and every one of Debtors' obligations and liabilities under this Agreement and the Note. The security interest granted herein, and this Agreement, shall terminate upon full performance by Debtors of their obligations and liabilities under the Note.

3. Collateral. The term "Collateral" as used in this Agreement means (i) the Emergency Fund Account, (ii) all funds on deposit in the Emergency Fund Account, (iii) all interest accruing thereon, (iv) all renewals and replacements thereof (whether or not any such renewal or replacement is evidenced by a certificate or other evidence of deposit), (v) any and all certificates of deposit or other instruments that may constitute a part of or an investment of funds in, or that may replace all or any part of, the Emergency Fund Account, and (vi) all proceeds of any of the foregoing.

4. Representations and Warranties. Debtors represent, warrant and covenant as follows:

Debtors each have all requisite power and authority to execute and deliver this Agreement.

This Agreement and the Note have each been duly authorized, executed and delivered by Debtors, and each constitutes a legal, valid and binding obligation of the Debtors, enforceable against the Debtors, and each of them, in accordance with its terms.

Debtors have not, either individually or jointly, made any pledge of, or granted or placed any security interest, lien or other encumbrance with respect to, any of the Collateral, other than the pledge and security interest granted to Secured Party under this Agreement and the rights of the Attorney General and/or The Community Foundation Serving Riverside and San Bernardino Counties (the "**Community Foundation**") pursuant to the Conditions to Approval.

Provided the Attorney General has approved this Agreement and the granting of a security interest in the Collateral, neither the execution and delivery of this Agreement, nor the taking of any action in compliance with it, will (i) violate or breach any law, regulation, rule, order, decree or judicial action binding on Debtors, or either of them, or any agreement or instrument to which Debtors, or either of them, are a party or are subject, or (ii) result in the creation of any lien or encumbrance against the Collateral, except that created by this Agreement.

No event has occurred which constitutes, or which with the giving of notice or the passage of time, or both, would constitute, a default under this Agreement.

5. Covenants. Until each and every one of Debtor's obligations and liabilities under this Agreement have been fully performed and discharged, Debtor covenants that it will:

Pay and perform each and every one of Debtor's obligations under this Agreement and the Note as and when they are due.

Pay all expenses, including attorneys' fees and costs, incurred by Secured Party in connection with the enforcement and exercise of its rights under this Agreement and the Note.



Indemnify, protect and hold harmless Secured Party, and its officers, agents and employees, against and from all claims, losses, liabilities, actions, judgments and expenses (including attorneys' fees and costs) which they, or any of them, may suffer or incur, arising out of or in any way relating to this Agreement or the Note or Secured Party's interest in the Collateral, except with respect to any claims, losses, liabilities, actions, judgments and expenses (including attorneys' fees and costs) arising out of or in any way relating to any gross negligence or willful misconduct by Secured Party or any of its officers, agents and employees.

Give Secured Party notice of any pending or threatened claim or litigation that may concern or affect the Collateral.

Not permit any liens or encumbrances on the Collateral, except only for the pledge and security interest created under this Agreement and other liens or encumbrances in favor of Secured Party and the rights of the Attorney General and/or the Community Foundation under the Conditions to Approval.

Notify Secured Party of any event which constitutes, or which with the giving of notice or the passage of time, or both, would constitute a default under this Agreement, or any development that might have an adverse effect on the Collateral or any part of it.

Promptly and duly execute and deliver to Secured Party all financing statements and other documents and instruments that Secured Party reasonably requests in order to establish and/or maintain a perfected first priority security interest in the Collateral.

6. Deposit Account Control Agreement. In order to perfect Secured Party's security interest in the Collateral by means of control, Debtors' agree to enter into, execute and deliver a Deposit Account Control Agreement (the "**Control Agreement**"), by and among Debtor, Secured Party and Bank, in substantially the form attached hereto as Exhibit C, with such changes or modifications thereto as may be approved by Secured Party or required by Bank. Secured Party agrees to provide notice of termination of the Control Agreement to the Bank promptly upon termination of this Agreement.

7. Defaults. The occurrence of any one or more of the following shall constitute a default by Debtors:

Debtors fail to make any payment required by the Note when due, which is not cured within any applicable cure period, whether at stated maturity, on acceleration or otherwise.

Debtors fail to fully perform when due any other obligation or agreement under this Agreement or the Note, or under any present or future amendment, rider or supplement to this Agreement or the Note, and such failure is not cured within any applicable cure period.

Any covenant, warranty, representation or statement, made by or on behalf of Debtors in or with respect to this Agreement or the Note, is materially false.

There is any seizure or attachment of, or any levy on, the Collateral or any part of it.

8. Remedies. Upon the occurrence and during the continuance of any default by Debtors, Secured Party shall have all rights and remedies provided by law, the Agreement and the Note,

including, without limitation, all of the rights and remedies of a secured party under the California Commercial Code. Debtors hereby authorize Secured Party, upon the occurrence of a default, to take whatever actions may be necessary to realize upon the Collateral and to apply the proceeds realized in accordance with the Note. Debtors expressly authorize such action by Secured Party in advance of and to the exclusion of any realization upon any other collateral securing any indebtedness of Debtors to Secured Party, and hereby waive as to the Secured Party any right of subrogation or marshalling of any such other collateral. Notwithstanding the foregoing, subject to the terms of the Note, Secured Party shall not be obligated to take action to realize upon the Collateral prior to exercising any other rights or remedies it may have as provided by law, the Note or this Agreement.

9. Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including facsimile) or overnight courier, or five (5) calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Seller:

Victor Valley Community Hospital  
15428 11<sup>th</sup> Street  
Victorville, California 92392  
Attention: Chief Executive Officer  
Facsimile No. (760) 843-6020

With a copies to:  
(which copies shall  
not constitute notice)

Burke Williams & Sorensen, LLP  
444 S. Flower Street, Suite 2400  
Los Angeles, California 90071  
Attention: Charles E. Slyngstad, Esq.  
Facsimile No. (213) 236-2700

Pachulski Stang Ziehl & Jones  
10100 Santa Monica Boulevard, 11<sup>th</sup> Floor  
Los Angeles, California 90067  
Attention: Samuel R. Maizel, Esq.  
Facsimile No. (310) 201-0760

If to Purchasers:

Victor Valley Hospital Acquisition, Inc.  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

Victor Valley Hospital Real Estate, LLC  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

With a copy to:  
(which copy shall  
not constitute notice)

Hooper, Lundy & Bookman, P.C.  
1875 Century Park East, Suite 1600  
Los Angeles, California 90067  
Attention: Todd E. Swanson, Esq.  
Facsimile No.: (310) 551-8181

A copy of any notices to Seller  
or Purchasers shall also be  
provided to:

Wendi Horwitz  
Deputy Attorney General  
Department of Justice  
Office of the Attorney General  
300 S. Spring St., Suite 1702  
Los Angeles, CA 90013  
Facsimile No.: (213) 897-7605

or at such other address as one party may designate by notice hereunder to the other parties.

10. Severability of Provisions. Any provision of this Agreement that is invalid, illegal or unenforceable shall be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating, diminishing or rendering unenforceable the rights and obligations of the parties under the remaining provisions of this Agreement.

11. Survival of Agreements. All agreements, covenants, representations and warranties in this Agreement, or made in writing by or on behalf of the Debtors in connection with the transactions contemplated by this Agreement, shall survive the execution and delivery of this Agreement and the Note and any investigation at any time made by Secured Party or on its behalf.

12. Successors and Assigns; Assignment. Except as otherwise expressly provided in this Agreement, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors and assigns of the parties to this Agreement; provided, however, no assignment of this Agreement or of Debtors' rights or obligations hereunder may be made by Debtors, or either of them, at any time except that the Debtors' rights and obligations under this Agreement may be assigned to any permitted assignee of Debtor's obligations under the Note, in accordance with any such assignment permitted under the Note. The Secured Party may not assign any of its rights or obligations under this Agreement except to the Creditor Trust or Community Foundation as permitted pursuant to the Plan of Liquidation, in connection with a concurrent permitted assignment of Secured Party's rights under the Note.

13. Entire Agreement. This Agreement, the Note and the ASA constitute the full and entire understanding and agreement between the parties with regard to the subject matter hereof and

thereof, and supersede all prior and contemporaneous agreements and understandings of the parties whether written or oral.

14. Amendments and Waivers. No term or provision of this Agreement or the Note may be amended, altered, modified or waived orally or by a course of conduct, but only by an instrument in writing signed by a duly authorized official, officer or representative of the party against which enforcement of such amendment, alteration, modification or waiver is sought. Any amendment, alteration, modification or waiver shall be for such period and subject to such conditions as shall be specified in the written instrument effecting the same. Any waiver shall be effective only in the specific instance and for the purpose for which given.

15. No Waiver; Remedies Cumulative. No delay or omission to exercise any right, power or remedy accruing to the Secured Party on any default by Debtors under this Agreement or the Note shall impair any such right, power or remedy of the Secured Party nor shall it be construed as a waiver of or acquiescence in any such default, or of or in any similar default occurring later; nor shall any waiver of any single default be deemed a waiver of any other default occurring before or after that waiver. All remedies, either under this Agreement or by law or otherwise afforded to the Secured Party shall be cumulative and not alternative.

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

17. Headings. The various headings of this Agreement are for convenience of reference only, shall not affect the meaning or interpretation of this Agreement, and shall not be considered in construing this Agreement.

18. Joint and Several. The agreements, covenants, warranties, representations, obligations and liabilities of Debtors under this Agreement are joint and several.

19. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California.

20. Coordination With Conditions to Approval. Notwithstanding any other provision in this Agreement, nothing in this Agreement is intended to, or will, alter the treatment of the Emergency Fund Account in compliance with the requirements of the Emergency Fund Condition and the Conditions to Approval and in the event of any conflict between the terms of this Agreement and the terms of the Emergency Fund Condition or the Conditions to Approval, the terms of the Emergency Fund Condition and the Conditions to Approval shall control.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]  
[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties set forth below as of the due first written above.

**DEBTORS:**

VICTOR VALLEY HOSPITAL REAL ESTATE, LLC,  
a California limited liability corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

VICTOR VALLEY HOSPITAL ACQUISITION, INC.,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**SECURED PARTY:**

VICTOR VALLEY COMMUNITY HOSPITAL,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Exhibit A  
To Security Agreement

Conditions to Approval of Sale of Victor Valley Community Hospital

(See Attached)

**EDMUND G. BROWN JR.**  
*Attorney General*

*State of California*  
**DEPARTMENT OF JUSTICE**



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
Telephone: (213) 897-2178  
Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

December 29, 2010

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally consents, pursuant to Corporations Code section 5914 *et seq.*, to the sale of Victor Valley Community Hospital to Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., as set forth in the Notice filed on November 19, 2010. Corporations Code section 5917 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations, set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and the purchasers throughout the review process.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For EDMUND G. BROWN JR.  
Attorney General

Attachment  
cc: Bill Thomas, Esq.

LA2010600780/60587768.doc

## Conditions to Approval of Sale of Victor Valley Community Hospital

### I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyers” shall mean Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., a California for-profit corporation, the proposed acquirers of Victor Valley Community Hospital<sup>1</sup>, any other subsidiary, parent, general partner, affiliate, successor, or assignee of Victor Valley Hospital Real Estate, LLC or Victor Valley Hospital Acquisition, Inc., any entity succeeding thereto by consolidation, merger or acquisition of all or substantially all of the assets of Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located, any entity owned by the Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any entity that owns Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any future entity that purchases Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located from Buyers, and any entity owned by a future purchaser that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located. These conditions shall be legally binding on any and all current and future owners or operators of Victor Valley Community Hospital and owners of the real property on which Victor Valley Community Hospital is located. The term “Seller” shall mean Victor Valley Community Hospital, a California nonprofit public benefit corporation.

### II.

The transaction approved by the Attorney General between Buyers and Seller consists of the Asset Sale Agreement dated October 29, 2010, Amendment to Asset Sale Agreement dated December 23, 2010, Interim Management and Lease Agreement dated on or about the time of the transaction closing, Good Faith Deposit Agreement dated December 17, 2010, Limited Power of Attorney for Use of DEA Registration Numbers and DEA Order Forms dated on or about the time of the transaction closing, and any other documents referenced in Sections 1.5 and 1.6 in the Asset Sale Agreement. Buyers and Seller shall fulfill the terms and conditions of the transaction. Buyers and Seller shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the above-enumerated agreements. Such notification shall be provided at least thirty (30) days prior to the effective date of such modification in order to allow the Attorney General to consider

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<sup>1</sup>Throughout this document, the term Victor Valley Community Hospital shall mean the general acute care hospital currently called Victor Valley Community Hospital (located at 15248 11th Street, Victorville, California), the Victor Valley Community Hospital Women’s Health Center and Outpatient Imaging, and any other clinics, laboratories, units, services, or beds included on the license issued to Victor Valley Community Hospital by the California Department of Public Health to operate Victor Valley Community Hospital, effective November 1, 2010, unless otherwise indicated.



whether the proposed modification affects the factors set forth in Corporations Code section 5917.

### III.

Buyers and all future owners or operators of Victor Valley Community Hospital shall be required to provide written notice to the Attorney General sixty (60) days prior to entering into any agreement or transaction to do either of the following:

(A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital.

(B) Transfer control, responsibility, or governance of Victor Valley Community Hospital. The substitution of a new corporate member or members of Buyers that transfers the control of, responsibility for or governance of Buyers shall be deemed a transfer for purposes of this condition. The substitution of one or more members of the governing body of Buyers, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Buyers, shall also be deemed a transfer for purposes of this Condition.

### IV.

For five years from the date of the transaction closing, Buyers shall operate and maintain Victor Valley Community Hospital as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services:

a) Twenty-four hour emergency medical services as currently licensed (minimum of 13 Emergency beds/stations) with the same types and levels of services as currently provided<sup>2</sup>;

b) Intensive Care Services as currently licensed (minimum of 10 Intensive Care beds) with the same types and levels of services as currently provided;

c) Obstetrical services as currently licensed (minimum of 9 Perinatal and 4 Labor, Delivery and Recovery beds) with the same types and levels of services as currently provided;

d) Pediatric services as currently licensed (minimum of 16 Pediatric beds) with the same types and levels of services as currently provided;

Buyers shall not place all or any portion of its above-listed licensed-bed capacity in voluntary suspension or surrender its license for any of these beds.

### V.

For five years from the date of the transaction closing, Buyers shall operate the Victor Valley Community Hospital Women's Health Center and Outpatient Imaging and provide the same types and levels of services as currently provided.

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<sup>2</sup> The term "currently provided" means types and levels of services provided as of November 1, 2010.

## VI.

For five years from the date of the transaction closing, Buyers shall cause Victor Valley Community Hospital, and any other related structures, to be in compliance with all requirements of a general acute care hospital under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

## VII.

For five years from the date of the transaction closing, Buyers shall:

- a) Be certified to participate in the Medi-Cal program.
- b) Accept assignment of the Inland Empire Health Plan's current contract and amendments with Victor Valley Community Hospital, a California nonprofit public benefit corporation, (which expires December 31, 2011) and shall not terminate the contract without cause until a new contract has been entered into with the Inland Empire Health Plan, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services for Medi-Cal, Healthy Families, Healthy Kids, and Inland Empire Health Plan's Medicare Special Needs Plan, to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries as required in these Conditions, and shall maintain such a contract with the Inland Empire Health Plan;
- c) Provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries (Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions.
- d) Have a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## VIII.

For five years from the date of the transaction closing, Buyers shall maintain the following contracts and amendments, without interruption of service or diminution in quality, unless terminated for cause, and shall provide the same services specified in the contracts: San Bernardino County Superintendent of Schools- Regional Occupational Program Agreement for Affiliation; San Bernardino County Department of Public Health-Automated Birth Registration Program (Automated Vital Statistics System); County of San Bernardino Department of Child Support Services-Paternity Opportunity Program Agreement; County of San Bernardino Transitional Assistance Department-Outstationed Medi-Cal Eligibility Worker Services; Inland Counties Emergency Medical Agency-Hospital Preparedness Program; Hospital Association of Southern California Restatement of Reddinet Master Agreement-Emergency Communications System; and County of San Bernardino Arrowhead Regional Medical Center-Medically Indigent Adult Medical Care Program.

## IX.

For five years from the date of the transaction closing, Buyers shall provide an annual amount of Charity Care (as defined below) at Victor Valley Community Hospital equal to or greater than \$1,380,000 (the "Minimum Charity Care Amount"). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Buyers in connection with the operation and provision of services at Victor Valley Community Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.<sup>3</sup> Buyers shall use charity care and collection policies that comply with Federal and California law. Creation of, and any subsequent changes to, the charity care and collection policies and charity care services provided at Victor Valley Community Hospital shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

Buyers' obligation under this condition for the period from the transaction closing date through the end of Buyers' first fiscal year following the transaction closing date shall be prorated on a daily basis if the transaction closing date is a date other than the first day of Buyers' fiscal year.

For each calendar year after 2011, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of Charity Care provided by Buyers at Victor Valley Community Hospital for any calendar year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such year, Buyers shall pay an amount equal to the deficiency to the "Victor Valley Community Hospital Health Fund" specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## X.

For five years from the date of the transaction closing, Buyers shall provide community benefit services at Victor Valley Community Hospital at an annual cost of \$27,500 (hereafter "the Minimum Community Benefit Services Amount"). Community benefit commitments shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

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<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

The Minimum Community Benefit Services Amount shall be annually increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the “12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided by Buyers at Victor Valley Community Hospital for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such year, Buyers shall pay the deficiency to the “Victor Valley Community Hospital Health Fund” specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## **XI.**

For five years from the date of the transaction closing, Buyers shall spend no less than \$25,000,000 at Victor Valley Community Hospital for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital; of said amount, no less than \$15,000,000 shall be designated for capital improvements, equipment, information technology, infrastructure improvements at Victor Valley Community Hospital. For calendar years 2011, 2012 and 2013, Buyers shall spend no less than \$4,000,000 per year for capital improvements, equipment, information technology, and infrastructure improvements at Victor Valley Community Hospital. Buyers shall consult with the Local Governing Board, referenced in Condition XII, prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements.

## **XII.**

For five years from the date of the transaction closing, Buyers shall maintain a Local Governing Board, as set forth in Section 5.8 of the Asset Sale Agreement. (Exhibit 1) Said Board should include physicians from the medical staff at Victor Valley Community Hospital, the Chief of Staff at Victor Valley Community Hospital, and community representatives from Victor Valley Community Hospital’s service area (as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010 and attached here to as Exhibit 2). In addition to the duties of the Local Governing Board designated in Section 5.8 of the Asset Sale Agreement, Buyers shall consult with the Local Governing Board prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements, making any withdrawals from the separate interest-bearing bank account required in Condition XIV, making any changes to medical services, making any changes to community benefit programs, and making any changes to the charity care and collection policies and charity care services provided at Victor Valley Community Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes or actions unless done so based upon an emergency. The Local Governing Board shall also approve any reports submitted to the Attorney General regarding compliance with these Conditions.

### XIII.

Within 30 days of the date of the transaction closing, Seller shall transfer all remaining restricted charitable funds held by Victor Valley Community Hospital, a California nonprofit public benefit corporation, to "The Community Foundation Serving Riverside and San Bernardino Counties," a California nonprofit public benefit corporation, to be used in accordance with the purposes for which said funds are restricted.

### XIV.

Within 30 days of the date of the transaction closing, Buyers shall deposit and maintain an ongoing fund balance of \$3 million in a separate interest-bearing bank account, to be used only for emergency operating and capital needs of Victor Valley Community Hospital, until such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: 1) 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 2) 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. The Local Governing Board referenced in Condition XII, shall be consulted prior to any withdrawals. Withdrawals are limited to \$1.5 million for any quarter. Any withdrawals must be redeposited into the account within 30 days of the date the withdrawal is made. 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 this account from the bank in which the separate interest-bearing bank account 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.

### XV.

As soon as practicable, but no more than sixty (60) days after entry of an order closing the bankruptcy matter entitled *In re: VICTOR VALLEY COMMUNITY HOSPITAL* (U.S. Bankruptcy Court, Central Districts, Riverside Division Case No. 6:10-39537 CB), Seller shall transfer all net proceeds from the transaction (expected to be \$1,700,000) and any unrestricted charitable assets (expected to be \$320,325) to the "The Community Foundation Serving Riverside and San Bernardino Counties" for deposit in a Donor-Advised Pass-Through Fund called "Victor Valley Community Hospital Health Fund" for the purpose of making grants to charitable healthcare facilities and clinics exempt from taxation pursuant to IRC §501(c)(3) to provide healthcare services to residents in Victor Valley Community Hospital's service area (11 ZIP codes) as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010. (Exhibit 2) These funds shall be maintained and used for a period of at least five years but not more than 10 years from the date of the transaction closing. Seller shall select the initial members of the Advisory Committee to the Donor-Advised Pass-Through Fund which will include the Vice-President of Grant Programs of "The Community Foundation Serving Riverside and San Bernardino Counties."

## XVI.

Within 30 days of the date of the transaction closing, Buyers shall deposit the sum of \$3 million in a separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General. Such account shall be held by the bank or other financial institution in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The owner of the account shall be the bank or other financial institution. The beneficiary of the account shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the account other than the reversionary interest described below. The initial \$3 million deposit and any interest earned shall be retained in the separate interest-bearing blocked account until the earlier of the following: (1) April 30, 2016, (2) the date on which the Buyers close, sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or (3) the date on which Buyers file for bankruptcy. If on or before April 30, 2016, 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 account 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 XIV, for the uses specified therein. If on or before April 30, 2016, Buyers have not closed, sold, transferred, leased, exchanged, optioned, conveyed, or otherwise disposed of Victor Valley Community Hospital, or filed for bankruptcy, Buyers shall be entitled to request return of the funds in the account after April 30, 2016. 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 this account from the bank or financial institution in which the separate interest-bearing blocked account is established.

## XVII.

For five years from the date of the transaction closing, Buyers shall submit to the Attorney General, no later than four (4) months after the conclusion of each calendar year, a report describing in detail its compliance with each Condition set forth herein including, but not limited to, an itemization and the actual costs of the capital improvements, equipment, information technology, and infrastructure improvements. The Chief Executive Officers and Chief Financial Officers of Buyers shall certify that the report is true and correct and provide documentation of approval by the Local Governing Board for Victor Valley Community Hospital.

## XVIII.

At the request of the Attorney General, Buyers and Seller shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret, or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

**XIX.**

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Exhibit 1**



Operational Closing Date or such more liberal or generous policies and practices on charity care as Purchasers may have in effect or implement from time to time, (b) continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by the Hospital and (c) assure access to high-quality healthcare services to all persons seeking medical care, regardless of their ability to pay.

5.7 Medical Staff. To ensure continuity of care in the community, Purchasers agree that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then in effect.

5.8 Local Governing Board.

(a) Immediately after the Effective Time, Purchasers shall form a local governing board at the Hospital in accordance with the terms of this Section 5.8. Such local governing board shall be an advisory committee to the board of directors of Purchasers comprised of medical staff members, community leaders and the Hospital's Chief Executive Officer. The local governing board shall be subject to the authority of Purchasers' board of directors and the terms of Purchasers' Articles of Incorporation, Bylaws and other organizational documents. The individuals on the local governing board should (i) represent the Hospital in the community and represent the views of the community to the local governing board in its deliberations, (ii) participate in Purchasers' community outreach programs and (iii) supervise the Hospital's charity care policies and practices.

(b) The local governing board of the Hospital shall have responsibilities that are consistent with similar local governing boards at other hospitals, or in other markets, respectively, which are owned directly or indirectly by affiliates of Purchasers. Purchasers shall consult with Seller or a successor established by Seller as to the appointment of community members to serve as members of the local governing board.

5.9 Capital Expenditures. During the period commencing on the Operational Closing Date and ending on the five (5) year anniversary date of the Closing, Purchasers agree that they will invest no less than Twenty-Five Million Dollars (\$25,000,000.00) for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital at the Hospital with no less than Fifteen Million Dollars (\$15,000,000.00) of said amount being spent on capital improvements, equipment, information technology, and infrastructure improvements.

5.10 Maintenance of Services. Purchasers agree that following the Closing, Purchasers will operate the Hospital as a licensed acute care hospital with essential services including labor and delivery, and open and accessible emergency departments. Obstetrics and pediatrics services shall be maintained by Purchasers at the hospital facility for five years following the Closing, *provided, however*, that Purchasers have not yet entered into any agreements to provide such services or agreed on any particular rates.

Exhibit 2

## VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA ANALYSIS

### *Victor Valley Community Hospital's Service Area Definition*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto.

<b>SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009</b>						
ZIP Codes	Community	WCH Discharges	% of Discharges	Cumulative		Market Share
				% of Discharges	Total Discharges	
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
Sub Total		6,160	85.8%		39,843	15.5%
Other ZIPs		177	14.2%	100%		
Total		7,085	100%			

Source: OSHPD Patient Discharge Database

Exhibit 3

**Condition XIV: Calculation of Adjusted Net Revenue (FN 1.)**

	FISCAL YEAR 2009	2nd QTR 2010
<b>Total Operating Revenue</b>	\$ 56,561,319	\$ 14,969,074
<b>Minus Total Operating Expenses</b>	\$ (55,256,254)	\$ (15,603,030)
<b><u>Equals Net from Operations</u></b>	<u>\$ 1,305,065</u>	<u>\$ (633,956)</u>
<b>Minus Provision for Bad Debts</b>	\$ (7,817,703)	\$ (1,706,554)
<b>Plus Amortization and Depreciation (FN 2.)</b>	\$ 1,749,268	\$ 588,600
<b><u>Equals Adjusted Net from Operations</u></b>	<u>\$ (4,763,370)</u>	<u>\$ (1,751,910)</u>
Adjusted Net from Operations	\$ (4,763,370)	\$ (1,751,910)
Minus 5% of <b>Total Operating Revenue</b>	\$ (2,828,066)	\$ (748,454)
<b><u>Equals Adjusted Net Revenue</u></b>	<u>\$ (7,591,436)</u>	<u>\$ (2,500,364)</u>

FN. 1: The definition and methodology for calculating the terms in bold shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes. The amounts used for the terms in bold shall be the same as those reported to OSHPD on a quarterly basis (Quarterly Financial Data). The FY 2009 figures were based upon the FY 2009 OSHPD Annual Financial Disclosure Report and Independently Audited Financial Statements dated September 30, 2009.

FN. 2: Amortization and Depreciation shall be obtained from the internally prepared quarterly financial statements using methods acceptable under Generally Accepted Accounting Principles. Amortization and Depreciation can only be added back in if the Total Operating Expenses reported to OSHPD included Amortization and Depreciation. The definition and methodology for calculating the term "Depreciation" shall be the same as that used by OSHPD for annual hospital reporting purposes.

Exhibit B  
To Security Agreement

Conditional Approval to the Fourth Amendment to ASA

(See Attached)



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
Telephone: (213) 897-2178  
Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

May 12, 2011

Sent by Internet and U.S. Mail

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally approves the Fourth Amendment to the Asset Sale Agreement between Seller, Victor Valley Community Hospital, a California nonprofit public benefit corporation, and Buyers, Victor Valley Hospital Real Estate, LLC ("Real Estate LLC"), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. ("Acquisition, Inc."), a California for-profit corporation. (A copy of the Fourth Amendment is attached as Exhibit 1.) The Attorney General's approval is subject to the following:

1. The transaction must close on or before June 1, 2011.
2. Section (2) (c) and (2) (d) of the Emergency Fund Note must state in full as follows:

"(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("QAF Legislation"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "**Excess Funds**"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligors discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligors to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum.” (See Exhibit 1.)

3. Buyers and Sellers must execute a “Security Agreement” and a “Deposit Account Control Agreement” for the Blocked Fund Note that mirrors the “Security Agreement” and a “Deposit Account Control Agreement” for the Emergency Fund Note. (See Exhibit 1.)

4. Buyers and Seller must execute all documents attached as Exhibit 1 on or before June 1, 2011.

5. The following clarifications are made to the referenced terms in the Conditions incorporated in the Attorney General’s Decision dated December 29, 2010:

a. The use of the term “emergency” in Conditions XII and XIV shall mean “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.”

b. With respect to Condition XIV, the Attorney General agrees to also release Buyers from the requirement to maintain the fund at any time after five years from the date of the transaction closing, whether or not self-sustainability has been achieved.

c. With respect to Condition XIV, total withdrawals are limited to \$1.0 million during any single quarter, and any and all withdrawn funds must be redeposited into the account before any further withdrawals can be made.

d. With respect to Condition XIV, the separate interest-bearing bank account must be held at a California bank or a California branch of a National bank.

e. The term “April 30, 2016,” used several times in Condition XVI, is replaced each time with the phrase “five years and two months from the date of the transaction closing.”

f. With respect to Condition XVI, the separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General must be held at a California bank or California financial institution or a California branch of a National bank or National financial institution.

g. Assignment pursuant to Condition VII(b) can be accomplished as follows: Before the transaction closes, (1) Buyers shall enter into a new contract with Inland Empire Health Plan (“IEHP”) and IEHP Health Access, to become effective on the date on which Buyers are issued a license to operate Victor Valley Community Hospital as a general acute care hospital by the



Charles E. Slyngstad

May 12, 2011

Page 3

California Department of Public Health and (2) Sellers shall reject, effective on the same date as Buyers become the licensee, the current IEHP and IEHP Health Access contract, pursuant to section 365 of the Bankruptcy Code. This approach shall ensure that IEHP and IEHP Health Access at all times remain contracted with the owners of Victor Valley Community Hospital without any loss, interruption, or gap in contracted hospital coverage at Victor Valley Community Hospital for five years from the date of the transaction closing.

h. Any references to a contract with IEHP in Condition VII(b) shall mean a contract with IEHP and IEHP Health Access.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Bill Thomas, Esq. (via Internet)  
Todd Swanson, Esq. (via Internet)

Exhibit C  
To Security Agreement

**DEPOSIT ACCOUNT CONTROL AGREEMENT**  
**(Emergency Fund)**

This Deposit Account Control Agreement (the "**Agreement**") is made and entered into as of \_\_\_\_\_, 2011, by and among \_\_\_\_\_, a \_\_\_\_\_ ("**Bank**"), VICTOR VALLEY HOSPITAL REAL ESTATE, LLC, a California limited liability company and VICTOR VALLEY HOSPITAL ACQUISITION, INC., a California corporation (each, a "**Debtor**" and, collectively, the "**Debtors**"), and VICTOR VALLEY COMMUNITY HOSPITAL, a California nonprofit public benefit corporation (the "**Secured Party**"), who agree as follows:

1. Recitals. This Agreement is made with reference to the following facts and circumstances:

(a) Secured Party, as Seller, and Debtors, as Purchasers, are parties to that certain Asset Sale Agreement, dated as of October 29, 2010 (together with all amendments thereto, collectively, the "**ASA**") under which Secured Party sold to Debtors and Debtors purchased from Secured Party certain property and assets, all as more particularly described in the ASA.

(b) The sale of the property and assets pursuant to the ASA was subject to the consent of the Attorney General of the State of California (the "**Attorney General**"), and, on December 29, 2010, the Attorney General conditionally consented to the sale subject to the Attorney General's "Conditions to Approval of Sale of Victor Valley Community Hospital", a copy of which is attached hereto as Exhibit 1, and on May 12, 2011 issued its conditional approval to the Fourth Amendment to ASA, a copy of which is attached hereto as Exhibit 2 (together with any modifications thereto, collectively, the "**Conditions to Approval**").

(c) Among the conditions imposed by the Attorney General in the Conditions to Approval was Condition XIV (the "**Emergency Fund Condition**") whereby the Debtors were required to deposit and maintain an ongoing balance of \$3,000,000 in a separate interest-bearing bank account to be use only for emergency operating and capital needs of Victor Valley Community Hospital, all as more particularly set forth in the Emergency Fund Condition.

(d) Debtors have now established Account No. \_\_\_\_\_ (the "**Deposit Account**") with Bank and have made the \$3,000,000 deposit to the Deposit Account as required by the Emergency Fund Condition.

(e) In connection with the purchase of the property and assets pursuant to the ASA, Debtors gave an Emergency Fund Note (the "**Note**"), dated May 31, 2011, to Secured Party in exchange for a \$3,000,000 reduction in the cash portion of the purchase price payable to Secured Party for the property and assets under the ASA, thereby enabling Debtors to fund the Deposit Account.

(f) The parties hereto are entering into this Agreement in order to set forth their respective rights and duties with respect to the Deposit Account and all funds on deposit therein from time to time.

2. Security Interest. Pursuant to a Security Agreement dated as of the date hereof, Debtors have pledged and granted to Secured Party a continuing security interest in (i) the Deposit Account, (ii) all funds on deposit in the Deposit Account, (iii) all interest accruing thereon, (iv) all renewals and replacements thereof (whether or not any such renewal or replacement is evidenced by a certificate or other evidence of deposit), (v) any and all certificates of deposit or other instruments that may constitute a part of or an investment of funds in, or that may replace all or any part of, the Deposit Account, and (vi) all proceeds of any of the foregoing.

3. Control of Deposit Account. The Deposit Account shall be under the sole dominion and control of Secured Party and Bank will comply with Secured Party's instructions directing disposition of the funds in the Deposit Account without the necessity of consent by Debtors; provided however, that Bank shall provide the Debtors and the Attorney General with at least ten (10) days' advance written notice (including a copy of the applicable Secured Party's instructions) before honoring any instructions by Secured Party which would result in disbursement or depletion of any of the funds held in the Deposit Account. However, unless and until notice to the contrary is provided by Secured Party to Bank, Debtors shall have the right from time to time to transfer or withdraw amounts from the Deposit Account subject to and as provided in the Emergency Fund Condition. Before Bank's receipt of any such notice from Secured Party, Bank shall be entitled to honor Debtors' instructions and directions with respect to any transfer or withdrawal of funds from the Deposit Account.

4. Statements and Other Information. Upon Secured Party's request, Bank shall provide Secured Party with copies of the regular monthly bank statements provided to Debtors and such other information relating to the Deposit Account as shall reasonably be requested by Secured Party. Bank shall also deliver a copy of all notices and statements required to be sent to Debtors pursuant to any agreement governing or related to the Deposit Account to Secured Party at such times as provided therein.

5. Fees. Debtors agree to pay all service charges, transfer fees, account maintenance fees and other fees and charges (collectively, "Fees") of Bank in connection with the Deposit Account and this Agreement. Secured Party shall not have any responsibility or liability for the payment of any Fees.

6. Setoff. Bank agrees that it will not exercise or claim any right of setoff or security interest or banker's lien against the Deposit Account or any funds on deposit therein, and until all amounts owing to Secured Party under the Note have been irrevocably paid to Secured Party, Bank waives any such right or lien that it may have against the Deposit Account or any funds on deposit therein.

7. Exculpation of Bank; Indemnification. Debtors and Secured Party agree that Bank shall have no liability to any of them for any loss or damage that they or any of them may claim to have suffered or incurred, either directly or indirectly, by reason of this Agreement or any transaction or service contemplated by its provisions, unless occasioned by the negligence or willful misconduct of Bank. In no event shall Bank be liable for losses or delays resulting from

computer malfunction, interruption of communication facilities, labor difficulties, fire or other casualty, or other causes beyond Bank's reasonable control or for indirect, special or consequential damages. Debtors, and each of them, agree to indemnify Bank and hold it harmless from and against any and all claims, losses, damages, liabilities, actions, judgments costs and expenses (including reasonable attorneys' fees and costs), other than those resulting from Bank's negligence or willful misconduct, which Bank may suffer or incur as a result of any transaction conducted or service performed as contemplated by this Agreement or as a result of Bank's compliance with the terms of this Agreement.

8. Termination. This Agreement may be terminated by Debtors only upon delivery to Bank of a written notification jointly executed by Debtors and Secured Party. This Agreement may be terminated by Secured Party at any time, with or without reason or cause, upon its delivery of written notice to Debtors and Bank. This Agreement may be terminated by Bank at any time on not less than 30 days' prior written notice delivered to Debtors and Secured Party. Upon delivery or receipt of such notice of termination to or by Bank, Bank will immediately transmit to such account as Secured Party may direct all funds, if any, then on deposit in, or otherwise to the credit of, the Deposit Account.

9. Irrevocable Agreements. Debtors acknowledge that the agreements made by them and the authorizations granted by them in Sections 2 and 3 are irrevocable and that the authorizations granted in Sections 3 and 4 are powers coupled with an interest.

10. Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including facsimile) or overnight courier, or five (5) calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Secured Party: Victor Valley Community Hospital  
15428 11<sup>th</sup> Street  
Victorville, California 92392  
Attention: Chief Executive Officer  
Facsimile No. (760) 843-6020

If to Debtors: Victor Valley Hospital Acquisition, Inc.  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

Victor Valley Hospital Real Estate, LLC  
6800 Indiana Avenue, Suite 130  
Riverside, California 92506  
Attention: William E. Thomas, Esq.  
Facsimile No.: (951) 782-8850

If to Bank:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attention: \_\_\_\_\_

Facsimile No.: \_\_\_\_\_

A copy of any notices to Secured Party, Debtor, or Bank shall also be provided to:

Wendi Horwitz  
Deputy Attorney General  
Department of Justice  
Office of the Attorney General  
300 S. Spring St., Suite 1702  
Los Angeles, CA 90013  
Facsimile No.: (213) 897-7605

or at such other address as one party may designate by notice hereunder to the other parties.

11. Severability of Provisions. Any provision of this Agreement that is invalid, illegal or unenforceable shall be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating, diminishing or rendering unenforceable the rights and obligations of the parties under the remaining provisions of this Agreement.

12. Successors and Assigns. Except as otherwise expressly provided in this Agreement, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors and assigns of the parties to this Agreement; provided, however, no assignment of this Agreement or of Debtors' rights or obligations hereunder may be made by Debtors, or either of them, at any time. The Secured Party may transfer its rights and duties under this Agreement only to a transferee to which all of Secured Party's rights and duties under the Security Agreement are also concurrently transferred, as permitted under the Security Agreement.

13. Amendments and Waivers. No term or provision of this Agreement may be amended, altered, modified or waived orally or by a course of conduct, but only by an instrument in writing signed by a duly authorized official, officer or representative of the party against which enforcement of such amendment, alteration, modification or waiver is sought. Any amendment, alteration, modification or waiver shall be for such period and subject to such conditions as shall be specified in the written instrument effecting the same. Any waiver shall be effective only in the specific instance and for the purpose for which given. This Agreement does not amend or otherwise modify any of the other agreements between the Debtors and the Secured Party including without limitation the ASA, the Note or the Security Agreement.

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

15. Headings. The various headings of this Agreement are for convenience of reference only, shall not affect the meaning or interpretation of this Agreement, and shall not be considered in construing this Agreement.

16. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California.

17. Coordination With Conditions to Approval, Etc.. Notwithstanding any other provision in this Agreement, nothing in this Agreement is intended to, or will, alter the treatment of the Emergency Fund in compliance with the requirements of the Emergency Fund Condition and the Conditions to Approval and in the event of any conflict between the terms of this Agreement and the terms of the Emergency Fund Condition or the Conditions to Approval, the terms of the Emergency Fund Condition and the Condition to Approval shall control. Secured Party agrees to exercise its control over the Deposit Account only as is consistent with and in compliance with the Security Agreement, the Note and the terms of the Emergency Fund Condition and the Conditions to Approval.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK,  
SIGNATURES ARE ON THE FOLLOWING PAGE]**

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties set forth below as of the due first written above.

**DEBTORS:**

Victor Valley Hospital Real Estate, LLC, a  
California limited liability corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Victor Valley Hospital Acquisition, Inc., a  
California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SECURED PARTY:**

Victor Valley Community Hospital, a California  
corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**BANK:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Exhibit 1  
To Deposit Account Control Agreement

Conditions to Approval of Sale of Victor Valley Community Hospital

(See Attached)



EDMUND G. BROWN JR.  
Attorney General

State of California  
DEPARTMENT OF JUSTICE



300 SOUTH SPRING STREET, SUITE 1702  
LOS ANGELES, CA 90013

Public: (213) 897-2000  
Telephone: (213) 897-2178  
Facsimile: (213) 897-7605  
E-Mail: wendi.horwitz@doj.ca.gov

December 29, 2010

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally consents, pursuant to Corporations Code section 5914 *et seq.*, to the sale of Victor Valley Community Hospital to Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., as set forth in the Notice filed on November 19, 2010. Corporations Code section 5917 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations, set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and the purchasers throughout the review process.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For EDMUND G. BROWN JR.  
Attorney General

Attachment  
cc: Bill Thomas, Esq.

LA2010600780/60587768.doc

## Conditions to Approval of Sale of Victor Valley Community Hospital

### I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyers” shall mean Victor Valley Hospital Real Estate, LLC, a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc., a California for-profit corporation, the proposed acquirers of Victor Valley Community Hospital<sup>1</sup>, any other subsidiary, parent, general partner, affiliate, successor, or assignee of Victor Valley Hospital Real Estate, LLC or Victor Valley Hospital Acquisition, Inc., any entity succeeding thereto by consolidation, merger or acquisition of all or substantially all of the assets of Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located, any entity owned by the Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any entity that owns Buyers that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located, any future entity that purchases Victor Valley Community Hospital or the real property on which Victor Valley Community Hospital is located from Buyers, and any entity owned by a future purchaser that subsequently becomes the owner or licensed operator of Victor Valley Community Hospital or owner of the real property on which Victor Valley Community Hospital is located. These conditions shall be legally binding on any and all current and future owners or operators of Victor Valley Community Hospital and owners of the real property on which Victor Valley Community Hospital is located. The term “Seller” shall mean Victor Valley Community Hospital, a California nonprofit public benefit corporation.

### II.

The transaction approved by the Attorney General between Buyers and Seller consists of the Asset Sale Agreement dated October 29, 2010, Amendment to Asset Sale Agreement dated December 23, 2010, Interim Management and Lease Agreement dated on or about the time of the transaction closing, Good Faith Deposit Agreement dated December 17, 2010, Limited Power of Attorney for Use of DEA Registration Numbers and DEA Order Forms dated on or about the time of the transaction closing, and any other documents referenced in Sections 1.5 and 1.6 in the Asset Sale Agreement. Buyers and Seller shall fulfill the terms and conditions of the transaction. Buyers and Seller shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the above-enumerated agreements. Such notification shall be provided at least thirty (30) days prior to the effective date of such modification in order to allow the Attorney General to consider

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<sup>1</sup>Throughout this document, the term Victor Valley Community Hospital shall mean the general acute care hospital currently called Victor Valley Community Hospital (located at 15248 11th Street, Victorville, California), the Victor Valley Community Hospital Women’s Health Center and Outpatient Imaging, and any other clinics, laboratories, units, services, or beds included on the license issued to Victor Valley Community Hospital by the California Department of Public Health to operate Victor Valley Community Hospital, effective November 1, 2010, unless otherwise indicated.

whether the proposed modification affects the factors set forth in Corporations Code section 5917.

### III.

Buyers and all future owners or operators of Victor Valley Community Hospital shall be required to provide written notice to the Attorney General sixty (60) days prior to entering into any agreement or transaction to do either of the following:

(A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital.

(B) Transfer control, responsibility, or governance of Victor Valley Community Hospital. The substitution of a new corporate member or members of Buyers that transfers the control of, responsibility for or governance of Buyers shall be deemed a transfer for purposes of this condition. The substitution of one or more members of the governing body of Buyers, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Buyers, shall also be deemed a transfer for purposes of this Condition.

### IV.

For five years from the date of the transaction closing, Buyers shall operate and maintain Victor Valley Community Hospital as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services:

- a) Twenty-four hour emergency medical services as currently licensed (minimum of 13 Emergency beds/stations) with the same types and levels of services as currently provided<sup>2</sup>;
- b) Intensive Care Services as currently licensed (minimum of 10 Intensive Care beds) with the same types and levels of services as currently provided;
- c) Obstetrical services as currently licensed (minimum of 9 Perinatal and 4 Labor, Delivery and Recovery beds) with the same types and levels of services as currently provided;
- d) Pediatric services as currently licensed (minimum of 16 Pediatric beds) with the same types and levels of services as currently provided;

Buyers shall not place all or any portion of its above-listed licensed-bed capacity in voluntary suspension or surrender its license for any of these beds.

### V.

For five years from the date of the transaction closing, Buyers shall operate the Victor Valley Community Hospital Women's Health Center and Outpatient Imaging and provide the same types and levels of services as currently provided.

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<sup>2</sup> The term "currently provided" means types and levels of services provided as of November 1, 2010.

## VI.

For five years from the date of the transaction closing, Buyers shall cause Victor Valley Community Hospital, and any other related structures, to be in compliance with all requirements of a general acute care hospital under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

## VII.

For five years from the date of the transaction closing, Buyers shall:

- a) Be certified to participate in the Medi-Cal program.
- b) Accept assignment of the Inland Empire Health Plan's current contract and amendments with Victor Valley Community Hospital, a California nonprofit public benefit corporation, (which expires December 31, 2011) and shall not terminate the contract without cause until a new contract has been entered into with the Inland Empire Health Plan, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services for Medi-Cal, Healthy Families, Healthy Kids, and Inland Empire Health Plan's Medicare Special Needs Plan, to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries as required in these Conditions, and shall maintain such a contract with the Inland Empire Health Plan;
- c) Provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medi-Cal beneficiaries (Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions.
- d) Have a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Victor Valley Community Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## VIII.

For five years from the date of the transaction closing, Buyers shall maintain the following contracts and amendments, without interruption of service or diminution in quality, unless terminated for cause, and shall provide the same services specified in the contracts: San Bernardino County Superintendent of Schools- Regional Occupational Program Agreement for Affiliation; San Bernardino County Department of Public Health-Automated Birth Registration Program (Automated Vital Statistics System); County of San Bernardino Department of Child Support Services-Paternity Opportunity Program Agreement; County of San Bernardino Transitional Assistance Department-Outstationed Medi-Cal Eligibility Worker Services; Inland Counties Emergency Medical Agency-Hospital Preparedness Program; Hospital Association of Southern California Restatement of Reddinet Master Agreement-Emergency Communications System; and County of San Bernardino Arrowhead Regional Medical Center-Medically Indigent Adult Medical Care Program.

## IX.

For five years from the date of the transaction closing, Buyers shall provide an annual amount of Charity Care (as defined below) at Victor Valley Community Hospital equal to or greater than \$1,380,000 (the "Minimum Charity Care Amount"). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Buyers in connection with the operation and provision of services at Victor Valley Community Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.<sup>3</sup> Buyers shall use charity care and collection policies that comply with Federal and California law. Creation of, and any subsequent changes to, the charity care and collection policies and charity care services provided at Victor Valley Community Hospital shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

Buyers' obligation under this condition for the period from the transaction closing date through the end of Buyers' first fiscal year following the transaction closing date shall be prorated on a daily basis if the transaction closing date is a date other than the first day of Buyers' fiscal year.

For each calendar year after 2011, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of Charity Care provided by Buyers at Victor Valley Community Hospital for any calendar year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such year, Buyers shall pay an amount equal to the deficiency to the "Victor Valley Community Hospital Health Fund" specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## X.

For five years from the date of the transaction closing, Buyers shall provide community benefit services at Victor Valley Community Hospital at an annual cost of \$27,500 (hereafter "the Minimum Community Benefit Services Amount"). Community benefit commitments shall be decided upon in conjunction with input from the Local Governing Board referenced in Condition XII.

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<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ... charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

The Minimum Community Benefit Services Amount shall be annually increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the “12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided by Buyers at Victor Valley Community Hospital for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such year, Buyers shall pay the deficiency to the “Victor Valley Community Hospital Health Fund” specified in Condition XV. Buyers shall pay the deficiency described in the preceding sentence not more than four (4) months following the end of such calendar year.

## XI.

For five years from the date of the transaction closing, Buyers shall spend no less than \$25,000,000 at Victor Valley Community Hospital for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital; of said amount, no less than \$15,000,000 shall be designated for capital improvements, equipment, information technology, infrastructure improvements at Victor Valley Community Hospital. For calendar years 2011, 2012 and 2013, Buyers shall spend no less than \$4,000,000 per year for capital improvements, equipment, information technology, and infrastructure improvements at Victor Valley Community Hospital. Buyers shall consult with the Local Governing Board, referenced in Condition XII, prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements.

## XII.

For five years from the date of the transaction closing, Buyers shall maintain a Local Governing Board, as set forth in Section 5.8 of the Asset Sale Agreement. (Exhibit 1) Said Board should include physicians from the medical staff at Victor Valley Community Hospital, the Chief of Staff at Victor Valley Community Hospital, and community representatives from Victor Valley Community Hospital’s service area (as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010 and attached here to as Exhibit 2). In addition to the duties of the Local Governing Board designated in Section 5.8 of the Asset Sale Agreement, Buyers shall consult with the Local Governing Board prior to spending funds for capital improvements, equipment, information technology, and infrastructure improvements, making any withdrawals from the separate interest-bearing bank account required in Condition XIV, making any changes to medical services, making any changes to community benefit programs, and making any changes to the charity care and collection policies and charity care services provided at Victor Valley Community Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes or actions unless done so based upon an emergency. The Local Governing Board shall also approve any reports submitted to the Attorney General regarding compliance with these Conditions.

### XIII.

Within 30 days of the date of the transaction closing, Seller shall transfer all remaining restricted charitable funds held by Victor Valley Community Hospital, a California nonprofit public benefit corporation, to "The Community Foundation Serving Riverside and San Bernardino Counties," a California nonprofit public benefit corporation, to be used in accordance with the purposes for which said funds are restricted.

### XIV.

Within 30 days of the date of the transaction closing, Buyers shall deposit and maintain an ongoing fund balance of \$3 million in a separate interest-bearing bank account, to be used only for emergency operating and capital needs of Victor Valley Community Hospital, until such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: 1) 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 2) 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. The Local Governing Board referenced in Condition XII, shall be consulted prior to any withdrawals. Withdrawals are limited to \$1.5 million for any quarter. Any withdrawals must be redeposited into the account within 30 days of the date the withdrawal is made. 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 this account from the bank in which the separate interest-bearing bank account 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.

### XV.

As soon as practicable, but no more than sixty (60) days after entry of an order closing the bankruptcy matter entitled *In re: VICTOR VALLEY COMMUNITY HOSPITAL* (U.S. Bankruptcy Court, Central Districts, Riverside Division Case No. 6:10-39537 CB), Seller shall transfer all net proceeds from the transaction (expected to be \$1,700,000) and any unrestricted charitable assets (expected to be \$320,325) to the "The Community Foundation Serving Riverside and San Bernardino Counties" for deposit in a Donor-Advised Pass-Through Fund called "Victor Valley Community Hospital Health Fund" for the purpose of making grants to charitable healthcare facilities and clinics exempt from taxation pursuant to IRC §501(c)(3) to provide healthcare services to residents in Victor Valley Community Hospital's service area (11 ZIP codes) as described on page 24 of the Healthcare Impact Report authored by Medical Development Specialists, dated December 1, 2010. (Exhibit 2) These funds shall be maintained and used for a period of at least five years but not more than 10 years from the date of the transaction closing. Seller shall select the initial members of the Advisory Committee to the Donor-Advised Pass-Through Fund which will include the Vice-President of Grant Programs of "The Community Foundation Serving Riverside and San Bernardino Counties."

## XVI.

Within 30 days of the date of the transaction closing, Buyers shall deposit the sum of \$3 million in a separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General. Such account shall be held by the bank or other financial institution in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The owner of the account shall be the bank or other financial institution. The beneficiary of the account shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the account other than the reversionary interest described below. The initial \$3 million deposit and any interest earned shall be retained in the separate interest-bearing blocked account until the earlier of the following: (1) April 30, 2016, (2) the date on which the Buyers close, sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital, or (3) the date on which Buyers file for bankruptcy. If on or before April 30, 2016, 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 account 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 XIV, for the uses specified therein. If on or before April 30, 2016, Buyers have not closed, sold, transferred, leased, exchanged, optioned, conveyed, or otherwise disposed of Victor Valley Community Hospital, or filed for bankruptcy, Buyers shall be entitled to request return of the funds in the account after April 30, 2016. 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 this account from the bank or financial institution in which the separate interest-bearing blocked account is established.

## XVII.

For five years from the date of the transaction closing, Buyers shall submit to the Attorney General, no later than four (4) months after the conclusion of each calendar year, a report describing in detail its compliance with each Condition set forth herein including, but not limited to, an itemization and the actual costs of the capital improvements, equipment, information technology, and infrastructure improvements. The Chief Executive Officers and Chief Financial Officers of Buyers shall certify that the report is true and correct and provide documentation of approval by the Local Governing Board for Victor Valley Community Hospital.

## XVIII.

At the request of the Attorney General, Buyers and Seller shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret, or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.



**XIX.**

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Exhibit 1**

Operational Closing Date or such more liberal or generous policies and practices on charity care as Purchasers may have in effect or implement from time to time, (b) continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by the Hospital and (c) assure access to high-quality healthcare services to all persons seeking medical care, regardless of their ability to pay.

5.7 Medical Staff. To ensure continuity of care in the community, Purchasers agree that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then in effect.

5.8 Local Governing Board.

(a) Immediately after the Effective Time, Purchasers shall form a local governing board at the Hospital in accordance with the terms of this Section 5.8. Such local governing board shall be an advisory committee to the board of directors of Purchasers comprised of medical staff members, community leaders and the Hospital's Chief Executive Officer. The local governing board shall be subject to the authority of Purchasers' board of directors and the terms of Purchasers' Articles of Incorporation, Bylaws and other organizational documents. The individuals on the local governing board should (i) represent the Hospital in the community and represent the views of the community to the local governing board in its deliberations, (ii) participate in Purchasers' community outreach programs and (iii) supervise the Hospital's charity care policies and practices.

(b) The local governing board of the Hospital shall have responsibilities that are consistent with similar local governing boards at other hospitals, or in other markets, respectively, which are owned directly or indirectly by affiliates of Purchasers. Purchasers shall consult with Seller or a successor established by Seller as to the appointment of community members to serve as members of the local governing board.

5.9 Capital Expenditures. During the period commencing on the Operational Closing Date and ending on the five (5) year anniversary date of the Closing, Purchasers agree that they will invest no less than Twenty-Five Million Dollars (\$25,000,000.00) for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital at the Hospital with no less than Fifteen Million Dollars (\$15,000,000.00) of said amount being spent on capital improvements, equipment, information technology, and infrastructure improvements.

5.10 Maintenance of Services. Purchasers agree that following the Closing, Purchasers will operate the Hospital as a licensed acute care hospital with essential services including labor and delivery, and open and accessible emergency departments. Obstetrics and pediatrics services shall be maintained by Purchasers at the hospital facility for five years following the Closing, *provided, however*, that Purchasers have not yet entered into any agreements to provide such services or agreed on any particular rates.

Exhibit 2

## VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA ANALYSIS

### *Victor Valley Community Hospital's Service Area Definition*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009						
ZIP Codes	Community	WCH Discharges	% of Discharges	Cumulative		Market Share
				% of Discharges	Total Discharges	
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
Sub Total		6,160	85.8%		39,843	15.5%
Other ZIPs		177	14.2%	100%		
Total		7,085	100%			

Source: OSHPD Patient Discharge Database

Exhibit 3

**Condition XIV: Calculation of Adjusted Net Revenue (FN 1.)**

	FISCAL YEAR 2009	2nd QTR 2010
<b>Total Operating Revenue</b>	\$ 56,561,319	\$ 14,969,074
<b>Minus Total Operating Expenses</b>	\$ (55,256,254)	\$ (15,603,030)
<b><u>Equals Net from Operations</u></b>	<u>\$ 1,305,065</u>	<u>\$ (633,956)</u>
<b>Minus Provision for Bad Debts</b>	\$ (7,817,703)	\$ (1,706,554)
<b>Plus Amortization and Depreciation (FN 2.)</b>	\$ 1,749,268	\$ 588,600
<b><u>Equals Adjusted Net from Operations</u></b>	<u>\$ (4,763,370)</u>	<u>\$ (1,751,910)</u>
<b>Adjusted Net from Operations</b>	\$ (4,763,370)	\$ (1,751,910)
<b>Minus 5% of Total Operating Revenue</b>	\$ (2,828,066)	\$ (748,454)
<b><u>Equals Adjusted Net Revenue</u></b>	<u>\$ (7,591,436)</u>	<u>\$ (2,500,364)</u>

FN. 1: The definition and methodology for calculating the terms in bold shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes. The amounts used for the terms in bold shall be the same as those reported to OSHPD on a quarterly basis (Quarterly Financial Data). The FY 2009 figures were based upon the FY 2009 OSHPD Annual Financial Disclosure Report and Independently Audited Financial Statements dated September 30, 2009.

FN. 2: Amortization and Depreciation shall be obtained from the internally prepared quarterly financial statements using methods acceptable under Generally Accepted Accounting Principles. Amortization and Depreciation can only be added back in if the Total Operating Expenses reported to OSHPD included Amortization and Depreciation. The definition and methodology for calculating the term "Depreciation" shall be the same as that used by OSHPD for annual hospital reporting purposes.

Exhibit 2  
To Deposit Account Control Agreement

Conditional Approval to the Fourth Amendment to ASA

(See Attached)





May 12, 2011

Sent by Internet and U.S. Mail

Charles E. Slyngstad, Esq.  
Burke, Williams & Sorensen, LLP - Los Angeles  
444 South Flower Street, Suite 2400  
Los Angeles, CA 90071

RE: Proposed Sale of Victor Valley Community Hospital

Dear Mr. Slyngstad:

The Attorney General hereby conditionally approves the Fourth Amendment to the Asset Sale Agreement between Seller, Victor Valley Community Hospital, a California nonprofit public benefit corporation, and Buyers, Victor Valley Hospital Real Estate, LLC ("Real Estate LLC"), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. ("Acquisition, Inc."), a California for-profit corporation. (A copy of the Fourth Amendment is attached as Exhibit 1.) The Attorney General's approval is subject to the following:

1. The transaction must close on or before June 1, 2011.
2. Section (2) (c) and (2) (d) of the Emergency Fund Note must state in full as follows:

"(c) Mandatory Prepayment. This Note is subject to mandatory prepayment, without any prepayment penalty or fee, from, and in payments equal to, fifty percent (50%) of all funds from SB 90 or funds from follow-on quality assurance fee legislation ("QAF Legislation"), to the extent those funds apply to calendar year 2011, received by Obligors, or either of them during calendar years 2011 or 2012, that are in excess of the initial \$4.5 million of such funds received by Obligors (the "**Excess Funds**"). If any such QAF Legislation applies to a portion of calendar year 2011 and a portion or all of calendar year 2012, the funds received by Obligors, or either of them, shall be allocated between the applicable calendar year periods as provided in such QAF Legislation. If the QAF Legislation does not specify allocation of funds applicable to calendar year 2011, the funds received shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of the QAF Legislation. Such prepayments shall be made within ten (10) days following receipt of any Excess Funds by Obligors, or either of them. Any such prepayments shall be applied first to any costs or fees owing by Obligors to Holder under this Note and then in reduction of the unpaid Principal Sum. Any such prepayments shall not be applied in reduction of accrued and unpaid interest, it being agreed that such accrued and unpaid interest is to be paid as provided in Section 2(a).

(d) Voluntary Prepayment. In any case, this Note may be pre-paid in whole or in part, in the Obligor's discretion, without penalty or fee. All prepaid amounts shall be applied, first, in payment of any fees and costs payable by Obligor to Holder under this Note, secondly, in payment of all accrued but unpaid interest and, lastly, in payment of the unpaid Principal Sum." (See Exhibit 1.)

3. Buyers and Sellers must execute a "Security Agreement" and a "Deposit Account Control Agreement" for the Blocked Fund Note that mirrors the "Security Agreement" and a "Deposit Account Control Agreement" for the Emergency Fund Note. (See Exhibit 1.)

4. Buyers and Seller must execute all documents attached as Exhibit 1 on or before June 1, 2011.

5. The following clarifications are made to the referenced terms in the Conditions incorporated in the Attorney General's Decision dated December 29, 2010:

a. The use of the term "emergency" in Conditions XII and XIV shall mean "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."

b. With respect to Condition XIV, the Attorney General agrees to also release Buyers from the requirement to maintain the fund at any time after five years from the date of the transaction closing, whether or not self-sustainability has been achieved.

c. With respect to Condition XIV, total withdrawals are limited to \$1.0 million during any single quarter, and any and all withdrawn funds must be redeposited into the account before any further withdrawals can be made.

d. With respect to Condition XIV, the separate interest-bearing bank account must be held at a California bank or a California branch of a National bank.

e. The term "April 30, 2016," used several times in Condition XVI, is replaced each time with the phrase "five years and two months from the date of the transaction closing."

f. With respect to Condition XVI, the separate interest-bearing blocked bank or other financial institution account satisfactory to the Attorney General must be held at a California bank or California financial institution or a California branch of a National bank or National financial institution.

g. Assignment pursuant to Condition VII(b) can be accomplished as follows: Before the transaction closes, (1) Buyers shall enter into a new contract with Inland Empire Health Plan ("IEHP") and IEHP Health Access, to become effective on the date on which Buyers are issued a license to operate Victor Valley Community Hospital as a general acute care hospital by the

Charles E. Slyngstad  
May 12, 2011  
Page 3

California Department of Public Health and (2) Sellers shall reject, effective on the same date as Buyers become the licensee, the current IEHP and IEHP Health Access contract, pursuant to section 365 of the Bankruptcy Code. This approach shall ensure that IEHP and IEHP Health Access at all times remain contracted with the owners of Victor Valley Community Hospital without any loss, interruption, or gap in contracted hospital coverage at Victor Valley Community Hospital for five years from the date of the transaction closing.

h. Any references to a contract with IEHP in Condition VII(b) shall mean a contract with IEHP and IEHP Health Access.

Sincerely,

[Original Signed]

WENDI A. HORWITZ  
Deputy Attorney General

For KAMALA D. HARRIS  
Attorney General

cc: Bill Thomas, Esq. (via Internet)  
Todd Swanson, Esq. (via Internet)