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VIA EMAIL and OVERNIGHT DELIVERY

Wendi A. Horwitz
Deputy Attorney General
Office of the Attorney General
California Department of Justice
Charitable Trusts Division - Los Angeles
300 South Spring Street, Suite 1702
Los Angeles, CA 90013

Re: Victor Valley Community Hospital

Dear Ms. Horwitz:

We appreciated the opportunity to meet with you and explore possible alternatives for addressing the concerns of Victor Valley Hospital Acquisition, Inc. ("VVHA") and Victor Valley Hospital Real Estate, LLC ("VVHRE") (collectively, the "**Buyers**") in connection with Conditions XIV and XVI (collectively, the "**Funds Conditions**") to the Attorney General's original approval, dated December 29, 2010, of the sale of Victor Valley Community Hospital ("**Hospital**") to the Buyers ("**Original Conditions**"). We also appreciated the opportunity to obtain the benefit of your input on possible alternatives in our subsequent calls.

Based on such discussion and calls, and further analysis by the Buyers, this letter is provided to further address such conditions. This letter restates and replaces our prior communications on the points covered in this letter. More particularly, the Buyers still believe that elimination of the Funds Conditions would best address the issues addressed in my July 5th letter to you. However, if the Attorney General is unwilling to accommodate the Buyers' original request, the Buyers would be willing to, and would respectfully request the right to,

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proceed under the alternative solutions and approaches addressed below. We also reviewed the Original Conditions again, with an eye for any needed or suggested clarifications, and we also address several suggested clarifications below, including needed updates to certain date references which we just noticed.

Modification of Section XIV of the Original Conditions.

If the Attorney General is unwilling to modify the Original Conditions to simply eliminate Condition XIV, which requires Buyers to deposit and maintain funds ("**Emergency Fund**") in a separate bank account for emergency operating and capital needs of the Hospital (the "**Emergency Fund Condition**"), the Buyers respectfully request that, alternatively, the Emergency Fund Condition be modified as discussed below.

As discussed, the Buyers will need to make substantial investments in the Hospital to address critically deferred capital investments, reverse closures in departments and services and to correct various CMS compliance problems that threaten the loss of the Hospital's Medicare certification. Some of these corrections will not even wait until closing. Buyers understand that the Hospital is expected to obtain significant quality assurance/stabilization Medi-Cal fee-for-service and Medi-Cal managed funds ("**Stabilization Payments**") over the next two years, and that the Attorney General may take these anticipated Stabilization Payments into account in considering the Buyers' requested modifications to the Funds Conditions. However, as you know, the first \$7.1 Million of pending Stabilization Payments will be retained by VVCH, and any Stabilization Payments ultimately available to Buyers will not be received until much later, likely not until next year. So, if the Buyers were required to still meet the Funds Conditions immediately after closing, the Buyers would not have use of any Stabilization Payments for such purpose. Therefore, Buyers would still have to divert significant dollars which would not then be available to help promptly correct the serious deficiencies at the Hospital.

However, the Buyers would be willing to accept retention of the Emergency Fund Condition provided, and in such case the Buyers hereby request, that the Buyers are permitted to fund the Emergency Fund out of Buyers' portion of the Stabilization Payments received after closing (i.e. after the Seller receives its \$7.1 Million in Stabilization Funds) ("**Excess Stabilization Payments**"). More particularly, the Excess Stabilization Payments would be allocated: (i) Fifty Percent (50%) to help support and stabilize Hospital operations (consistent with the QA fund programs' goals), and (ii) Fifty Percent (50%) to fund the Emergency Fund Account and Blocked Fund Account (i.e. Twenty-Five Percent (25%) to be deposited to the Emergency Fund Account and Twenty-Five Percent (25%) to the Blocked Fund Account).

So, in summary, the Buyers' proposed alternative for the Emergency Fund Condition would consist of the following key characteristics:

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- The \$3 Million Emergency Fund Condition would be maintained.
- So long as the Emergency Fund Condition remains in effect, the Emergency Fund would be funded as follows: Twenty-Five Percent (25%) of each Excess Stabilization Payment received by Buyers would be deposited to the Emergency Fund (with an additional Twenty-Five Percent (25%) to be used to fund the Blocked Fund Account, as addressed below), until the Emergency Fund is fully funded.
- The other terms of the existing Emergency Fund Condition would be retained.

To help you analyze this alternative in detail, we have attached at Exhibit "A" to this letter, suggested language for Condition XIV, as modified to reflect this alternative approach.

Modification of Section XVI of the Original Conditions.

If the Attorney General is unwilling to modify the Original Conditions to simply eliminate Condition XVI, which requires Buyers to deposit and maintain funds in a separate interest bearing account ("**Blocked Fund Account**"), which would be paid to a community non-profit organization if certain events occur which adversely affect Buyers' ability to meet the Original Conditions (the "**Blocked Fund Condition**"), the Buyers respectfully request that, alternatively, the Blocked Fund Condition be modified as discussed below.

Consistent with the preceding discussion, the Buyers would similarly support retention of the Blocked Fund Condition provided, and in such case the Buyers hereby request, that the Buyers are similarly permitted to fund the Blocked Fund out of Excess Stabilization Payments received after closing. More particularly, in addition to the Twenty-Five Percent (25%) of each Excess Stabilization Payment to be used to fund the Emergency Fund, an additional Twenty-Five Percent (25%) of each Excess Stabilization Payment would be used to fund the Blocked Fund, until the full \$3 Million Blocked Amount is deposited.

So, in summary, the Buyers' proposed alternative for the Blocked Fund Condition would consist of the following characteristics:

- The \$3 Million Blocked Fund Condition would be maintained.
- Twenty-Five Percent (25%) of each Excess Stabilization Payment received by Buyers would be used to fund the Blocked Fund until the Blocked Fund is fully funded.
- The other terms of the existing Blocked Fund Condition would be retained.

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To help you analyze this alternative in detail, we have attached, at Exhibit "B" to this letter, sample language for Condition XVI modified to reflect this alternative approach.

Suggested Clarifications to Original Conditions.

We have also identified several suggested clarifications to the Original Conditions, as follows (some of which are based on the clarifications you included in your May 12, 2011 letter):

1. The use of the term "**emergency**" in Conditions XII and XIV shall mean an occurrence or occasion that is unexpected or otherwise occurring outside the ordinary course of business, requiring immediate or urgent action, including without limitation an unexpected shortfall or interruption in revenues or unbudgeted expenses.
2. The Inland Empire Health Plan contract which the Buyers are required to assume pursuant to Condition VII(b) shall be the new current contract between Inland Empire Health Plan contract with Victor Valley Community Hospital, a California nonprofit public benefit corporation, dated November 1, 2011, rather than the prior agreement which expired on December 31, 2011.
3. For purposes of Condition XI, any amounts expended by Buyers, even if expended before the transaction closing or before the first calendar year referenced therein, for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital at Victor Valley Community Hospital, shall be credited toward the Buyers' expenditure requirements for Condition XI for the first referenced calendar year. In addition, in light of the delayed date of the transaction closing, the original referenced calendar years of 2011, 2012, and 2013 are replaced with calendar years 2013, 2014, and 2015.
4. The reference to 2011 in Condition IX (after which the Minimum Charity Care Amount will be required to be increased) is updated to be 2013.
5. In connection with the assignment obligations pursuant to Condition VII(b), to the extent that any covered Medi-Cal members currently covered under the IEHP contract become covered under a different contract with IEHP or other health plan, due to the implementation of new coverage modalities in California for those members who are eligible for both Medi-Cal and Medicare benefits ("**Dual-Eligible Members**"), or similar programmatic or plan restructuring, Buyers shall have the right enter into a new contract with IEHP or other health plan to provide hospital services to such Dual Eligible Members, and terminate coverage for such Dual-Eligible members under the pre-existing IEHP contract, without such changes constituting a violation of the requirement at Condition VII(b) of not terminating the contract with IEHP for five years, so long as the new contract is maintained through the five years from the date of the transaction closing.

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6. All references to the date of the transaction closing shall mean the Closing Date which takes place pursuant to the Asset Sale Agreement, dated October 29, 2010, as amended, by and among the Seller and Buyers.

7. The reporting obligations pursuant to Condition III shall apply for five years from the date of the transaction closing, at which point they shall terminate.

Thank you again for your consideration of Buyers' concerns and requests. Please feel free to contact us with any questions or comments regarding the foregoing proposals or suggested clarifications.

Very truly yours,



Todd E. Swanson

TES/TES

cc (via email):

William E. Thomas
Gary E. Klausner
Charles E. Slyngstad
Samuel R. Maizel

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Exhibit A

SAMPLE MODIFIED LANGUAGE FOR CONDITION XIV

Pursuant to the process addressed below, Buyers shall deposit and maintain an ongoing fund balance of \$3 Million ("**Emergency Fund Amount**") in a separate interest-bearing bank account ("**Emergency Fund**") at a California bank or a California branch of a National bank, to be used only for emergency or extraordinary operating and capital needs of Victor Valley Community Hospital, until the earlier of (1) such time as Victor Valley Community Hospital achieves operating self-sustainability, demonstrated by: (a) a positive "**Adjusted Net Revenue**" per the calculation and methodology shown in Exhibit 3 (i.e., an "**Adjusted Net from Operations**" that is greater than 5% of Total Operating Revenue), for three consecutive quarters, and (b) a positive cash flow shown by the total cash collections by Victor Valley Community Hospital for categories related to Net Patient Revenue, as defined by OSHPD, are equal to or greater than Net Patient Revenue, as defined and reported to OSHPD, for three consecutive quarters, or (2) five years from the date of the transaction closing (whether or not self-sustainability has been achieved). The Local Governing Board referenced in Condition XII, shall be consulted prior to any withdrawals. Withdrawals are limited to no more than \$1 Million during any quarter.

The Emergency Fund shall be funded pursuant to the following process: Twenty-Five Percent (25%) of each Excess Stabilization Payment (as defined below) shall be deposited into the Emergency Fund until the Emergency Fund Amount is fully funded. Such deposits of Excess Stabilization Payments to the Emergency Fund shall be made within thirty (30) days following receipt of each Excess Stabilization Payment. For purposes of the preceding, "**Excess Stabilization Payments**" shall mean (x) all fee-for-service and managed care payments ("**Stabilization Payments**") received by Buyers after the transaction closing date pursuant to the Medi-Cal Hospital Provider Rate Stabilization Act (Chapter 627, Statutes of 2009, Assembly Bill 1383; October 1, 2009) (Welfare & Institutions Code Sections 14167.1 — 14167.17), the Medi-Cal Hospital Rate Stabilization Act of 2011, as a result of Senate Bill 90, and all payments pursuant to similar or follow-on quality assurance or rate stabilization legislation, including without limitation Senate Bill 335, in excess of (y) the first Seven Million One Hundred Thousand Dollars (\$7,100,0000) of Stabilization Payments, which are treated as Excluded Asset (and payable to Seller) pursuant to the Asset Sale Agreement dated October 29, 2010, as amended.

Within fourteen (14) days of the end of each quarter, Buyers shall provide to the Attorney General quarterly reports including, but not limited to, statements concerning the Emergency Fund account from the bank in which the separate interest-bearing bank account is established. After five years from the date of the transaction closing, or if and when Victor Valley Community Hospital earlier achieves operating self-sustainability, as defined herein and proof is

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provided to the Attorney General, the Attorney General will release Buyers from the requirement to fund and maintain this ongoing Emergency Fund.

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Exhibit B

SAMPLE MODIFIED LANGUAGE FOR CONDITION XVI

Pursuant to the process addressed below, Buyers shall deposit and maintain an ongoing fund balance of \$3 Million ("**Blocked Fund Amount**") in a separate interest-bearing blocked account satisfactory to the Attorney General ("**Blocked Fund Account**"). Such Blocked Fund Account shall be held at a California bank or a California branch of a National bank in trust for the benefit of "The Community Foundation Serving Riverside and San Bernardino Counties." The beneficiary of the Blocked Fund shall be "The Community Foundation Serving Riverside and San Bernardino Counties." Buyers shall retain no interest in the Blocked Fund Account other than the reversionary interest described below. The Blocked Fund Amount and any interest earned thereon shall be retained in the separate interest-bearing Blocked Fund Account until the earlier of the following: (1) five years from the date of the transaction closing, (2) the date on which the Buyers close Victor Valley Community Hospital, (3) the date on which the Buyers sell, transfer, lease, exchange, option, convey, or otherwise dispose of Victor Valley Community Hospital (each, a "**Hospital Transfer**") (unless any such Hospital Transfer is approved in advance by the Attorney General, as addressed below), or (4) the date on which Buyers file for bankruptcy. If on or before five years from the date of the transaction closing, Buyers close Victor Valley Community Hospital, undertake a Hospital Transfer (which is not approved by the Attorney General, as addressed below) or file for bankruptcy (each a "**Payment Event**"), the funds held in the Blocked Fund 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 XV, for the uses specified therein. If on or before five years from the date of the transaction closing, Buyers have not closed Victor Valley Community Hospital, undertaken a Hospital Transfer (which is not approved by the Attorney General, as addressed below), or filed for bankruptcy, Buyers shall be entitled to the return of all the funds, including without limitation all interest accrued thereon, in the Blocked Fund Account as soon as reasonably possible thereafter (but in any case within 30 days thereafter). Within fourteen (14) days of the end of each quarter, Buyers shall provide to the Attorney General quarterly reports that include, but are not limited to, statements concerning the Blocked Fund Account from the bank or financial institution in which the separate interest-bearing Blocked Fund Account is established.

Notwithstanding the preceding, the Buyers will have the right to undertake any Hospital Transfer without it constituting a Payment Event provided that the party to whom the interests are being transferred commits to comply with the Attorney General's conditions of the transaction as set forth herein, pursuant to documents reasonably approved in advance by the Attorney General. Further notwithstanding the preceding, the lease of the Victor Valley Community Hospital between the Buyers shall not constitute a Hospital Transfer. In addition,

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the granting by Buyers of a deed of trust or other security interest in, or affecting, the assets of Victor Valley Community Hospital shall not constitute a Hospital Transfer.

The Blocked Fund Account shall be funded pursuant to the following process: Twenty-Five Percent (25%) of each Excess Stabilization Payment (as defined in Condition XIV above) shall be deposited into the Blocked Fund Account until the Blocked Fund Amount is fully funded. Such deposits of Excess Stabilization Payments to the Blocked Fund Account shall be made within thirty (30) days following receipt of each Excess Stabilization Payment.