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**Proposed Transfer of Assets**

**of**

**Huntington East Valley Hospital**

**to**

**PanPacific Health Enterprises, Inc.**

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**PREPARED FOR THE ATTORNEY GENERAL OF CALIFORNIA**

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**March 21, 2001**

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February 14, 2001

RECEIVED

FEB 16 2001

J.R.B.

John R. Browning, Esq.  
Musick, Peeler & Garrett  
One Wilshire Boulevard, Suite 2000  
Los Angeles, California 90017

Re: Huntington East Valley Hospital – Asset Sale Agreement

Dear John:

Enclosed for your file is a copy of the fully executed Asset Sale Agreement for Huntington East Valley Hospital.

Many thanks for your assistance on this transaction.

Sincerely,



Timothy W. Carmack  
Vice President and CFO

Enclosure

ASSET SALE AGREEMENT

THIS ASSET SALE AGREEMENT (" Agreement" ) is made and entered into as of February 14, 2001, by and between **HUNTINGTON EAST VALLEY HOSPITAL**, a California nonprofit public benefit corporation ("Seller") and **PanPacific Health Enterprises, Inc.**, a California corporation ("Buyer").

W I T N E S S E T H:

**WHEREAS**, Seller owns and operates Huntington East Valley Hospital located at 150 West Alostia Avenue, Glendora, California (the "Facility"); and

**WHEREAS**, Buyer desires to acquire substantially all of the assets of Seller associated with the Facility and assume certain liabilities, and Seller desires to sell such assets to Buyer, all as more fully set forth below.

**NOW, THEREFORE**, for and in consideration of the premises, and the agreements, covenants, representations and warranties hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

**1. SALE OF ASSETS AND CERTAIN RELATED MATTERS**

**1.1 Sale and Transfer of the Assets.** Subject to the terms and conditions of this Agreement, Seller agrees to sell, transfer, convey, and deliver to Buyer, and Buyer agrees to purchase at Closing all assets, real, personal and mixed, tangible and

intangible, other than the Excluded Assets (as hereinafter defined), owned or leased by Seller and used exclusively in the operations of the Facility, including, without limitation, the following items (collectively, the "Assets" ): (i) fee title or leasehold interest to the real property described in Schedule 4.7 hereto, together with all improvements, buildings and fixtures located thereon or therein (collectively, the "Real Property" ); (ii) all major, minor or other equipment, whether movable or attached to the Real Property, vehicles, furniture and furnishings; (iii) all supplies and inventory; (iv) subject to applicable law, all current financial, patient, medical staff and personnel records; (v) all of the interest of Seller in all commitments, contracts, leases, and agreements outstanding in respect of the Assets, including, but not limited to, those which are listed and described on Schedule 4.6 hereto (collectively, the "Contracts" ), but specifically excluding the Excluded Contracts (as hereinafter defined); (vi) to the extent assignable, all licenses, provider numbers and permits held by Seller relating to the ownership, development and operations of the Facility and (vii) goodwill.

**1.2 Excluded Assets.** Notwithstanding anything herein to the contrary, the following assets which are associated with Seller's operations of the Facility and the Assets are not intended by the parties to be a part of the Assets that are being purchased by Buyer hereunder and shall be excluded from such purchase and the definition of Assets (collectively, the "Excluded Assets" ): (i) restricted and unrestricted cash and cash equivalents, including, without limitation, investments in marketable securities, certificates of deposit, bank accounts, and promissory notes; (ii) accounts receivable generated by Seller in connection with the business or operation of the Facility or the Assets; (iii) rights to settlements and retroactive adjustments, if any, whether arising under a cost report of Seller or otherwise, for cost reporting periods ending on or prior to the Closing Date, whether open or closed, arising from or against the United States government under the terms of the Medicare program or the Civilian Health and Medical Program of the Uniformed Services (" CHAMPUS" ) or against the State of California under the Medi-Cal program, and against any third party payor programs which settle upon a basis other than an individual claims basis (" Agency Settlements" ); (iv) all intercompany accounts of Seller and its affiliates; (v) all inventory, supplies and prepaid expenses disposed of or utilized prior to Closing in the ordinary course of business and items of equipment or activities transferred or disposed of in accordance with Section 6.2(b) hereof; (vi) any records which by law Seller or its affiliates are required to retain in their possession; provided, however, that

unless prohibited by applicable law and if requested by Buyer, Seller shall provide copies thereof to Buyer; (vii) any proprietary information of Seller or its affiliates, including, without limitation, that which is contained in Seller's employee or operation manuals, and all information that does not pertain to the continuing operations of the Facility; (viii) the Contracts listed on Schedule 1.2(viii) hereto; (ix) rights to tax refunds or claims under or proceeds of insurance policies related to the Facility or the Assets which relate to incidents or periods prior to the Closing; (x) the names and symbols used in connection with the Facility and the Assets including the name "Huntington" or any variants thereof or any other names which are proprietary to Seller or its affiliates; and (xi) such other assets as are set forth on Schedule 1.2(xi) hereto.

**1.3 Disclaimer of Warranties.** Except as expressly set forth in Article 4 hereof, the Assets will be transferred to Buyer and Buyer agrees to accept the Assets in their condition on the Closing Date, "AS IS," "WHERE IS" AND "WITH ALL FAULTS," WITH NO WARRANTY OF HABITABILITY, FITNESS FOR HABITATION OR ENVIRONMENTAL CONDITION, WITH RESPECT TO LAND, BUILDINGS AND IMPROVEMENTS, AND WITH NO WARRANTIES, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE EQUIPMENT, INVENTORY, AND SUPPLIES, ANY AND ALL OF WHICH WARRANTIES (BOTH EXPRESS AND IMPLIED) SELLER HEREBY DISCLAIMS. All of the Assets shall be further subject to normal wear and tear on the buildings, improvements and equipment and normal and customary use of the



inventory and supplies up to the Closing.

**1.4 Interpretation.** In this Agreement, unless the context otherwise requires:

(a) References to this Agreement are references to this Agreement and to the Schedules and Exhibits hereto (as hereinafter defined);

(b) References to Articles and Sections are references to articles and sections of this Agreement;

(c) References to any party to this Agreement shall include references to its respective successors and permitted assigns;

(d) References to a judgment shall include references to any order, writ, injunction, decree, determination or award of any court or tribunal;

(e) References to a "Person" shall mean to any individual, company, body corporate, association, partnership, limited liability company, firm, joint venture, trust and governmental agency;

(f) The terms "hereof," "herein," "hereby," and any derivative or similar words will refer to this entire Agreement;

(g) References to any law are references to that law as of the Closing Date, unless clearly indicated otherwise, and shall also refer to all rules and regulations promulgated thereunder, unless the context requires otherwise;

(h) The word "including" shall mean including without limitation;

(i) References to time are references to Pacific Standard or Daylight time (as in effect on the applicable day) unless otherwise specified herein; and

(j) The word "affiliate" shall mean, as to the entity in question, any person or entity that directly or indirectly controls, is controlled by, or is under common control with, the entity in question and any successors or assigns of such entities; and the term "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity whether through ownership of voting securities, by contract or otherwise.

## **2. FINANCIAL ARRANGEMENTS**

**2.1 Purchase Price.** Subject to the terms and conditions hereof, in reliance upon the representations and warranties of Seller herein set forth and as consideration for the sale and purchase of the Assets as herein contemplated, Buyer shall pay to Seller or its designee at Closing the purchase price in the amount of Six Million Five Hundred Thousand Dollars (\$6,500,000) (the "Purchase Price"). In addition, Buyer shall assume the Assumed Liabilities.

**2.2 Payment of the Purchase Price.** The Purchase Price shall be payable as follows:

(a) Concurrently with execution of this Agreement, Buyer shall deliver to Seller a deposit in the amount of One Hundred Ninety-Five Thousand Dollars (\$195,000) in the form of a certified or bank cashier's check made payable to Escrow Holder (the "Deposit"). Upon the opening of Escrow as defined in Section

3 below, Seller shall deliver the deposit to Escrow Holder. For the term of the Escrow, until released to Seller, the Deposit shall be invested by Escrow Holder in an interest-bearing account for the benefit of Buyer. The Deposit and all interest which shall accrue thereon shall be applied to the payment of the Purchase Price upon the close of Escrow. Provided that the conditions specified in Section 8 are satisfied or waived by Buyer, the entire Deposit plus interest accrued thereon shall become non-refundable to Buyer in the event the Escrow is cancelled by reason of Buyer's default under this Agreement.

(b) At least one day prior to the Close of Escrow, Buyer shall deposit or cause to be deposited with Escrow Holder, in the form of cash, a certified or bank cashier's check made payable to Escrow Holder, or a confirmed wire transfer of funds, in an amount equal to the net of (i) Five Million Dollars (\$5,000,000), less (ii) the total amount of the Deposit and interest accrued thereon, plus (iii) such additional funds as may be required to pay Buyer's share of Closing Costs as hereinafter set forth.

(c) The balance of the Purchase Price in the amount of One Million Five Hundred Thousand Dollars (\$1,500,000) shall be evidenced by a Promissory Note payable to Seller (the "Note") substantially in the form attached as Schedule 2.2(i), which Note shall be due and payable within twelve (12) months following the Closing Date and shall bear interest at the Bank of America prime rate as publicly announced from time to time, and shall be secured by a third Deed of Trust on the Real Property, a security interest

in the Escrow Account to be established pursuant to a Gross Capitation Service Agreement by and among the Buyer, TMGI-Glendorra (the proposed manager of the facility subsequent to the Closing) and Medical Pathways, Inc. and perfected in accordance with the provisions of the California Commercial Code. The Note shall be payable in equal quarterly payments of principal in the amount of \$375,000 plus accrued interest, with the last such payment due and payable on the maturity date.

**2.3 Allocation of Purchase Price.** The Purchase Price shall be allocated among the various classes of Assets in accordance with and as provided by Section 1060 of the Internal Revenue Code of 1986, as amended (the "Code" ), and as set forth in **Schedule 2.3** hereto. The parties agree that any tax returns or other tax information they may file or cause to be filed with any governmental agency shall be prepared and filed consistently with such agreed upon allocation. In this regard, the parties agree that, to the extent required, they will each properly prepare and timely file Form 8594 in accordance with Section 1060 of the Code.

**2.4 Assumed Liabilities.** As of the Closing Date, Buyer shall assume and agree to pay, perform and discharge in accordance with their respective terms the following liabilities of Seller arising exclusively from the operations of the Facility and the Assets (collectively, the "Assumed Liabilities"): (i) all obligations and liabilities accruing, under, relating to or in connection with the Contracts, the Facility and the Assets arising after the Closing Date; (ii) the Permitted Encumbrances (as hereinafter defined); (iii) obligations and liabilities assumed by

Buyer under Section 10.1 herein; (iv) all obligations and liabilities of Seller in respect of capital leases. Buyer shall reimburse Seller within thirty (30) days of receipt of notice from Seller for any Assumed Liabilities paid by Seller.

**2.5 Excluded Liabilities.** Except as expressly provided to the contrary in Section 2.4 above, Buyer shall not assume or be liable for and under no circumstance shall Buyer be obligated to pay or assume, and none of the Assets shall be or become liable for or subject to, any liability of Seller or its Affiliates, whether fixed or contingent, recorded or unrecorded, known or unknown, currently existing or hereafter arising including, without limitation, the following (collectively, the "Excluded Liabilities" ):

(a) all long-term liabilities and all indebtedness and obligations or guarantees of Seller or its Affiliates; provided, however, that the liability under capital leases shall not be an Excluded Liability;

(b) liabilities or obligations of Seller in respect of periods prior to Closing arising under the terms of the Medicare, Medi-Cal, CHAMPUS or other third party payor programs, including, without limitation, any retroactive denial of claims or civil monetary penalties;

(c) any federal, state or local tax liabilities or obligations of Seller in respect of periods prior to Closing including, without limitation, any income tax, any franchise tax and any ad valorem tax;

(d) liability for any and all claims by or on behalf

of any of Seller's employees or those of Seller's Affiliates relating to periods prior to Closing, including liability of or for any EEOC claim, wage and hour claim, unemployment compensation claim or workers' compensation claim or pension, profit sharing, deferred compensation or other employee health and welfare benefit plans and liability and/or claims under the Employee Retirement Income Security Act;

(e) any liability arising out of or in connection with (i) Seller's or its Affiliates' ownership or possession of the Assets and/or the operations of the Facility; or (ii) claims for acts or omissions of Seller or its Affiliates or the employees, agents or independent contractors of Seller or its Affiliates which occurred prior to Closing, including, without limitation, all malpractice and general liability claims, whether or not same are pending, threatened, known or unknown; and

(f) any liability or obligation arising with respect to the Excluded Assets.

**3. ESCROW.**

**3.1 Opening of Escrow.** Promptly following the execution of this Agreement by Seller and Buyer, they shall deliver a fully executed counterpart of this Agreement to Commerce Escrow, 1545 Wilshire Boulevard, Los Angeles, California 90017, Attention: Phil Graf, President ("Escrow Holder"). For the purposes of this Agreement, the "Opening of Escrow" shall be deemed to be the date Escrow Holder shall have received an executed counterpart of this Agreement from both Buyer and Seller. Escrow Holder shall notify Buyer and Seller in writing of the date of the Opening of Escrow.

In addition, Buyer and Seller agree to execute, deliver and be bound by any reasonable or customary supplemental escrow instructions of Escrow Holder or other instruments as may be reasonably required by Escrow Holder in order to consummate the transaction contemplated herein. The printed portions of any such supplemental instructions shall not amend or supersede any portions of this Agreement. In the event of any inconsistency between such supplemental instructions and this Agreement, this Agreement shall control.

**3.2 Close of Escrow.** For purposes of this Agreement, the "Close of Escrow" or the "Closing" shall occur on, with five business days' prior notice, the last business day of the month following the satisfaction and/or waiver by the appropriate party of the conditions precedent to Closing specified in Sections 8 and 9 hereof, or at such later date as the parties hereto may mutually designate in writing (the "Closing Date"). The Closing shall be effective as of 12:01 A.M. on the calendar day following the

Closing Date or such other date and time as the parties may mutually designate in writing.

**3.3 Costs and Expenses.** Seller shall pay that portion of the cost and expense of the premium for a standard CLTA Title Policy, and Buyer shall pay the additional premium for an ALTA Title Policy, if requested by Buyer. Buyer shall pay the cost of any new survey required in order to obtain such ALTA Title Policy.

The escrow fees of Escrow Holder shall be divided evenly between Seller and Buyer and the Escrow Holder's charges for document drafting, recording and miscellaneous charges shall be allocated between Seller and Buyer in the manner customary.

**3.4 Prorations.** The following items shall be prorated between Buyer and Seller as of the Close of Escrow based upon an actual day month, three hundred sixty-five (365) day year:

(a) Real property taxes and personal property taxes with respect to the Assets based upon the latest available tax information such that Seller shall be responsible for all such taxes levied against the Assets to and including the Close of Escrow and if the Escrow closes, Buyer shall be responsible for all taxes levied against the Assets from and after the Close of Escrow.

(b) Seller shall be responsible for all installments of assessments levied against the Assets on or before the Close of Escrow.

(c) All other operating expenses for the Facility shall be prorated between the parties based upon the latest available information.



**4. REPRESENTATIONS AND WARRANTIES OF SELLER**

As of the date hereof and as of the Closing Date, Seller represents and warrants to Buyer the following:

**4.1 Organization; Capacity.** Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of California. Seller has the requisite corporate power and authority to enter into this Agreement, perform its obligations hereunder and to conduct its businesses as now being conducted.

**4.2 Powers; Consents; Absence of Conflicts With Other Agreements, Etc.** The execution, delivery and performance of this Agreement and all other agreements referenced in or ancillary hereto to which Seller is a party and the consummation of the transactions contemplated herein, as applicable:

(a) are not in contravention of law or of the terms of the articles or certificate of incorporation and bylaws, as amended, of Seller;

(b) except as otherwise provided herein, do not require Seller to obtain any approval or consent of, or make any filing with, any governmental agency or authority bearing on the validity of this Agreement which is required by law or the regulations of any such agency or authority;

(c) except for the failure to obtain consent to the assignment to Buyer of the Contracts, will neither conflict with nor result in any material breach or contravention of, nor permit the acceleration of the maturity of the Assumed Liabilities, or the creation of any lien, charge or

encumbrance affecting any Assets;

(d) will not violate any statute, law, rule or regulation of any governmental authority to which Seller or the Assets may be subject and, to the best of Seller's knowledge, there are no such violations, except for such violations as would not have a material adverse effect on the Assets; and

(e) will not violate any judgment of any court or governmental authority to which Seller or the Assets may be subject.

**4.3 Binding Agreement.** This Agreement and all agreements to which Seller will become a party hereunder are and will constitute the valid and legally binding obligation of Seller and are and will be enforceable against the same in accordance with the respective terms hereof or thereof, except as enforceability may be restricted, limited or delayed by applicable bankruptcy or other laws affecting creditors' rights generally and except as enforceability may be subject to general principles of equity.

**4.4 Licensure.** The Facility is licensed by the California Department of Health Services as a 128 bed general acute care hospital. The Facility's pharmacies, laboratories and other ancillary departments, located at the Facility or operated for the benefit of the Facility, which are required to be specially licensed, are so licensed by the appropriate licensing agency. Seller is in compliance, in all material respects, with its obligations under such licenses, and all such licenses are in full force and effect. Attached hereto, and made a part hereof as

Schedule 4.4, is a list of all material licenses and permits held by Seller in connection with the operation of the Facility. Seller has not received written notice from any governmental authority, with jurisdiction over the Facility, relating to the threatened or pending revocation, termination, suspension or limitation of any such license or permit, and, to Seller's knowledge, no such notice has been proposed or threatened against Seller.

**4.5 Medicare Participation/Accreditation.** Seller is receiving payment under Titles XVIII and XIX of the Social Security Act and is a "provider" under existing provider agreements with the Medicare, Medicaid and CHAMPUS Programs (the "Programs") through the applicable intermediaries. The Facility and Seller are in substantial compliance with the conditions for participation in the Programs. The cost reports of the Facility for the Programs for the fiscal years through December 31, 1999, were filed when due. True and correct copies of all such reports for the three (3) most recent fiscal years of the Facility have been made available to Buyer. Seller has made available to Buyer copies of the Facility's most recent JCAHO accreditation survey report.

**4.6 The Contracts.** Attached hereto as Schedule 4.6 is a list of all commitments, contracts, leases and agreements (the "Contracts"), to which Seller is a party or by which Seller or any of the Assets are bound. Seller has made available to Buyer copies of the Contracts.

**4.7 Real Property.** Seller owns fee title to (or, where

indicated in Schedule 4.7, a valid leasehold interest in) the Real Property described in Schedule 4.7 hereto, together with all buildings, improvements and fixtures thereon and all appurtenances and rights thereto. There exist no mortgages, liens, restrictions, agreements, claims or other encumbrances affecting the Real Property created by, through or under Seller except as identified in the preliminary title report dated as of \_\_\_\_\_, 200\_, issued by Chicago Title Company, Order No. \_\_\_\_\_ (the "Title Report"), or which are not, in the aggregate, material. The Real Property will be conveyed to Buyer by Grant Deed subject only to (i) current taxes not yet due and payable, (ii) liens securing any indebtedness assumed by Buyer, (iii) any lease obligations assumed by Buyer (together with any liens or encumbrances affecting the underlying fee title), (iv) encumbrances and defects which have not materially interfered with Seller's use of the Assets in its operation of the Facility, (v) the exceptions to coverage in any title policy issued to Buyer or to Buyer's lender in this transaction and all matters shown on the surveys previously made available to Buyer by Seller or any survey to be performed on the Facility in this transaction, and (vi) easements and other restrictions of record (the foregoing items (i) through (vi) being referred to herein as the "Permitted Encumbrances" ). Except as described on Schedule 4.7, Seller has not received written notice of an outstanding violation of any applicable ordinance or other law, order, regulation or requirement, and has not received written notice of condemnation, lien, assessment or the like, relating to any part of the Real

Property or the operation thereof. With respect to the leased Real Property, all leases are in full force and effect; complete copies of the leases have been provided to Buyer and no default known to Seller exist under any lease. No condemnation proceedings are pending or, to Seller's knowledge, threatened against the Real Property.

**4.8 Title.** At Closing, Seller will convey to Buyer good title to the Assets other than the Real Property, subject to no mortgage, lien, pledge, security interest, conditional sales agreement, right of first refusal, option, restriction, liability, encumbrance or charge created by, through or under Seller, other than (a) the Permitted Encumbrances, (b) the Contracts, and (c) the Assumed Liabilities.

**4.9 Quality and Condition of the Assets.** Other than with respect to warranties of title and the other representations and warranties expressly provided herein, Seller shall transfer the Assets to Buyer, and Buyer shall accept the Assets from Seller on an "**AS IS, WHERE IS**" basis, with no representations or warranties as to (i) the physical or operational condition of the Assets or (ii) the environmental condition of the Real Property. Notwithstanding the foregoing, however, except as disclosed on **Schedule 4.9** hereto, Seller does not know of any material defect, structural or other, in any of the Assets, including, without limitation, the Real Property and equipment used in the operation of the Facility.

**4.10 Insurance.** Seller maintains adequate insurance to cover the ownership and operation of the Facility based upon the

experience of Seller. All of such policies are now and will be until Closing in full force and effect with no premium arrearages.

Seller will obtain and maintain an extended reporting endorsement with respect to professional and general liability insurance for periods following the Closing.

**4.11 Litigation or Proceedings.** Seller has delivered to Buyer an accurate list and summary description (**Schedule 4.11**) of all litigation or proceedings with respect to the Facility and the Assets to which Seller is a party. Except to the extent set forth on **Schedule 4.11**, there are no claims, actions, suits, proceedings or investigations pending or, to the best of Seller's knowledge, threatened against or affecting Seller with respect to the Facility, at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality wherever located which may have a material adverse effect on the operations or financial condition of Seller.

**4.12 Tax Liabilities.** Seller has not taken and will not take any action, and Seller has not failed to take and will not fail to take any action, in respect of any federal, state or local taxes (including, without limitation, any withholdings required to be made in respect of employees) which will have an adverse effect upon the Assets as of or subsequent to Closing.

**4.13 Employees and Employee Relations.** Except as set forth on **Schedule 4.13(a)**, as of the date hereof, (i) there is no pending or, to the best of Seller's knowledge, threatened employee strike, work stoppage or labor dispute, (ii) no union

representation question exists respecting any employees of Seller, no demand has been made for recognition by a labor organization by or with respect to any employees of Seller, no union organizing activities by or with respect to any employees of Seller are taking place, and none of the employees of Seller are represented by any labor union or organization, (iii) no collective bargaining agreement exists or is currently being negotiated by Seller, (iv) there is no unfair practice claim pending, or, to the best of Seller's knowledge, threatened against Seller before the National Labor Relations Board, and (v) there are no pending or, to the best of Seller's knowledge, threatened complaints or charges before any governmental entity regarding employment discrimination, safety or other employment-related charges or complaints, wage and hour claims, unemployment compensation claims, workers' compensation claims or the like. Attached hereto as Schedule 4.13(b) is a list of all of Seller's employees at the Facility.

**4.14 Financial Statements.** Schedule 4.14, attached hereto and made a part hereof, contains copies of the following financial statements of Seller, in respect of the Facility (the "Financial Statements"):

(a) Unaudited Balance Sheet and Income Statement, dated as of December 31, 2000 (the "Balance Sheet Date"); and

(b) Audited Combined Financial Statements and other Financial Information of Southern California Healthcare Systems for years ended December 31, 1999 and 1998.

Such Financial Statements have been prepared in accordance with

generally accepted accounting principles, applied on a consistent basis throughout the periods indicated, except that such financial statements do not contain footnotes or year-end adjustments with respect to Seller. The balance sheets present fairly the financial condition of Seller, in respect of the Facility, as of the dates indicated thereon, subject to Seller's customary year-end adjustments, and the income statements present fairly the results of Seller's operations, in respect of the Facility, for the periods indicated thereon, subject to Seller's customary year-end adjustments.

**5. REPRESENTATIONS AND WARRANTIES OF BUYER**

As of the date hereof and as of the Closing Date, except as disclosed in the Schedules, Buyer represents and warrants to Seller the following:

**5.1 Organization; Capacity.** Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of California. Buyer has the requisite corporate power and authority to enter into this Agreement, perform its obligations hereunder and to conduct its businesses as now being conducted.

**5.2 Powers; Consents; Absence of Conflicts With Other Agreements, Etc.** The execution, delivery and performance of this Agreement by Buyer and all other agreements referenced in or ancillary hereto to which it is a party and the consummation of the transactions contemplated herein by Buyer:

(a) are within Buyer's powers, are not in contravention of law or of the terms of its articles or



certificate of incorporation and bylaws, as amended, and have been duly authorized by all appropriate action;

(b) to the best of Buyer's knowledge, do not require any approval or consent of, or filing with, any governmental agency or authority bearing on the validity of this Agreement which is required by law or the regulations of any such agency or authority other than as required of the California Department of Health Services and the Attorney General;

(c) will neither conflict with nor result in a breach or contravention of, or the creation of any lien under any indenture, agreement, lease, instrument or understanding to which Buyer is a party or by which Buyer is bound;

(d) will not violate any statute, law, rule or regulation of any governmental authority to which Buyer may be subject and which would affect Buyer's ability to consummate the transaction described herein; and

(e) will not violate any judgment of any court or governmental authority to which Buyer may be subject and which would affect Buyer's ability to consummate the transaction described herein.

**5.3 Binding Agreement.** This Agreement and all agreements to which Buyer will become a party hereunder are and will constitute the valid and legally binding obligation of Buyer, and are and will be enforceable against it in accordance with the respective terms hereof or thereof, except as enforceability may be restricted, limited or delayed by applicable bankruptcy or other laws affecting creditors' rights generally and except as

enforceability may be subject to general principles of equity.

**5.4 Litigation.** There is no claim, action, suit, proceeding or investigation pending or, to the knowledge of Buyer, threatened against or affecting Buyer that has or would reasonably be expected to have a material adverse effect on Buyer's ability to perform this Agreement or any aspect of the transactions contemplated hereby.

**5.5 Investigation.** Buyer has conducted its own independent review and analysis of the business, operations, assets, liabilities, results of operations, financial condition, software, technology and prospects of the Facility, the Assets and the Assumed Liabilities, and Buyer acknowledges that it has been provided access to the personnel, properties, premises and records of Seller for such purpose. In entering into this Agreement, Buyer has relied upon its own investigation and analysis; provided, however, that each of the representations and warranties and covenants and agreements herein shall be deemed to be material and have been relied upon by Buyer, and shall be binding and enforceable notwithstanding such investigation.

## **6. COVENANTS OF SELLER**

**6.1 Operations.** From the date hereof until the Closing Date, Seller, in respect of the Facility, will use its best efforts to:

(a) carry on the business and operations of the Facility in substantially the same manner as Seller has heretofore and not make any material change in personnel, operations, finance, accounting policies, or real or personal

property of the Facility;

(b) perform all of Seller's obligations under agreements relating to or affecting the Assets, the Facility or the Facility's operations;

(c) take all actions necessary and appropriate to render title to the Assets free and clear of all liens, security agreements, claims, charges and encumbrances (except for the Permitted Encumbrances, the Contracts and the Assumed Liabilities);

(d) keep in full force and effect present insurance policies or other comparable insurance;

(e) maintain the Assets and all parts thereof in as good working order and condition as at present, ordinary wear and tear excepted;

(f) maintain and preserve its business organization with respect to the Facility intact, retain its present employees at the Facility and maintain its relationship with physicians, medical staff, suppliers, customers and others having business relations with the Facility;

(g) permit and allow reasonable access by Buyer to make offers of post-Closing employment to any of Seller's personnel, which personnel shall be allowed to accept such offers without penalty, competing offer or interference, and to establish relationships with physicians, medical staff and others having business relations with Seller; provided that Seller shall have complied with the terms of Section 6.1 in connection with such access; and

(h) provide notice to Buyer of any development that would materially affect the Assets, the Facility or the Facility's operations or businesses, as well as any fact rendering any representation or warranty contained herein untrue;

(i) endeavor to obtain all necessary consents and approvals and satisfy the remaining conditions to Closing;

(j) reasonably cooperate with Buyer's efforts to obtain financing; and

(k) make the Facility and applicable personnel reasonably available for seismic, environmental, mechanical and structural inspection.

**6.2 Negative Covenants.** Except as disclosed on **Schedule 6.2** hereto, from the date hereof to the Closing Date, Seller in respect of the Facility, will not, without the prior written consent of Buyer:

(a) enter into any material contract, or commitment or transaction, or incur or agree to incur any liability, except in the ordinary course of business or amend any contract listed on **Schedule 4.6**;

(b) remove or transfer any of the Assets, except in the ordinary course of business;

(c) make any change in the business or operation of the Facility not in the ordinary course of business;

(d) increase Seller's employees' or agents' compensation or pay, or become liable to pay, a bonus to Seller's employees or agents, except in the ordinary course

of business, and in accordance with Seller's existing policies and procedures; or

(e) create or suffer to exist any new mortgage, deed of trust, pledge or other lien on the Assets.

**6.3 Notification of California Attorney General.** As soon as practicable following execution of this Agreement, Seller shall notify the California Attorney General of the proposed sale of assets pursuant to Section 5914 of the California Corporations Code.

**6.4 Governmental Approvals.** Seller shall assist and cooperate with Buyer and Buyer's representatives and counsel in obtaining all governmental consents, approvals and licenses which Buyer reasonably deems necessary or appropriate and in the preparation of any document or other material which may be required by any governmental agency as a predicate to or result of the transactions contemplated herein.

**6.5 Third Party Consents.** Seller shall use its reasonable best efforts to obtain all third party consents set forth on Schedule 6.5 hereto.

**6.6 Title Policy.** Seller shall, at its expense, obtain a CLTA Owner's Policy of Title Insurance covering the Real Property in a form reasonably acceptable to Buyer; provided, however, that Buyer shall have the right to obtain, at its sole cost and in its sole discretion a survey of the Real Property and shall pay the additional cost of an ALTA Owner's Policy of Title Insurance, if requested by Buyer.

**7. COVENANTS OF BUYER**

**7.1 Governmental Approvals.** Promptly following execution of this Agreement, Buyer shall initiate and subsequently diligently pursue such reasonable action as may be required to promptly obtain all governmental consents, approvals and licenses which are required in order for Buyer to own and operate the Facility in a manner consistent with the manner in which Seller has operated the Facility.

**8. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER**

The obligations of Buyer hereunder are, at the option of Buyer, subject to the satisfaction, on or prior to the Closing Date, of the following conditions unless waived in writing by Buyer:

**8.1 Assurance of Facility License.** Buyer shall have received assurances reasonably satisfactory to Buyer from the California Department of Health Services that Buyer will be issued a license to operate the Facility.

**8.2 Representations/Warranties.** The representations and warranties of Seller contained in this Agreement shall be true in all material respects when made and on and as of the Closing Date as though such representations and warranties had been made on and as of such Closing Date; and each and all of the terms, covenants and conditions of this Agreement to be complied with or performed by Seller on or before the Closing Date pursuant to the terms hereof shall have been duly complied with and performed in all material respects.

**8.3 Governmental Approvals.** Buyer shall have no reasonable basis to believe that it will not receive all governmental approvals necessary for Buyer to consummate the transactions described herein.

**8.4 Action/Proceeding.** No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the transactions herein contemplated, and no governmental agency or body shall have taken any other action or made any request of Buyer or Seller as a result of which Buyer reasonably and in good faith deems it inadvisable to proceed with the transactions hereunder.

**8.5 Vesting/Recordation.** Seller shall have furnished to Buyer in form reasonably acceptable to Buyer deeds, bills of sale and assignments or other instruments of transfer necessary or appropriate to transfer to and effectively vest in Buyer all of Seller's right, title and interest in and to the Assets, in proper statutory form for recording if such recording is necessary or appropriate.

**8.6 Title to Real Estate.** Seller shall have furnished to Buyer a CLTA Owner's Policy of Title Insurance covering the Real Property in a form reasonably acceptable to Buyer.

**8.7 Closing Documents.** Seller shall have executed and delivered to Buyer all of the documents, agreements and certificates required to be executed or delivered by Seller pursuant to any term or provision of this Agreement.

**8.8 Covenant Not to Compete.** Seller shall have executed and delivered to Buyer the Non-Compete Agreement in substantially

the form attached hereto as Schedule 8.8.

**8.9 Attorney General Approval.** Buyer shall have obtained the written consent of the Attorney General of the State of California to the sale of the Assets pursuant to Section 5914 of the California Corporations Code.

**8.10 No Material Adverse Change.** There shall not have been a material adverse change in the Assets or the Facility's business or operations.

**9. CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER**

The obligations of Seller hereunder are, at the option of Seller, subject to the satisfaction, on or prior to the Closing Date, of the following conditions unless waived in writing by Seller:

**9.1 Assurance of Facility License.** Buyer shall have received assurances reasonably satisfactory to Seller from the California Department of Health Services that Buyer will be issued a license to operate the Facility.

**9.2 Representations/Warranties.** The representations and warranties of Buyer contained in this Agreement shall be true in all material respects when made and on and as of the Closing Date as though such representations and warranties had been made on and as of such Closing Date; and each and all of the terms, covenants and conditions of this Agreement to be complied with or performed by Buyer on or before the Closing Date pursuant to the terms hereof shall have been duly complied with and performed in all material respects.

**9.3 Attorney General Approval.** Seller shall have obtained



the written consent of the Attorney General of the State of California to the sale of the Assets pursuant to Section 5914 of the California Corporations Code.

**9.4 Action/Proceeding.** No action or proceeding before a court or any other governmental agency or body shall have been instituted or threatened to restrain or prohibit the transactions herein contemplated, and no governmental agency or body shall have taken any other action or made any request of Buyer or Seller as a result of which Seller reasonably and in good faith deems it inadvisable to proceed with the transactions hereunder.

**9.5 Purchase Price/Closing Documents.** Buyer shall have tendered the cash portion of the Purchase Price and delivered the Note to Seller and shall have executed and delivered to Seller all of the documents, agreements and certificates required to be executed or delivered by Buyer pursuant to any term or provision of this Agreement.

## **10. ADDITIONAL AGREEMENTS**

### **10.1 Employees.**

(a) Except as set forth in Section 10.1(e) herein, as of the Closing Date, Seller shall terminate all employees of Seller at the Facility, and, as of the Closing Date, Buyer shall, subject to Section 10.1(v) herein, offer employment to substantially all employees of Seller at the Facility at positions, salaries and wages substantially consistent with the position, salaries and wages of each such employee while in the employ of Seller. The term "Employee," as used in this Agreement, shall mean all employees of Seller who accept

employment with Buyer as of the Closing Date. Buyer shall require, as a condition of employment with Buyer, that each employee execute and deliver to Buyer a written consent and waiver (the "Consent and Waiver"), pursuant to which each Employee (i) waives such Employee's rights to any severance benefits payable to Employee upon Seller's termination of such Employee and (ii) consents to the transfer of such Employee's personnel records to Buyer, upon Buyer's employment of such Employee. Buyer shall use its best efforts to obtain a Consent and Waiver from each Employee.

(b) As of the Closing Date, Buyer shall provide benefits to the Employees at levels substantially consistent with the benefits provided such Employees by Seller. Buyer shall honor each Employee's rights in respect of accrued paid time off and give each Employee credit therefor and recognize the tenure of each Employee while in the employ of Seller for purposes of determining benefits available to Employees under Buyer's employee benefit plans (which shall include a waiver of preexisting condition exclusions for Employees and their dependents and recognition of or credit for all deductibles paid by such Employee during the current period while in the employ of Seller). Without limiting the foregoing, Buyer shall provide credit for eligibility, benefit accrual and vesting purposes for all such Employees' periods of service with Seller for purposes of any Buyer employee benefit plan or program, including all qualified and non-qualified retirement or savings programs, vacation, sick leave and

holiday; provided, however, that, with respect to active defined benefit plans maintained by Buyer, the existing seniority of such Employees shall only be recognized for eligibility and vesting purposes and not for benefit accrual purposes. Any future plans created by Buyer that provide for benefit and vesting service to the Employees from their original date of hire shall include all vesting and benefit service credit as would be included by recognizing such Employee's original date of hire as recognized by Seller. The service credited under Buyer welfare and other benefit plans will include all service credited under the welfare and other benefit plans of Seller.

(c) Seller shall be solely responsible for providing all notices and continuation of coverage (within the meaning of Code Section 4980B and Part 6 of Subtitle B of Title 1 of ERISA (collectively, "COBRA")), if any, required by COBRA and any similar state laws to any of its employees, whose employment with Seller is terminated prior to or as a result of the transactions contemplated in this Agreement. Immediately following the Closing Date, and as a result of the transactions contemplated by this Agreement, Seller shall cease to offer COBRA benefits for any applicable group health plan to former employees who are employed by Buyer at the Facility as of or subsequent to Closing. Seller will thereby be released from COBRA responsibility and liability for such employees. Buyer shall be solely responsible for providing all notices and continuation coverage required by COBRA and

any similar state law to any Employees employed by Buyer and terminated after Closing.

(d) As of the Closing Date, Seller will, at its expense or at the expense of the applicable employee welfare benefit plan, (i) terminate the active participation of all Employees from all such plans and (ii) take such actions as are necessary and appropriate to allow distributions to be made from such plans to Employees in accordance with such plans and applicable law.

(e) The provisions of Sections 10.1(a)-(d) shall not apply with respect to the salary continuation or retention and severance agreements between the Seller and its current Chief Executive Officer, Vice President of Operations, Chief Financial Officer, and Director of Human Resources.

**10.2 Seller's Cost Reports.** Seller will timely prepare all cost reports relating to the Facility for periods ending on or prior to the Closing Date or required as a result of the consummation of the transactions set forth herein, including, without limitation, terminating cost reports for the Programs (the "Seller Cost Reports" ). Buyer shall forward to Seller any and all correspondence relating to Seller Cost Reports within five (5) business days after receipt by Buyer. Buyer shall remit any receipts of funds relating to Seller Cost Reports or Agency Settlements promptly after receipt by Buyer (and in all events within five (5) business days) and shall forward to Seller any demand for payments within five (5) business days after receipt by Buyer. Seller shall retain all rights to or in respect of Agency

Settlements and to Seller Cost Reports including any amounts receivable or payable in respect of such reports. Such rights shall include, without limitation, the right to appeal any Medicare determinations relating to Agency Settlements and Seller Cost Reports. Buyer, upon reasonable notice, during normal business hours and at the sole cost and expense of Seller, will cooperate with Seller in regard to the preparation, filing, processing and appeals of the Seller's Cost Reports. Such cooperation shall include the providing of statistics and obtaining files and the coordination with Seller pursuant to adequate notice of Medicare and Medi-Cal exit conferences or meetings. Seller shall retain the originals of Seller's Cost Reports, correspondence, work papers and other documents relating to Seller's Cost Reports and Agency Settlements. Upon Buyer's reasonable request, Seller shall provide to Buyer copies of such documents as are necessary or desirable for Buyer's operations and/or future Cost Reports.

**10.3 Termination Prior to Closing.** Notwithstanding anything herein to the contrary, this Agreement may be terminated at any time: (i) on or prior to the Closing Date by mutual written consent of Buyer and Seller; (ii) by Buyer if on the Closing Date any of the conditions specified in Section 8 of this Agreement have not been satisfied and shall not have been waived in writing by Buyer; (iii) by Seller if on the Closing Date any of the conditions specified in Section 9 of this Agreement have not been satisfied and shall not have been waived in writing by Seller; (iv) by Buyer or Seller if the Close of Escrow shall not have

taken place on or before 11:59 p.m. on June 30, 2001 (which date may be extended by mutual agreement of Buyer and Seller); or (v) upon destruction of the Facility; unless the party desiring to terminate as above provided is in default hereunder.

If this Agreement is validly terminated pursuant to this Section 10.3, this Agreement (other than Sections 13.6 and 13.7) will immediately become null and void, and there will be no liability or obligation on the part of the parties hereto (or any of their respective officers, directors, employees, agents or other representatives or affiliates).

**10.4 Post-Closing Access to Information.** Each party acknowledges that, subsequent to the Closing, the other party may need access to the Assets or the Facility and to information, documents or computer data in the control or possession of the other party for purposes of concluding the transactions contemplated herein and for audits, investigations, compliance with governmental requirements, regulations and requests, and the prosecution or defense of third party claims. Accordingly, each party agrees that it will make available to the other party and its agents, independent auditors and/or governmental entities such documents and information as may be available relating to the Assets and Facility in respect of periods prior to Closing and will permit such other party to make copies of such documents and information at such other party's expense.

**10.5 Preservation and Access to Records After the Closing.** After the Closing, Buyer shall keep and preserve the documents, computer data, medical records and other records and information

of the Facility existing as of the Closing and which constitute a part of the Assets delivered to Buyer at Closing in accordance with applicable law. Buyer acknowledges that as a result of entering into this Agreement and operating the Assets it will gain access to patient and other information which is subject to rules and regulations concerning confidentiality. Buyer shall abide by any such rules and regulations relating to the confidential information it acquires. Buyer shall maintain the patient records delivered to Buyer at Closing at the Facility after Closing in accordance with applicable law (including, if applicable, Section 1861(v)(i)(1) of the Social Security Act (42 U.S.C. §1395(v)(i)(1)), and requirements of relevant insurance carriers, all in a manner consistent with the maintenance of patient records generated at the Facility after Closing. Upon reasonable written notice, during normal business hours and upon Buyer's receipt of appropriate consents and authorizations, Buyer shall afford to the representatives of Seller, including its counsel and accountants, full and complete access to, and the right to make copies of, the records transferred to Buyer at the Closing (including, without limitation, access to patient records in respect of patients treated by Seller at the Facility). Upon reasonable written notice and during normal business hours, Buyer shall make its officers and employees available to Seller at reasonable times and places after the Closing. In addition, Seller shall be entitled to remove from the Facility copies of any patient records, but only for purposes of pending litigation involving a patient to whom such records refer, as certified in writing prior to removal

by counsel retained by Seller in connection with such litigation.

Any patient records so removed from the Facility shall be promptly returned to Buyer following its use by Seller.

**10.6 Cooperation on Tax Matters.** Following the Closing, the parties shall cooperate fully with each other and shall make available to the other, as reasonably requested and at the expense of the requesting party, and to any taxing authority, all information, records or documents relating to tax liabilities or potential tax liabilities of such parties for all periods on or prior to the Closing, and shall preserve all such information, records and documents (to the extent a part of the Assets delivered by Seller at Closing) at least until the expiration of any applicable statute of limitations or extensions thereof.

**10.7 Collection Procedure for Government Patient Receivables.** To compensate Seller for services rendered and medicine, drugs and supplies provided, on or before the Closing Date (the "Transition Services"), with respect to patients admitted to the Facility, on or before the Closing Date, but who are not discharged until after the Closing Date (such patients being referred to herein as the "Transition Patients"), the parties shall take the following actions:

(a) **Medicare, Medicaid, CHAMPUS and Other DRG Transition Patients.** As soon as practicable after the Closing Date, Seller shall deliver to Buyer a statement itemizing the Transition Services provided by Seller, on or through the Closing Date, to Transition Patients, whose care is reimbursed by the Programs on a diagnostic related group



basis ("DRG Transition Patients"). Buyer shall pay to Seller an amount equal to the DRG and outlier payments received by Buyer on behalf of a DRG Transition Patient, multiplied by a fraction, the numerator of which shall be the total charges for Transition Services provided to such DRG Transition Patient by Seller, and the denominator of which shall be the sum of the total charges for all services provided to such DRG Transition Patient, both before and after the Closing Date. Such payment shall be made to Seller within forty-five (45) days after receipt of such DRG or outlier payments, accompanied by copies of remittances and other supporting documentation, as reasonably required by Seller.

(b) Other Patients. Immediately prior to the Closing Date, Seller shall prepare cut-off billings for all patients not covered by Section 10.7(a) herein (which shall include Program patients whose care is reimbursed on a cost basis). Seller shall be entitled to receive all amounts collected in respect of such cut-off billings. With respect to Program and other cost-based Transition Patients, where cut-off billings cannot be completed at the time of Closing, Buyer shall pay to Seller an amount equal to the payment actually received or to be received by Buyer after the Closing, multiplied by a fraction, the numerator of which shall be the total charges for Transition Services provided to such Transition Patient by Seller, and the denominator of which shall be the total charges for all services provided to such Transition Patients, both before and after the Closing Date.

(c) Misdirected Payments. If either party receives any amount from patients or third party payors which is the property of the other party, the party receiving such amount shall remit said full amount to the other party within five (5) business days following the date on which said amount was received.

**10.8 Public Announcements**. Except as required by law, prior to Closing any release by a party to the public of information concerning this Agreement and the transactions contemplated hereby will be made only with the prior written consent of the other in the form and manner approved by the parties and their respective counsel. Each of the parties shall furnish the other drafts of all releases prior to publication. Notwithstanding the foregoing, in the event a party hereto determines, based upon the opinion of its legal counsel, that this Agreement or the terms hereof will be the subject of discovery in any litigation involving such party, such party shall promptly notify the other parties hereto of such determination, then (i) the parties will make a public announcement of the terms hereof prior to such discovery taking place, (ii) such public announcement shall be made in a manner and at a time mutually agreed by the parties, and (iii) all parties hereto shall be represented at and permitted to participate in such announcement.

**10.9 Unemployment Insurance Funds**. Any funds which are in group accounts for the purpose of paying reimbursable unemployment benefits will not be transferred to Buyer.

**10.10 Certain Assignments**. Notwithstanding any other

provision herein to the contrary, this Agreement shall not constitute an agreement to assign any Contract if an attempted assignment thereof without the consent of another party thereto would constitute a breach thereof or in any material way affect the rights of Seller thereunder, unless such consent is obtained. If such consent is not obtained, or if an attempted assignment would be ineffective or would materially affect Seller's rights thereunder so that Buyer would not in fact receive all such rights, Seller shall upon the request of Buyer cooperate in any reasonable arrangement designed to provide for Buyer the benefits under any such Contract, including, without limitation, enforcement of any and all rights of Seller against the other party or parties thereto arising out of the breach or cancellation by such other party or otherwise.

**10.11 Damage or Condemnation Prior to Closing.** Seller shall promptly notify Buyer of any damage or casualty to the Facility prior to the Close of Escrow or of any condemnation proceeding threatened or commenced prior to the Close of Escrow. If by reason of any such condemnation proceeding, the value of the Assets (or any of them), in Buyer's reasonable judgment, is significantly impaired or reduced, Buyer may, at its option, elect either to: (a) terminate this Agreement, in which event the Deposit and all accrued interest shall be refunded to Buyer and neither party shall have any further rights or obligations hereunder; or (b) continue the Agreement in effect and upon receipt of insurance proceeds relating to such damage or casualty, Seller shall be obligated to surrender such proceeds to Buyer

within five business days following receipt thereof.

## 11. INDEMNIFICATION

11.1 Indemnification by Seller. Subject to and to the extent provided in this Article 11, Seller shall indemnify and hold harmless Buyer and its officers, directors, shareholders, employees, agents and affiliates during the Indemnity Period (as defined in Section 11.10) from and against any damages, claims, costs, liabilities, expenses or obligations (including, without limitation, reasonable attorneys' fees and associated expenses) incurred or suffered by any of them as a result of or arising from:

(a) any breach of, misrepresentation associated with or failure to perform under any covenant, representation, warranty or agreement under this Agreement on the part of Seller;

(b) the Excluded Liabilities; and

(c) the acts or omissions of Seller, its employees, agents and independent contractors.

### 11.2 Limitations/Seller.

(a) Seller shall not be under any liability or claim arising under this Agreement that shall:

(i) accrue to Buyer against Seller under Section 11.1(a) hereof unless and except to the extent that the total liability of Seller would in respect of claim(s) under Section 11.1(a) hereof exceed \$15,000, it being the intent of the parties that Seller shall have no liability in respect of the first \$15,000 of claims

under Section 11.1(a); or

(ii) be made to the extent that any loss shall be recovered under a policy of insurance in force on the date of loss, except that Seller shall be liable to the extent of any deductibles or to the extent such recovery causes an increase in applicable premiums.

(b) Seller shall not be liable for such claims as may arise after the date hereof which arise solely as a result of a voluntary and knowing act, omission or transaction carried out after the date hereof by Buyer (or persons deriving title under Buyer).

(c) Only Buyer or an affiliate of Buyer may bring an action against Seller under this Article 11.

(d) The maximum liability of Seller for indemnification under Section 11.1(a) shall be an amount equal to the Purchase Price.

**11.3 Recovery from Third Parties/Buyer.**

(a) In the event that Buyer is entitled to recover any sum (whether by payment, discount, credit or otherwise) from any third party (which shall include, without limitation, insurers) in respect of any matter for which a claim could be made against Seller, Buyer shall use commercially reasonable efforts to recover such sum from such third party and any sum actually recovered by Buyer (less any reasonable costs and expenses incurred by Buyer in recovering such sum) will reduce the amount of such claim. If Seller pays to Buyer an amount in respect of, and Buyer subsequently receives from a third party a sum which is referable to that payment, Buyer shall forthwith repay to Seller so much of the amount paid by Seller as does not exceed the sum recovered by Buyer from the third party less all reasonable costs, charges and expenses incurred by Buyer in obtaining that payment and in recovering that sum from the third party.

(b) If, after Seller has paid in full any claim hereunder in respect of a tax liability, Buyer receives a payment in respect of such tax liability, Buyer shall repay to Seller a sum corresponding to the amount of such refund after deduction from such repayment of an amount equal to any reasonable costs incurred by Buyer in obtaining it and any tax liability incurred by Buyer in respect of the receipt of payment.

**11.4 Indemnification by Buyer.** Subject to and to the extent provided in this Article 11, Buyer shall indemnify and hold

harmless Seller and its officers, directors, employees, agents and affiliates during the Indemnity Period (as defined in Section 11.10) from and against any damages, claims, costs, liabilities, expenses or obligations (including, without limitation, reasonable attorneys' fees and associated expenses) incurred or suffered by any of them as a result of or arising from:

(a) any breach of or failure to perform under any covenant, representation, warranty or agreement under this Agreement on the part of Buyer;

(b) the Assumed Liabilities; and

(c) the acts or omissions of Buyer and its employees, agents and independent contractors.

**11.5 Limitations/Buyer.**

(a) Buyer shall not be under any liability or claim arising under this Agreement that shall:

(i) accrue to Seller against Buyer under Section 11.4(a) hereof unless and except to the extent that the total liability of Buyer would in respect of claim(s) under Section 11.4(a) hereof exceed \$15,000, it being the intent of the parties that Buyer shall have no liability in respect of the first \$15,000 of claims under Section 11.4(a); or

(ii) be made to the extent that any loss shall be recovered under a policy of insurance in force on the date of loss, except that Buyer shall be liable to the extent of any deductibles or to the extent such recovery causes an increase in applicable premiums.

(b) Buyer shall not be liable for such claims as may arise after the date hereof which arise solely as a result of a voluntary and knowing act, omission or transaction carried out after the date hereof by Seller (or persons deriving title under Seller).

(c) Only Seller or an affiliate of Seller may bring an action against Buyer under this Article 11.

(d) The maximum liability of Buyer for indemnification under Section 11.4(a) shall be an amount equal to the Purchase Price.

**11.6 Recovery from Third Parties/Seller.**

(a) In the event that Seller is entitled to recover any sum (whether by payment, discount, credit or otherwise) from any third party in respect of any matter for which a claim could be made against Buyer, Seller shall use commercially reasonable efforts to recover such sum from such third party and any sum actually recovered by Seller (less any reasonable costs and expenses incurred by Seller in recovering such sum) will reduce the amount of such claim. If Buyer pays to Seller an amount in respect of, and Seller subsequently receives from a third party a sum which is referable to that payment, Seller shall forthwith repay to Buyer so much of the amount paid by it as does not exceed the sum recovered by Seller from the third party less all reasonable costs, charges and expenses incurred by Seller in obtaining that payment and in recovering that sum from the third party.



(b) If, after Buyer has paid in full any claim hereunder in respect of a tax liability, Seller receives a payment in respect of such tax liability, Seller shall repay to Buyer a sum corresponding to the amount of such refund after deduction from such repayment of an amount equal to any reasonable costs incurred by the Seller in obtaining it and any tax liability incurred by the Seller in respect of the receipt of payment.

**11.7 Notice and Procedure.**

(a) Any person seeking indemnity under any provision of this Agreement (the "Indemnitee" ) shall promptly notify the party from whom indemnity is sought (the "Indemnitor" ) as to (i) the nature of any claims, damages, losses or liabilities asserted by or against the Indemnitee for which the Indemnitee intends to seek indemnity hereunder (" Claims" ) and (ii) the commencement of any suit or proceeding brought to enforce any Claims. The Indemnitor shall assume the defense of any such suit or other proceeding and the Indemnitee shall cooperate fully, at the Indemnitor's sole cost and expense, and shall be entitled reasonably to consult with the Indemnitor with respect to such defense; provided, however, that if the defendants in any such action include both the Indemnitor and Indemnitee and the Indemnitee reasonably shall have concluded that there may be a conflict between the positions of the Indemnitor and the Indemnitee in conducting the defense of any such action or that there may be legal defenses available to it that are different from or

additional to those available to the Indemnitor, the Indemnatee shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such Indemnatee, in which case the reasonable fees and expenses of such counsel shall be at the expense of the Indemnitor.

(b) Indemnatee, at the sole cost and expense of Indemnitor, shall assist and cooperate with Indemnitor in the conduct of litigation, the making of settlements and the enforcement of any right of contribution to which the Indemnatee may be entitled from any person or entity in connection with the subject matter of any litigation subject to indemnification hereunder. In addition, Indemnatee shall, upon request by Indemnitor or counsel selected by Indemnitor and at the sole cost and expense of Indemnitor, attend hearings and trials, assist in the securing and giving of evidence, assist in obtaining the presence or cooperation of witnesses, make available its own personnel, and effect settlements, and shall do whatever else is reasonably necessary and appropriate in connection with such litigation.

Indemnatee shall not make any demand upon Indemnitor or counsel for Indemnitor in connection with any litigation subject to indemnification hereunder, except a general demand for indemnification as provided hereunder. Indemnatee shall not, except at its own cost, voluntarily make any payment, assume any obligation, incur any expense, or settle or compromise any claim without the express written approval of

Indemnitor, in connection with any litigation subject to indemnification hereunder. Notwithstanding the foregoing, the Indemnitee shall have the right to join in the defense of any litigation or claim at such Indemnitee's own cost and expense, and, if the Indemnitee agrees in writing to be bound by and promptly to pay the full amount of any final judgment from which no further appeal may be taken and if the Indemnitor is reasonably assured of the Indemnitee's ability to satisfy such agreement, then, at the option of the Indemnitee, such Indemnitee may take over the defense of such litigation or claim.

(c) If the Indemnitee shall fail to notify promptly the Indemnitor as to (i) the nature of any Claims or (ii) the commencement of any suit or proceeding brought to enforce any Claims, or the Indemnitee shall fail to perform its obligations as Indemnitee hereunder or to cooperate fully with Indemnitor in Indemnitor's defense of any suit or proceeding, then, except where such failure does not have a materially adverse effect on Indemnitor's defense of such claims, Indemnitor shall be released from all of its obligations under this Agreement with respect to that particular suit or proceeding and any other claims which had been raised in such suit or proceeding.

**11.8 Limitation on Liabilities. NO PARTY SHALL BE RESPONSIBLE FOR OR HAVE ANY OBLIGATION TO INDEMNIFY, DEFEND OR HOLD HARMLESS THE OTHER PARTY OR ANY OTHER PERSON FOR SPECIAL, CONSEQUENTIAL, PUNITIVE, EXEMPLARY, INCIDENTAL OR INDIRECT**

**DAMAGES, COSTS, EXPENSES, CHARGES OR CLAIMS**, except to the extent that losses resulting from a third party claim include special, consequential, punitive, exemplary, incidental or indirect damages, costs, expenses, charges, or claims of the third party and then, only to the extent of such losses, subject, however, to all of the limitations set forth herein.

**11.9 Limitation on Claims**. The parties hereto hereby agree that any and all claims or causes of action that may arise under this Agreement or as a result of the transactions contemplated hereunder shall only be brought against the other pursuant to the terms and conditions of this Article 11.

**11.10 Survival/Indemnity Period**. Except for the representations and warranties of Seller set forth in Sections 4.6, 4.8, 4.12 and 4.13 hereof (which shall survive until the expiration of the applicable statute of limitations), the representations and warranties of Seller set forth herein shall survive Closing for a period of two (2) years after the Closing Date.

## 12. RESOLUTION OF DISPUTES

**12.1 Good Faith Negotiation.** The parties will attempt in good faith to resolve through negotiation any dispute, claim or controversy arising out of or relating to this agreement. Either party may initiate negotiations by providing written notice in letter form to the other party, setting forth the subject of the dispute and the relief requested. The recipient of such notice will respond in writing within five days with a statement of its position on and recommended solution to the dispute. If the dispute is not resolved by this exchange of correspondence, then representatives of each party with full settlement authority will meet at a mutually agreeable time and place within ten days of the date of the initial notice in order to exchange relevant information and perspectives, and to attempt to resolve the dispute. If the dispute is not resolved by these negotiations, either party shall be entitled to pursue all remedies available under California Law.

**12.2 Attorneys' Fees.** In the event either party commences legal action to enforce any provision of this Agreement, the prevailing party shall be entitled to an award of all costs, fees and expenses, including attorneys fees, to be paid by the party against whom enforcement is ordered.

13. GENERAL

13.1 Consented Assignment. Anything contained herein to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any claim, right, contract, license, lease, commitment, sales order or purchase order if an attempted assignment thereof without the consent of another party thereto would constitute a breach thereof or in any material way affect the rights of the assigning party thereunder, or if an attempted assignment would be ineffective or would materially affect the assigning party's rights thereunder so that the assignee would not in fact receive all such rights.

13.2 Consents, Approvals and Discretion. Except as herein expressly provided to the contrary, whenever this Agreement requires any consent or approval to be given by either party or either party must or may exercise discretion, the parties agree that such consent or approval shall not be unreasonably withheld or delayed and such discretion shall be reasonably exercised.

13.3 Choice of Law; Consent to Jurisdiction. The parties agree that this Agreement shall be governed by and construed in accordance with the laws of the State of California, excluding any conflict-of-laws rule or principle that might refer the governance or the construction of this Agreement to the laws of another jurisdiction. **BUYER AND SELLER HEREBY WAIVE THE RIGHT TO ANY JURY TRIAL IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER BUYER OR SELLER AGAINST THE OTHER.**

13.4 Benefit/Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their

respective successors and permitted assigns. Except as provided in the following sentence, neither party may assign this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld. Buyer may assign this Agreement to a California limited partnership of which Buyer is the sole general partner.

**13.5 Accounting Date.** The transactions contemplated hereby shall be effective for accounting purposes as of 12:01 a.m. on the day immediately following the Closing Date, unless otherwise agreed in writing by Buyer and Seller.

**13.6 Brokers.** Seller has agreed to pay a fee to Shattuck Hammond Partners in connection with this transaction. Except for Seller's agreement with Shattuck Hammond Partners for which Buyer shall have no liability whatsoever, neither Seller nor Buyer has entered into any contracts, agreements, arrangements or understandings with any person or firm that could give rise to any claim for a broker's, finder's or agent's fee or commission or other similar payment in connection with the negotiations leading to this agreement or the consummation of the transactions contemplated hereby. Each of Seller and Buyer agree to indemnify the other against any such fees or commissions arising out of an alleged agreement with the indemnifying party.

**13.7 Costs of Transaction.** Whether or not the transactions contemplated hereby shall be consummated and except as otherwise provided herein, the parties agree as follows: (i) Seller shall pay the fees, expenses and disbursements of Seller and its agents, representatives, accountants and counsel incurred in connection

with the subject matter hereof and any amendments hereto, the expenses associated with obtaining a CLTA Owner's Policy of Title Insurance covering the Real Property and any surcharges, transfer taxes, sales or use tax and document recording fees associated with the conveyance of the Assets, including the Real Property, and (ii) Buyer shall pay the fees, expenses and disbursements of Buyer and its agents, representatives, accountants and counsel incurred in connection with the subject matter hereof and any amendments hereto, and shall pay for the cost of a survey of the Real Property, any additional premiums required to obtain an ALTA policy of title insurance if Buyer elects to obtain such additional coverage, its due diligence (which may include, without limitation, structural and environmental surveys and reports, and a Phase I environmental assessment), any costs, fees, expenses, loan commitment fees and other charges of Buyer's lender.

**13.8 LIQUIDATED DAMAGES.** PROVIDED THAT THE CONDITIONS SPECIFIED IN SECTION 8 ARE SATISFIED OR WAIVED BY BUYER, IN THE EVENT THAT ESCROW FAILS TO CLOSE SOLELY BY REASON OF BUYER'S DEFAULT, THEN IN ANY SUCH EVENT, THE ESCROW HOLDER MAY BE INSTRUCTED BY SELLER TO CANCEL THE ESCROW AND SELLER SHALL THEREUPON BE RELEASED FROM ITS OBLIGATIONS HEREUNDER. BUYER AND SELLER AGREE THAT BASED UPON THE CIRCUMSTANCES NOW EXISTING, KNOWN AND UNKNOWN, IT WOULD BE IMPRACTICAL OR EXTREMELY DIFFICULT TO ESTABLISH SELLER'S DAMAGE BY REASON OF BUYER'S DEFAULT. ACCORDINGLY, BUYER AND SELLER AGREE THAT IT WOULD BE REASONABLE AT SUCH TIME TO AWARD SELLER "LIQUIDATED DAMAGES" EQUAL TO THE AMOUNT OF THE DEPOSIT PLACED INTO ESCROW BY BUYER PURSUANT TO SECTION



2.2(a) HEREOF.

SELLER AND BUYER ACKNOWLEDGE AND AGREE THAT THE APPLICABLE FOREGOING AMOUNTS OF LIQUIDATED DAMAGES ARE REASONABLE AS LIQUIDATED DAMAGES AND SHALL BE SELLER'S SOLE AND EXCLUSIVE REMEDY IN LIEU OF ANY OTHER RELIEF, RIGHT OR REMEDY, AT LAW OR IN EQUITY, TO WHICH SELLER MIGHT OTHERWISE BE ENTITLED BY REASON OF BUYER'S DEFAULT, EXCEPT ONLY SUCH AS MAY BE CAUSED TO SELLER BY REASON OF ANY CLOUD ON TITLE RECORDED OR CAUSED TO BE RECORDED BY OR ON BEHALF OF BUYER. ACCORDINGLY, IF BUYER FAILS TO COMPLETE THE PURCHASE OF THE ASSETS FOLLOWING SATISFACTION OF THE CONDITIONS SET FORTH IN SECTION 8 HEREOF, SELLER MAY INSTRUCT THE ESCROW HOLDER TO CANCEL THE ESCROW, WHEREUPON SELLER SHALL BE RELIEVED FROM ALL LIABILITY HEREUNDER, AND, PROMPTLY FOLLOWING ESCROW HOLDER'S RECEIPT OF SUCH INSTRUCTION, ESCROW HOLDER SHALL (A) CANCEL THE ESCROW, (B) PAY ALL OF ESCROW HOLDER'S CHARGES FROM THE TOTAL AMOUNT OF THE DEPOSIT THEN HELD BY ESCROW HOLDER AND (C) DISBURSE TO SELLER THE REMAINING BALANCE OF THE DEPOSIT AND ACCRUED INTEREST THEREON. IF THE CLOSE OF ESCROW FAILS TO OCCUR FOR ANY REASON OTHER THAN BUYER'S DEFAULT UNDER THIS AGREEMENT, ESCROW HOLDER SHALL DISBURSE TO BUYER ALL OF THE DEPOSIT THEN HELD BY ESCROW HOLDER, PLUS THE ACCRUED INTEREST THEREON, LESS BUYER'S SHARE OF ESCROW CANCELLATION CHARGES. SELLER AND BUYER ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTAND THE PROVISIONS OF THIS SECTION 13.7 AND BY THEIR INITIALS IMMEDIATELY BELOW, AGREE TO BE BOUND BY ITS TERMS.

  
\_\_\_\_\_  
Seller's initials

  
\_\_\_\_\_  
Buyer's initials

**13.9 Confidentiality.** It is understood by the parties hereto that the information, documents and instruments delivered to Seller by Buyer or Buyer's agents and the information, documents and instruments delivered to Buyer by Seller or Seller's agents including, without limitation, this Agreement and all documents delivered hereunder are of a confidential and proprietary nature ("Confidential Information"). Each of the parties hereto agrees that both prior and subsequent to Closing it will maintain, and will take all reasonable measures to assure that each party's respective agents and employees maintain, the confidentiality of all such Confidential Information delivered to it by the other party hereto or its agents in connection with the negotiation of this Agreement or in compliance with the terms, conditions and covenants hereof and only disclose such Confidential Information, documents and instruments to its duly authorized officers, directors, representatives and agents unless (i) compelled to disclose by judicial or administrative process (including without limitation in connection with obtaining the necessary approvals of this Agreement and the transactions contemplated hereby) or by other requirements of law or (ii) disclosed in an action or proceeding brought by a party hereto in pursuit of its rights or in the exercise of its remedies hereunder; provided, however, that the parties hereto shall not disclose any Confidential Information not required to be disclosed as part of such permitted disclosure.

Each of the parties hereto further agrees that it will not use such Confidential Information for its advantage and if the transactions contemplated hereby are not consummated, it will

return all such documents and instruments and all copies thereof in its possession to the other party to this Agreement. Each of the parties hereto recognizes that any breach of this Section would result in irreparable harm to the other parties to this Agreement and their affiliates and that therefore either Buyer or Seller shall be entitled to an injunction to prohibit any such breach or anticipated breach, without the necessity of posting a bond, cash or otherwise, in addition to all of their other legal and equitable remedies. Nothing in this Section, however, shall prohibit the use of such Confidential Information for such governmental filings as in the mutual opinion of Seller's counsel and Buyer's counsel are (i) required by law or governmental regulations or (ii) otherwise appropriate. This Section shall not apply to any information known to a party prior to its disclosure to such party as contemplated under this Agreement, or was, is or becomes generally available to the public other than by disclosure by the parties or any of their respective agents in violation of this Section.

**13.10**Waiver of Breach. The waiver by either party of breach or violation of any provision of this Agreement shall not operate as, or be construed to constitute, a waiver of any subsequent breach of the same or other provision hereof.

**13.11**Notice. 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 telecopy and telex) or overnight courier, or five (5) days after being

deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

**Seller:** Huntington East Valley Hospital  
c/o Southern California Healthcare Systems  
100 West California Boulevard  
Pasadena, California 91105  
Attn: Timothy W. Carmack,  
Vice President, Finance  
Fax No. (626) 397-2995

**with copies to:** Musick, Peeler & Garrett LLP  
One Wilshire Boulevard  
Suite 2000  
Los Angeles, California 90017  
Attn: John R. Browning, Esq.  
Fax No. (213) 624-1376

**Buyer:** PanPacific Health Enterprises, Inc.  
*1842 West Dr.*  
San Marino, California  
Fax No. (626) 281-5127

**with copies to:** Olsen & Pershing LLP  
Oak Brook Executive Plaza  
1315 West 22nd Street, Suite 225  
Oak Brook, Illinois 60523  
Attn: Michael E. Olsen, Esq.  
Fax No. (630) 472-5115

**Escrow Holder:** Commerce Escrow  
1545 Wilshire Boulevard  
Suite 600  
Los Angeles, California 90017  
Attn: Phil Graf, President  
Fax No. (213) 484-0417

or to such other address, and to the attention of such other person or officer as any party may designate.

**13.12 Severability.** In the event any provision of this Agreement is held to be invalid, illegal or unenforceable for any reason and in any respect, such invalidity, illegality, or unenforceability shall in no event affect, prejudice or disturb

the validity of the remainder of this Agreement, which shall be and remain in full force and effect, enforceable in accordance with its terms.

**13.13 Gender and Number.** Whenever the context of this Agreement requires, the gender of all words herein shall include the masculine, feminine and neuter, and the number of all words herein shall include the singular and plural.

**13.14 Divisions and Headings.** The division of this Agreement into sections and subsections and the use of captions and headings in connection therewith are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

**13.15 Exhibits and Schedules.** The exhibits and schedules attached to this Agreement constitute an integral part hereof. However, in the event of an inconsistency between an exhibit or schedule and the terms and provisions of the Agreement, the terms and provisions of the Agreement shall govern.

**13.16 No Third Party Beneficiaries.** The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and it is not the intention of the parties hereto to confer third-party beneficiary rights upon any other person.

**13.17 No Inferences.** Inasmuch as this Agreement is the result of negotiations between sophisticated parties of equal bargaining power represented by counsel, no inference in favor of, or against, either party shall be drawn from the fact that any portion of this Agreement has been drafted by or on behalf of such party.

**13.18 Tax and Medicare Advice and Reliance.** Except as expressly provided in this Agreement, neither of the parties (nor any of the parties' respective counsel, accountants or other representatives) has made or is making any representations to any other party (or to any other party's counsel, accountants or other representatives) concerning the consequences of the transactions contemplated hereby under applicable tax laws or under the laws governing the Medicare program. Each party has relied solely upon the tax and Medicare advice of its own employees or of representatives engaged by such party and not on any such advice provided by any other party hereto.

**13.19 Knowledge.** Whenever any statement herein or in any schedule, exhibit, certificate or other documents delivered to any party pursuant to this Agreement is made "to its knowledge" or words of similar intent or effect of any party or its representative, such person shall make such statement only if such facts and other information which, as of the date the representation is given, are actually known to the party making such statement, which, with respect to persons that are corporations, means the knowledge of its executive officers.

**13.20 Entire Agreement/Amendment.** This Agreement supersedes all previous contracts, and constitutes the entire agreement of whatsoever kind or nature existing between or among the parties in respect of the within subject matter and no party shall be entitled to benefits other than those specified herein. As between or among the parties, no oral statements or prior written material not specifically incorporated herein shall be of any

force and effect. The parties specifically acknowledge that in entering into and executing this Agreement, the parties rely solely upon the representations and agreements contained in this Agreement and no others. All prior representations or agreements, whether written or oral, not expressly incorporated herein are superseded and no changes in or additions to this Agreement shall be recognized unless and until made in writing and signed by all parties hereto. This Agreement may be executed in two or more counterparts, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in multiple originals by their authorized officers, all as of the date and year first above written.

**SELLER:**

HUNTINGTON EAST VALLEY HOSPITAL

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

*James W. Malei*  
*President and CEO*

**BUYER:**

PANPACIFIC HEALTH ENTERPRISES, INC.

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

*C. Joseph Chang*  
*President*



# HUNTINGTON EAST VALLEY HOSPITAL Asset Sales Agreement

## **SCHEDULES**

1.2(viii)	Excluded Contracts
1.2(xi)	Excluded Assets
2.2(i)	Promissory Note
4.4	Material Licenses & Permits
4.6	Operating Commitments, Contracts, Leases and Agreements
4.7	Real Property
4.9	Material defects, structural or other in any of the assets
4.11	Litigation or Proceedings with Respect to Facility and Assets
4.13 (a)	Employee Relations
4.13 (b)	Employee Roster
4.14	December 2000 Unaudited Financial Statements and 1999 Audit Report
6.2	Negative Covenants
6.5	3rd Party Consents
8.8	Non-Compete Agreement

**HUNTINGTON EAST VALLEY HOSPITAL**  
**Asset Sales Agreement**  
**Schedule 1.2(viii)**  
**Excluded Contracts**

- 1 - Huntington Memorial Hospital - Laundry service agreement
- 2 - Genesys - Biomedical Equipment Maintenance contract
- 3 - Sodexo USA - Dietary/EVS Management contract
- 4 - VHA/Novation - Owens & Minor - Supply contract

## **HUNTINGTON EAST VALLEY HOSPITAL**

### **Asset Sales Agreement**

#### **Schedule 1.2(xi)**

##### **Excluded Assets**

- 1 - Huntington Memorial Hospital - Lab results reporting software/hardware
- 2 - Huntington Memorial Hospital - e-mail/internet access system
- 3 - Notes Receivable
- 4 - Real Estate Deposits
- 5 - Deferred financing costs
- 6 - Joint Venture ownership in Hill Diagnostic Imaging Center
- 7 - 26 patient beds on loan from Methodist Hospital

**HUNTINGTON EAST VALLEY HOSPITAL  
Schedule 2.2(i)**

**PROMISSORY NOTE**

\$1,500,000

Pasadena, California  
\_\_\_\_\_, 2001

On or before \_\_\_\_\_, 2002 (the "Maturity Date"), for Value Received the undersigned, PanPacific Health Enterprises, Inc. ("Maker"), promises to pay to Huntington East Valley Hospital ("Payee"), or order, at c/o Southern California Healthcare Systems, 100 West California Boulevard, Pasadena, California 91105, Attn: Timothy W. Carmack, Vice President, Finance, or at such other place as Payee may from time to time designate by written notice to Maker, the principal sum of \$1,500,000, together with interest at the prime rate of Bank of America as publicly announced from time to time.

This Promissory Note is payable in equal quarterly installments of principal in the amount of \$375,000, plus accrued interest on each of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, with the balance, together with all accrued, but unpaid interest, due and payable on \_\_\_\_\_, 2002.

Maker acknowledges that late payment of the amount due under this Note will cause Payee to incur costs not contemplated by this loan. Such costs include, without limitation, processing and accounting charges. Therefore, if such amount is not received by Payee within ten (10) days following the due date, Maker shall pay to Payee an additional sum of 3% of the overdue amount as a late charge. Maker agrees that this late charge represents a reasonable sum considering all of the circumstances existing on the date of this Note and represents a fair and reasonable estimate of the costs that Payee will incur by reason of late payment. Maker further agrees that proof of actual damages would be costly or inconvenient. Acceptance of any late charge shall not constitute a waiver of the default with respect to the overdue amount, and shall not prevent Payee from exercising any of the other rights and remedies available to it.

After each of the quarterly payment dates and Maturity Date, any and all unpaid sums shall bear interest at the rate of 10% per annum until paid.

Maker agrees to pay the following costs, expenses, and attorneys' fees paid or incurred by Payee (including attorneys' fees paid in connection with preparation of this Note), or adjudged by a court: (a) reasonable costs of collection, costs and expenses (including attorneys' fees) paid or incurred in connection with the collection or enforcement of or the declaration of rights under this Note, whether or not suit is filed; and (b) costs of suit and such sums as the court may adjudge as attorneys' fees in any action involving the declaration of rights under or the enforcement of this Note or any part of it.

This Note shall be governed by and construed in accordance with the laws of the State of California.

This Note is secured by a Deed of Trust of even date herewith and a security interest in the escrow account established pursuant to the Gross Capitation Service Agreement referred to in Sections 8.11 and 9.6 of the Asset Sale Agreement dated February 14, 2001.

"Maker"  
  
\_\_\_\_\_

**HUNTINGTON EAST VALLEY HOSPITAL**

**Asset Sales Agreement**

**Schedule 4.4**

**Material licenses and Permits**

- 1      Glendora City Business License
- 2      State of California Department of Health Services - General Acute Care Hospital License
- 3      State of California Hazardous Waste Permit
- 4      State of California Medi-Cal License
- 5      Pharmacy License
- 6      CLIA Laboratory
- 7      Radioactive Material License

## HUNTINGTON EAST VALLEY HOSPITAL

### Asset Sales Agreement

#### Schedule 4.6

#### Operating Commitments, Contracts, Leases and Agreements

Operating Commitments, Contracts and Agreements	Cancellation	Term Date
Pacific Medical Imaging - Nuclear Medicine	60 days	3/1/2001
United Therapy Network -Physical/Occupational Therapy	30 days	11/1/2001
Hirsch & Associates - Infection Control Services	60 days	2/1/2001
ProIntermed - Patient Billing/Collections Services	60 days	7/1/2001
Your Office Genie - Medical Dictation/Transcription Services	30 days	4/7/2001
CMBS - Radiology Dictation/Transcription Services	60 days	2/14/2001
Smart Corporation - Medical Records Copy Service	30 days-for cause(1)	3/30/2001
Discharge Summary - Dictation	30 days	no term date
Access Family TV - Patient Cable TV	90 days (2)	3/31/2005
THM Management - Telephone Service Contract	30 days-for cause	12/15/01
Document Storage - Offsite Medical Records Storage	60 days	4/11/01
BFI - Waste Management	not addressed	21/02
Meditech - Information System - Service contract	30 days	month/month
3M - coding software license	anniversary	5/4/2003
LM Systems - alarm monitoring	anniversary	8/21/01
Automated Vital Statistics System - LA County AVSS	not addressed	8/31/01
CK Imaging - Echocardiograms	60 days	no term date

(1) Can only be cancelled for cause, 30 days prior to termination date

(2) Can only be cancelled for cause, 90 days prior to termination date

#### MEDICAL DIRECTOR CONTRACTS

Name	Specialty	Term	Cancellation
K. Saeger	Laboratory		90 days
R. Eto	Radiology		120 days
M. Agron	Emergency	09/01/01	30 days
C. Atil	UR, Assoc Director	12/31/01	30 days
R. Betts	Pharmacy	12/31/01	30 days
M. Domaguing	Chief of Staff	03/01/01	30 days
H. Hsu	Womens Health	12/31/01	30 days
K. Eldridge	Medicine	12/31/01	30 days
J. Lee	OB/GYN/Peds	12/31/01	30 days
B. Leon	Orthopedic & PT	12/31/01	30 days
D. Patel	Pulmonary	12/31/01	30 days
P. Patel	Cardiology	12/31/01	30 days
O. Quijada	Anesthesia	12/31/01	30 days
F. Sahhar	UR, Director	12/31/01	30 days
F. Soria	U.R.	12/31/01	30 days

## Schedule 4.6, cont'd

### OPERATING LEASES AND RENTALS

Name	Term
Air Liquide - airgas and tank rental	month to month/as needed
Ikon - copier rental	09/30/2005
Matheny - laser surgery equipment rental	month to month/as needed
MK Smith Chevrolet - patient transportation vans x 2	03/31/2002
Olympus - surgery equipment rental	600 procedures
Pitney Bowes - mail processing equipment rental	09/10/2003
Pyxis - drug and supply dispensing equipment	month to month
Roche Diagnostic - lab equipment	08/05/20025
Mediq/PRN - specialty bed rental	month to month/as needed
Hanns On Software - pharmacy program	month to month
Office space - MOB - 16,658 sq. feet - detailed schedule attached	month to month & 8/1/2001

### CAPITAL LEASES

Name	Term
Video processor with xenon light	1/1/2002
Beckman Coulter lab equipment	3/1/2005
CAT Scan	8/1/2001

### MANAGED CARE CONTRACTS

See Schedule on next page.

Schedule 4.6, cont'd

Name	Type	Original Effective Date	Last Amended	Status/Comments	Assignability	Term Notice Days
Health Net	Medi-Cal	02/01/1992	07/01/1997		With written consent (12.2)	90 days
Aetna/US Healthcare Select	Commercial - Per diem	01/01/1996	01/01/1996		With written consent (7A)	90 days
BPS, Inc.	Commercial - Per diem	12/01/1996	12/01/1999		With written consent (6.12)	120 days
Blue Cross California Care	Commercial - Per diem	05/01/1996	01/01/1999		With written consent (13.1)	180 days
Blue Shield HMO/Care America	Commercial - Per diem	08/01/1995	09/01/2000		With written consent (10.2)	90 days
CIGNA Health Care of California	Commercial - Per diem	06/01/1992	02/01/2000		With written consent (III.F)	90 days
Health Net	Commercial - Per diem	04/01/1997	11/15/1999		With written consent (15.01)	120 days
Maxicare	Commercial - Per diem	06/01/2000	none		With written consent (2.2)	90 days
One Health Plan	Commercial - Per diem	10/01/1996	none		With written consent (15b)	90 days
Pacificare/FHP	Commercial - Per diem	06/01/1997	none	in process of renege.	With written consent (12.05)	120 days
PruCare	Commercial - Per diem	08/01/1996	11/01/1996		With written consent (V.M)	60 days
Tower Health	Commercial - Per diem	10/01/1998	none		With written consent (9.14)	120 days
UHP Healthcare	Commercial - Per diem	10/01/1996	07/01/1998		With written consent (28)	60 days
Aetna/ US Healthcare	Senior - Per Diem	01/01/1996	01/01/1996		With written consent (5B)	120 days
Blue Cross Senior Secure	Senior - Per Diem	05/01/1996	01/01/1999		With written consent (13.1)	180 days
Blue Shield 65+ (CareAmerica)	Senior - Per Diem	04/01/2000	09/01/2000		With written consent (14.4)	90 days
Health Net	Senior - Per Diem	04/01/1997	11/15/1999		With written consent (15.01)	120 days
Medicare	Senior - Per Diem	06/01/2000	none		With written consent (2.2)	90 days
Secure Horizons	Senior - Per Diem	06/01/1997	in process		With written consent (12.05)	120 days
Blue Cross	Managed MCAL - Per Diem	03/01/1997	03/01/1998		With written consent (15.14)	120 days
Care 1st Health Plan	Managed MCAL - Per Diem	05/01/1997	none		With written consent (XVI.A)	90 days
Molina Medical Centers	Managed MCAL - Per Diem	02/01/1997	none		With written consent (XV.e)	120 days
Tower Health	Managed MCAL - Per Diem	10/01/1998	none		With written consent (9.14)	120 days
Blue Cross	Healthy Families	03/01/1997	03/01/1998	see Med-Cal agreement	With written consent (15.14)	120 days
Care 1st	Healthy Families	05/01/1997	07/01/1999	see Med-Cal agreement	With written consent (XVI.A)	90 days
UHP Healthcare	Healthy Families	10/01/1992	07/01/1998	see Med-Cal agreement	With written consent (28)	60 days
501 Industrial Trust Fund	PPO	05/01/1990	10/01/1996		With written consent (12)	90 days
Admar Industries	PPO	02/01/1991	07/01/1999		With written consent (11)	90 days
Aetna/US Healthcare Open Choice	PPO	12/01/1996	none	provision cited (2.4) is for delegation of duties	With written consent (2.4)	90 days
Affiliated Health Funds	PPO	10/01/1997	01/01/2000		With written consent (10.2)	90 days
Affordable Healthcare Concepts/First Health	PPO	12/01/1995	11/01/1999		no assignment provision	60 days
Affordable Health Networks/First Health (Worker's Compensation)	PPO	12/01/1995	11/01/1999		no assignment provision	60 days
American Insurance Consultants	PPO	04/17/1985	06/01/1996	Consented to earlier assignment	no assignment provision	60 days
Beech Street	WC	11/01/1998	11/01/1998		With written consent (10.5)	90 days
Beech Street (Worker's Compensation)	PPO	09/01/1994	01/01/1996		Not assignable (11.7)	30 days
Benefit Panel Services (BPS)	PPO	02/01/1996	12/01/1999		With written consent (8.9)	90 days
Blue Cross Prudent Buyer	PPO	05/01/1996	01/01/1999	(same as commercial k)	With written consent (13.1)	180 days
Blue Shield	PPO	08/01/1995	09/01/2000	(part of commercial k)	With written consent (10.2)	90 days
CAPP Care	PPO	05/01/1996	09/01/1998		no assignment provision	90 days
CIGNA	PPO	06/01/1994	04/01/2000		With written consent (III.F)	60 days
Community Care Network (CCN)	PPO	08/01/1995	08/01/1997		With written consent (3.8)	120 days
CCN Elect (Worker's Compensation)	WC	08/01/1995	08/01/1997	same as CCN PPO k	With written consent (3.8)	120 days
Foundation/Health Net (CHAMPUS)	PPO	07/01/1994	01/01/1996		Not assignable (15)	90 days
Foundation/Health Net (Worker's Compensation)	WC	04/01/1997	none	same as POS/PPO k	With written consent (15.01)	90 days



Name	Type	Original Effective Date	Last Amended	Status/Comments	Assignability	Term Notice Days
Health Net (POS & PPO)	PPO	04/01/1997	none		With written consent (15.01)	90 days
Health Payors Organization, Ltd.	PPO	10/17/1994	10/01/1998		With written consent (5.14)	90 days
Interplan Corporation	PPO	03/01/1995	10/01/1998		no assignment provision	90 days
Interplan Corporation (Worker's Compensation)	WC	03/01/1995	10/01/1998	same as PPO k	no assignment provision	90 days
Little Company of Mary Health Services (Workers Compensation)	PPO	12/01/1995	none		With written consent (13.6)	90 days
Los Angeles Foundation for Medical Care	PPO	10/30/1984	03/13/2000		With written consent (XIX.C)	60 days
Los Angeles Foundation for Medical Care (Worker's Compensation)	WC	10/30/1984	03/13/2000		With written consent (XIX.C)	60 days
MultiPlan, Inc.	PPO	12/01/1999	none	MOU	no assignment provision	90 days
MultiPlan, Inc. (Worker's Compensation)	WC	12/01/1999	none	MOU	no assignment provision	90 days
One Health Plan	PPO	05/01/1997	none		With written consent (12.6)	90 days
Pacific Health Alliance	PPO	03/01/1992	10/01/1998		With written consent (15.01)	90 days
Preferred Health Network	PPO	07/01/1999	none		With written consent (13.02)	90 days
Preferred Health Network (Worker's Compensation)	WC	07/01/1999	none		With written consent (13.02)	90 days

**HUNTINGTON EAST VALLEY HOSPITAL**  
**Asset Sales Agreement**  
**Schedule 4.7**  
**Real Property**

**LEGAL DESCRIPTION OF PROPERTY**

**Parcel 1:**

The Westerly 100 feet of the North 270 feet of lot "A" of tract No. 2998, of Le Mar's addition to the town of Alost, in the City of Glendora, County of Los Angeles, State of California, as per map recorded in Book 36 page 81 of maps, in the office of the county recorder of said county.

Except therefrom, the southerly 15 feet.

Also except therefrom that portion of described as follows:

Beginning at the Northwest corner of said West 100 feet of the South 235 feet of the North 255 feet of aforementioned lot A, said corner being on the Southerly line of Alost Avenue and said corner being also on the Easterly line of Santa Fe Avenue; thence Easterly along the Southerly line of Alost Avenue 24.63 feet to the beginning of a tangent curve concave Southeasterly having a radius of 25 feet and an arc length of 38.88 feet; thence Southwesterly along said curve 38.88 feet to a point on the Easterly line of Santa Fe Avenue, thence Northerly along said Easterly line of Santa Fe Avenue 24.63 feet to the point of beginning, as granted to the City of Glendora, County of Los Angeles, State of California, by a deed recorded February 10, 1964 as instrument No. 3791.

**Parcel 2:**

The Easterly 100 feet to the Westerly 200 feet of the North 270 feet of lot A, of tract No. 2998, in Le Mar's addition to the town of Alost, in the City of Glendora, county of Los Angeles, State of California, as per map recorded in Book 36 page 81 of maps, in the office of the county recorder of said county.

**Parcel 3:**

The Westerly 200 feet of the South 50 feet of the North 320 feet of lot A in tract No. 2998, in the City of Glendora, County of Los Angeles, State of California, as per map recorded in Book 36 page 81, in the office of the county recorder of said county.

**Parcel 4:**

The Southerly 15 feet of the Westerly 100 feet of the Westerly 100 feet of the North 270 feet of lot A of tract No. 2998, of Le Mar's addition to the town of Alost, in the City of Glendora, county of Los Angeles, State of California, as per map recorded in Book 36 page 81 of maps, in the office of the county recorder of said county.

**Parcel 5:**

Parcel 2 of parcel map No. 13990 in the City of Glendora, county of Los Angeles, State of California, as per map filed in Book 146 pages 21 and 22 of parcel maps, in the office of the county recorder of said county.

**Schedule 4.7, cont'd**

**Parcel 6:**

Lots 2 and 3 block 12 of Le Mar's addition to the town of Alostá, in the City of Glendora, county of Los Angeles, State of California, as per map recorded in Book 16 pages 75 and 76 of Miscellaneous Records, in the Office of the County Recorder of said county.

**Parcel 7:**

Lots 1 and 2 of tract 8387, in the City of Glendora, County of Los Angeles, State of California, as per map recorded in Book 118 page 19 of maps, in the Office of the County Recorder of said county.

**Parcel 8:**

Lot 3, of tract 8387, in the City of Glendora, county of Los Angeles, State of California; as per map recorded in Book 188 page 19 of maps, in the Office of the County Recorder of said county.

**HUNTINGTON EAST VALLEY HOSPITAL**

**Asset Sales Agreement**

**Schedule 4.9**

**Material Defects, Structural or Other in any Assets**

- 1        2 - 550 gallon underground diesel fuel storage tanks do not conform to current code requirements.

**HUNTINGTON EAST VALLEY HOSPITAL**  
**Asset Sales Agreement**  
**Schedule 4.11**  
**Litigation or Proceedings with Respect to Facility and Assets**

NONE

**HUNTINGTON EAST VALLEY HOSPITAL**  
**Asset Sales Agreement**  
**Schedule 4.13 (a)**  
**Employee Relations**

NONE

# HUNTINGTON EAST VALLEY HOSPITAL

## Asset Sales Agreement

### Schedule 4.13 (b)

#### Employee Roster - 11/2000

Last Name	First Name	Date of Hire	Position
Abrasaldo	Paul	6/30/90	Technologist
Aclan-Kim	Elena	1/12/81	Registered Nurse
Acosta	Eneida	5/11/99	Admitting Rep
Afable	Zenaida	4/29/95	Registered Nurse
Agbong	Maritess	6/24/97	Director
Agravante	Angielyn	6/1/00	Clerk
Aispuro	Marylou	10/20/00	Admitting Rep
Alarcon	Rosa	8/21/00	Certified Nurse's Assistant
Alcudia	Gloria	8/21/00	Clerk
Alcudia	MaryAnn	3/11/91	Financial Analyst
Aldrett	Hector	7/7/97	OR Technician
Ali	Sirtaj	8/18/00	Technologist
Almachar	Eva	9/6/77	Registered Nurse
Almonte	Aldine	10/19/93	Registered Nurse
Alvarez	Annette	1/14/99	Diet Technician
Ang-Baldovino	Cristina	3/7/89	Licensed Vocational Nurse
Angeles	Helen	9/27/00	Registered Nurse
Antonio	Theresa	9/29/94	Registered Nurse
Aquino	Adan	6/15/98	Certified Nurse's Assistant
Aquino	Avelino	3/1/98	
Aquino	Vladimir	11/15/93	Maintenance Engineer
Aquino	Alma	3/6/98	Registered Nurse
Aquino	Susan	3/6/98	Registered Nurse
Aquino	Eunice	2/2/97	File Clerk
Arevalo	Emily	5/17/99	OR Technician
Arriaga	Sharon	4/29/76	Respiratory Care Practitioner
Ashbaugh	Donna	9/19/94	Director
Atkins	Fe	2/25/00	Registered Nurse
Austin	Helene	11/8/90	Registered Nurse
Auth	Jeanette	3/23/98	Director
Avila	Lucy	10/29/97	Registered Nurse
Awan	Zulfiqar	6/25/98	Admitting Representative
Ayala	Rosa	8/23/99	Director
Ballecer	Fe	2/3/93	Registered Nurse
Ballesteros	Roda	9/21/98	Certified Nurse's Assistant
Bataclan	Francisca	1/27/98	Coder
Bautista	Ernestina	10/25/00	Certified Nurse's Assistant
Bayless	Jennifer	3/6/98	Physical Therapist Assistant
Benetiz	Luis	10/20/00	Transport
Beseth	Roseann	3/29/98	Registered Nurse
Blaine	Sherry	11/11/90	Coder
Bockoven	John	5/11/98	Licensed Vocational Nurse
Boggs	Eva	8/17/98	Driver
Boswell	Nina	8/30/77	OB Technician
Brandt	Grace	6/24/91	Registered Nurse

Schedule 4.13(b), cont'd.

Last Name	First Name	Date of Hire	Position
Briones	Precilla	12/17/90	Registered Nurse
Briones	Catheryn	2/21/98	Surgical Services Clerk
Brummitt	Barbara	10/29/79	PBX Operator
Bucklew	Lucille	4/25/90	Respiratory Care Technician
Buscaino	Pacita	4/3/85	Registered Nurse
Cabrera	Ian	7/31/00	Technician
Cajimat	Marivi	8/18/00	Registered Nurse
Calaycay	Norma	1/12/98	Coder
Calimbus	Thelma	11/3/99	Registered Nurse
Caponong	Marilyn	3/18/91	Supervisor
Castillo	Christy	11/24/00	Lab Assistant
Castle	Lilli	9/1/00	Registered Nurse
Catoera	Ruth	11/20/98	Registered Nurse
Chairez	Angelica	4/13/98	Admitting Representative
Chang	Jamellee	6/30/96	Registered Nurse
Chatman	Barbara	2/4/00	Certified Nurse's Assistant
Chua	Resurreccion	8/5/90	Technologist
Cisneros	Paula	5/1/00	ESD Aide
Clark	Doris	7/10/70	Registered Nurse
Cocum	Urbano	12/9/90	Cook
Coe	Kimberly	11/6/00	Technician
Concepcion	Pilar	8/7/92	Technician
Contreras	Edith	8/14/00	Clerk
Corpus	Carlos	10/26/79	Dishwasher
Corpus	Johnny	10/1/79	Material Clerk
Cortes	Ken	7/12/92	Technician
Cortez	Fernando	1/20/00	Aide
Crossman	Barbara	8/16/99	Registered Nurse
Culata	Josephine	1/19/98	Certified Nurse's Assistant
Dabe	Melanie	4/17/00	Registered Nurse
De La Cruz	Ricky		Respiratory Care Practitioner
DeCastro	Natividad	9/4/90	ESD Aide
Degusman	Odette	5/14/99	Pharmacy Intern
DeGuzman	Marihu	11/3/00	Data Analyst
Dela Cruz	Teresita	12/5/97	Registered Nurse
DeLaCruz	Bella	7/14/94	Registered Nurse
Delacruz	Enrique	6/1/00	Respiratory Care Practitioner
Demartino	Angela	8/25/00	Licensed Vocational Nurse
Diaz	Maria	8/11/00	ESD Aide
Dimaranan	Adelaida	7/14/96	Registered Nurse
Dingle	Lyra	1/30/97	Registered Nurse
Dominguez	Joseph	9/29/00	ESD Aide
Dumrongmanee	Saisun	12/14/93	Registered Nurse
Duncan	Annazilta	5/15/97	Registered Nurse
Espadero	Restituto	7/1/95	Pharmacist
Estipona	Cindy	2/3/00	Registered Nurse
Eugenio	Jessica	7/12/00	Registered Nurse
Evans	Sylvia	9/27/95	Disbursement Clerk
Facundo	Rosephil	12/30/98	Registered Nurse



Schedule 4.13(b), cont'd.

Last Name	First Name	Date of Hire	Position
Fakhoury	Mariam	9/27/95	Registered Nurse
Fakhoury	Susan	12/14/00	Registered Nurse
Farraj	Nuha	6/24/91	Registered Nurse
Feng	Rosa	7/14/93	Registered Nurse
Ford	Silvia	5/7/92	Diet Clerk
Formano	Carrie	9/10/90	Senior Accountant
Foster	Patricia	4/3/00	Director
Freeman	Earlene	4/3/00	Director
Fuchs	Cynthia	3/5/79	Registered Nurse
Galicia	Mila	11/25/97	Registered Nurse
Gapasin	Maricon	11/8/00	Registered Nurse
Garcia	Paulette	4/21/99	Certified Nurse's Assistant
Garcia	Carlos	5/15/00	Technician
Gatapia	Cherry	5/14/91	Registered Nurse
Gerard	Michele	5/28/96	Director
Gerberg	Scott	1/23/98	Technician
Gillian	Norma	10/15/87	Laboratory Aide
Ginunas	Virginia	6/15/98	Registered Nurse
Gomez	Belle	2/3/97	Registered Nurse
Graham	Lydia	3/8/85	ESD Aide
Greenblatt	Diane	11/10/94	Registered Nurse
Greer	Jennifer	7/17/00	Technician
Griffith	James		Director
Guevara	Vivian	9/1/00	Registered Nurse
Guevarra	Noemi	3/13/95	Registered Nurse
Gumbleton	Patrick	11/27/00	Clinical Director
Gutierrez	Iris	2/4/97	Admitting Representative
Habtesellassie	Temnit	3/15/99	Certified Nurse's Assistant
Hancock	Roger	7/17/00	Registered Nurse
Hanson	Jerry	12/12/94	Director
Harinath	Geetha	8/18/99	
Harper	Marge	3/7/96	UR Nurse
Harris	Blanch	11/12/99	Registered Nurse
Hathi	Preeti	5/25/90	Technologist
Hayes	Tamara	11/3/98	Infection Control Practitioner
Hechanova	Mila	8/26/91	Registered Nurse
Henriquez	Ricardo	8/17/99	Licensed Vocational Nurse
Hernandez	Sheri	8/12/96	Registered Nurse
Herrera	Louana	2/7/00	Unit Secretary
Herrick	Dinah	9/8/98	Coordinator
Higuera	Virginia	9/29/97	Registered Nurse
Hinojos	Maria	6/24/98	Diet Technician
Howard	Judy	2/20/81	OR Technician
Jacob	Rajobala	7/23/98	Registered Nurse
Janairo	Florentino	10/6/88	Technologist
Janairo	Elizabeth	2/23/88	Technologist
Johnson	Deborah	7/24/98	Secretary
Jones	Barbara	12/29/99	Registered Nurse
Kaliher	Mark	12/4/96	Registered Nurse

Schedule 4.13(b), cont'd.

Last Name	First Name	Date of Hire	Position
Kalugdan	John	8/10/99	Licensed Vocational Nurse
Kelsey	Robert	1/15/70	Food Service Worker
Kemp	Charleen	2/18/88	Human Resources Generalist
Kim	Paul	6/6/87	Respiratory Care Practitioner
King	Jane	10/89	Technician
King	Monica	6/28/99	Central Technician
Kluse	Peter	10/6/95	Emergency Services Technician
Kokinis	Thomas	10/10/95	Pharmacist
Kumar	Reeta	10/21/90	Nursing Supervisor
Kuo	Irene	2/1/99	Registered Nurse
Ladia	Wilma	8/4/93	Registered Nurse
Lampa	Faustino	11/9/00	Technician
Landicho	Erlinda	6/12/98	Registered Nurse
Lao	Elizabeth		
Lauron	Libby	7/21/97	Registered Nurse
Lavarez	DeeDee	8/10/99	Registered Nurse
Leal	Victor	1/13/00	Licensed Vocational Nurse
Lewis	Walter	7/1/95	Pharmacist
Lewis	Phoebean	8/23/90	Licensed Vocational Nurse
Liddell	Maria	3/21/00	Food Service Worker
Lin	Young	8/2/88	Registered Nurse
Llanes	Flor	10/11/88	Registered Nurse
Loera	Robert	6/1/76	Material Clerk
Lombardi	Doris	7/29/72	Nursing Supervisor
Longmire	Nelle	4/20/91	Registered Nurse
Lopez	Rafael	7/3/99	ESD Aide
Luetum	Chusri	2/7/00	Registered Nurse
MacArthur	Carol		Infection Control Practitioner
Maki	Jim	1/25/95	Administrator
Mango	Jane	12/7/00	Registered Nurse
Manigault	John	5/26/98	Licensed Psychiatric Technician
Maradiaga	Rafael	4/2/91	Maintenance Engineer
Mariano	Marissa	1/4/00	Registered Nurse
Marks	Tamaynga	3/30/98	Pharmacy Technician
Martin	Kimberly	5/22/00	Admitting Representative
Mathers	David	1/20/86	Cook
Maya	Jorge	3/27/95	Plant Operations Coordinator
Mayo	Virginia	11/14/96	Registered Nurse
Mbaabu	Alice	5/25/92	Registered Nurse
McCrary	Cathy	9/16/96	Admitting Representative
Medina	Emelita	11/2/00	Registered Nurse
Mendivil	William	2/23/98	Technician
Mercado	Roselle	2/20/00	Certified Nurse's Assistant
Mercurio	Florencia	10/14/97	Registered Nurse
Merry	Tamara	10/10/94	Secretary
Mettler	Sharon	9/10/97	Diet Technician
Miau	Kathy	1/1/94	Registered Nurse
Michael	Lily	5/25/99	Registered Nurse
Miklush	Lisa	6/5/00	Director

Schedule 4.13(b), cont'd.

Last Name	First Name	Date of Hire	Position
Miller	Ann Marie	12/10/99	Educator
Minnihan	Tim	4/1/93	Registered Nurse
Mitchell	Eloise	2/10/94	Admitting Representative
Mitchell	Pauline	9/11/00	Director
Montes	Elizabeth	7/15/99	Medical Staff Clerk
Montes	Stella	6/27/99	Admitting Representative
Montgomery	Susan	10/26/00	Registered Nurse
Moore	Lynn	9/16/99	Registered Nurse
Morales	Gilberto	5/19/95	Unit Secretary
Morris	Dennice	4/11/93	Registered Nurse
Murin	Shirley	12/30/93	Registered Nurse
Nandee	Uthaiwan	11/5/99	Registered Nurse
Ngueyn	Binh	2/12/90	Technologist
Nguyen	Son	1/4/88	Technologist
Nordstrom	Marge	9/10/90	OB Technician
Norwood	Lynn	3/30/92	Social Worker
Obeto	Elizabeth	6/27/00	Registered Nurse
Ocampo	Cynthia	2/23/95	Registered Nurse
Ochsner	Judith	2/24/99	Registered Clinical Dietician
Olson	Curtis	7/6/98	Controller
Oppenheim	John	5/30/00	Risk Manager
Ortiz	Juan	9/21/98	Mental Health Worker
Overlock	Tracy	12/1/98	OR Secretary
Padilla	Margarita	1/19/98	Emergency Services Technician
Paet	Thelma	8/3/81	Registered Nurse
Pagtakhan	Nazarina	1/1/94	Food Service Worker
Paik	David	3/24/87	Technologist
Palacio	Filomena	9/7/00	Registered Nurse
Palacio	Rosalinda	10/18/93	Food Service Worker
Pasahol	Agnes	2/7/00	Registered Nurse
Pediangco	Teresita	3/6/00	Registered Nurse
Peig	Lyra-June	11/25/97	Licensed Vocational Nurse
Perez	David	9/27/00	ESD Aide
Peterson	Robert	3/8/99	Registered Nurse
Pineira	Ray	1/14/89	Respiratory Care Practitioner
Pleto	Jovita	10/1/86	Technician
Powell	Denise	4/7/99	Secretary
Pradit	Pratoum	1/27/78	Registered Nurse
President	Vernon	9/26/00	Mental Health Worker
Quinoveva	Lucia	9/21/98	Registered Nurse
Rada	Imelda	6/2/98	Registered Nurse
Ramirez	Consuelo	11/19/90	ESD Aide
Ramirez	Joseph	8/17/98	Registered Nurse
Ramirez	Carmen	11/22/93	Admitting Representative
Ramos	Madonna	1/25/99	Registered Nurse
Ramos	Avelino	6/26/00	ESD Aide
Ramos	Martha	9/3/97	Data Entry
Rangel	Victoria	11/16/87	ESD Aide
Reddy	Chandra	2/28/00	Technician

Schedule 4.13(b), cont'd.

Last Name	First Name	Date of Hire	Position
Reed	Gerilyn	6/16/99	Registered Nurse
Reogelio	Merilyn	11/25/96	Registered Nurse
Reyes	Maria	11/5/99	Admitting Representative
Reyes	Antonio	12/20/00	Registered Nurse
Rezkalla	Rick	5/27/87	Director
Rhee	Minja	9/24/96	Registered Nurse
Rico	Shirlinda	5/27/99	Registered Nurse
Rico	Rizalino	8/22/00	Registered Nurse
Rivera	Lynn	7/27/98	Nursing Supervisor
Rivera	Robert	6/15/98	Registered Nurse
Rivera	Mila	8/29/94	Registered Nurse
Rizo	Mariana	7/13/98	Nursing Assistant/CPHW
Robitaille	Marie	1/2/98	
Robles	Lily	10/1/99	Pharmacy Technician
Robles	Denise	12/8/00	Certified Nurse's Assistant
Rodil	JoJo	7/26/99	OR Technician
Rodil	Elizabeth	6/18/96	Registered Nurse
Roshan	Anita	11/1/97	Physical Therapist
Ross	Marcia	7/26/70	PBX Operator
Ross	Mayra		Radiology Technician
Ross	Susana	6/5/00	Certified Nurse's Assistant
Ross	Geoffrey	10/31/00	Registered Nurse
Rowland	Scott	1/10/00	Technician
Rubio	Mariam	7/1/00	Registered Nurse
Ruiz	Patricia	6/15/88	Registered Nurse
Rutt	Georgina	2/20/98	Registered Nurse
Sales	Luxmi	8/6/93	Registered Nurse
Sales	Jennifer	9/21/98	Certified Nurse's Assistant
Salsedo	Albert		Chaplain
Sampang	Neil	9/13/88	Cook
Scholl	Keith	6/26/98	Materials
Schourup	Stanley	8/4/97	Registered Nurse
Scott	Warlita	1/4/96	Certified Nurse's Assistant
Seawalker	Ruby	8/21/00	Technician
Sebastian	Cresencia	6/7/82	Registered Nurse
Sein	Htway	3/13/91	Technician
Sermons	Joyce	11/10/97	Technician
Sethi	Ishprett	7/28/99	Registered Dietician (Contract)
Silva	Clarita	6/9/90	Respiratory Care Practitioner
Silva	Edwin	5/5/00	Respiratory Care Practitioner
Silva	Anna	5/19/94	Administrative Assistant
Silva	RoseMarie	9/26/00	Pharmacist
Singh	Jagtinder		
Smith	Nenita	3/8/99	Registered Nurse
Smith	Embra	1/24/94	Linen Clerk
Soriano	Lilibeth	2/26/99	Registered Nurse
Spencer	Wesley	10/30/00	Technician
Stockdale	Mona	1/17/74	Director
Sucayan	Rebecca	8/24/94	Registered Nurse

Schedule 4.13(b), cont'd.

Last Name	First Name	Date of Hire	Position
Tabangay	Concepcion	4/3/78	Registered Nurse
Tacazon	Feliitas	10/27/99	Nursing Supervisor
Tahir	Elizabeth	1/30/95	Registered Nurse
Talah	Madeline	8/10/99	Registered Nurse
Taylor	Karen	9/19/90	Nursing Supervisor
Taylor	Susan	8/30/00	Director
Thomas	Santhamma	11/25/97	Registered Nurse
Thompson	Lilie	2/8/89	Licensed Vocational Nurse
Threadgill	Jaime	11/1/99	Director
Tirador	Tina	7/21/90	Unit Secretary
Tomas	Mike	6/10/98	Registered Nurse
Torrico	Maria	9/21/98	Admitting Representative
Torrico	Steven	6/30/99	
Trapasso	Donna	2/22/94	Registered Nurse
Trevino	Susan	10/8/92	Registered Nurse
Trinidad	Evelyn	5/26/95	Registered Nurse
Trollman	Patricia	8/9/99	LCSW
Trousdale	Cindy	6/23/97	VP, Finance
Turner	Patricia	12/4/00	Unit Secretary
Turner	Gala	9/28/98	Admitting Representative
Udeshi	Surbhi	6/16/88	Technician
Umali	Romulo	5/17/89	Technologist
Uncanin	Alicia	8/6/90	Director
Vali-Ferdowski	Rosa	3/15/99	Registered Nurse
Vallo	Vicente	2/2/82	Storeroom Clerk
Van Den Vrijhoef	Marc	10/12/98	Maintenance Engineer
Varughese	Abraham	12/22/86	Technician
Vega	Ricardo	10/30/98	OR Tech
Vela	Jesse	5/23/96	Driver
Velasquez	Sylvia	2/26/99	Registered Nurse
Velasquez	Michelle	12/27/97	Admitting Representative
Vergara	Carmelita	7/14/97	Registered Nurse
Vicente	Perry	9/18/78	Registered Nurse
Victoria	Noliby	1/28/00	Registered Nurse
Villamena	Nina	5/15/97	Pt. Care Coordinator
Viray	Maria	6/16/93	Registered Nurse
Viray	Joy	9/17/99	Diet Technician
Welu	Janet	4/13/94	Registered Nurse
West	Marcia	11/15/99	Registered Nurse
Wilkins	Jerry	2/5/00	Emergency Services Technician
Williams	Frances	6/12/72	Registered Nurse
Williams	Barbara	8/18/90	Diet Clerk
Williams	Rena	7/5/00	Certified Nurse's Assistant
Wong	Wan	9/29/99	Registered Nurse
Yahn	Jim	9/8/81	Director
Yost	Dawn	10/19/98	Licensed Vocational Nurse
Yu	Cammy	6/3/98	Registered Nurse
Yuentrakul	Somnit	1/28/83	Cook
Zamoranos	Virginia	9/4/98	Registered Nurse

**Schedule 4.13(b), cont'd.**

<u>Last Name</u>	<u>First Name</u>	<u>Date of Hire</u>	<u>Position</u>
Zimmerman	John	8/21/00	V P, Nursing and Operations

**HUNTINGTON EAST VALLEY HOSPITAL**

**Asset Sales Agreement**

**Schedule 4.14**

**November 2000 Unaudited Financial Statements and 1999 Audited Financial Statements**

HUNTINGTON EAST VALLEY HOSPITAL  
 FINANCIAL STATEMENTS  
 TWELVE MONTHS ENDED DECEMBER 31, 2000

INCOME STATEMENT

	CURRENT MONTH			YEAR TO DATE		
	DOLLARS		VARIANCE FR BUDGET AMOUNT	DOLLARS		VARIANCE FR BUDGET AMOUNT
	ACTUAL	BUDGET		LAST YEAR	BUDGET	
						%
1,878,122 (79,313)	2,003,731 (8,784)	3,548,264 (1,273,403)	(125,609) (70,529)	20,613,607 494,288	524,273 (601,199)	2.6% -91.1%
1,798,809	1,994,947	2,274,861	(196,138)	21,107,895	(76,926)	-0.4%
10,616	29,091	(29,897)	(18,475)	364,103	(317,135)	-90.8%
1,809,425	2,024,038	2,244,964	(214,613)	21,471,998	(394,061)	-1.9%
1,183,289	934,780	909,823	248,509	11,262,495	801,393	7.3%
341,944	439,418	778,833	(97,474)	6,030,086	(697,212)	-13.2%
232,883	250,857	273,565	(17,974)	2,846,775	31,121	1.1%
88,148	68,767	74,684	19,381	818,684	90,223	10.9%
47,905	43,047	43,202	4,858	583,929	36,522	7.1%
3,390	33,015	43,990	(29,625)	401,942	22,859	5.8%
17,990	17,961	19,000	29	219,658	352	0.2%
(56,857)	22,917	596,699	(79,774)	983,242	136,169	49.5%
14,725	108,914	125,851	(94,189)	1,430,721	(208,360)	-15.9%
1,873,417	1,919,676	2,865,647	(46,259)	24,577,532	213,067	0.9%
(63,992)	104,362	(620,683)	(168,364)	(3,105,534)	(607,128)	35.2%
88,148	68,767	74,684	19,381	818,684	90,223	10.9%
24,156	173,129	(545,999)	(148,973)	(2,286,850)	(516,905)	67.5%

Net Patient Service Revenue	20,524,273	20,000,000	20,613,607	524,273	2.6%
Net Capitation Revenue	58,801	660,000	494,288	(601,199)	-91.1%
Total Patient Service Revenue	20,583,074	20,660,000	21,107,895	(76,926)	-0.4%
Total Other Operating Revenue	31,965	349,100	364,103	(317,135)	-90.8%
<b>TOTAL OPERATING REVENUE</b>	<b>20,615,039</b>	<b>21,009,100</b>	<b>21,471,998</b>	<b>(394,061)</b>	<b>-1.9%</b>
Operating Expenses :					
Salaries, Wages & Benefits	11,764,752	10,963,359	11,262,495	801,393	7.3%
Outside Services	4,575,841	5,273,053	6,030,086	(697,212)	-13.2%
Supplies	2,992,852	2,961,731	2,846,775	31,121	1.1%
Depreciation & Amortization	915,399	825,176	818,684	90,223	10.9%
Interest	553,081	516,559	583,929	36,522	7.1%
Rental - Building & Equipment	419,045	396,186	401,942	22,859	5.8%
Parent Allocation	215,880	215,528	219,658	352	0.2%
Provision for Bad Debt	411,169	275,000	983,242	136,169	49.5%
Other	1,098,562	1,306,922	1,430,721	(208,360)	-15.9%
<b>TOTAL OPERATING EXPENSES</b>	<b>22,946,581</b>	<b>22,733,514</b>	<b>24,577,532</b>	<b>213,067</b>	<b>0.9%</b>
<b>SURPLUS (DEFICIT) FROM OPERATIONS</b>	<b>(2,331,542)</b>	<b>(1,724,414)</b>	<b>(3,105,534)</b>	<b>(607,128)</b>	<b>35.2%</b>
Add : Depreciation & Amortization	915,399	825,176	818,684	90,223	10.9%
<b>CASH FLOW</b>	<b>(1,416,143)</b>	<b>(899,238)</b>	<b>(2,286,850)</b>	<b>(516,905)</b>	<b>67.5%</b>



**HUNTINGTON EAST VALLEY HOSPITAL  
STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2000**

Page 2

	<b>CURRENT MONTH</b>	<b>AUDITED 12/31/1999</b>	<b>NET \$ CHANGE</b>
<b>CURRENT ASSETS -</b>			
Cash & Cash Equivalents	26,625	483,194	(456,569)
Patient Accounts Receivable	6,029,637	3,794,376	2,235,261
Due From Third Party - Payors	1,319,363	1,267,419	51,944
Due From Methodist - HEVH POD	48,387	813,929	(765,542)
Due From Affiliates - Other	1,097	17,415	(16,318)
Current Portion Bond Trust Funds	60,651	45,647	15,004
Other Receivables	186,916	303,759	(116,843)
Supplies at Cost	464,267	506,351	(42,084)
Prepaid Expenses	168,386	280,115	(111,729)
Deposits	122,730	125,502	(2,772)
<b>TOTAL CURRENT ASSETS</b>	<b>8,428,059</b>	<b>7,537,707</b>	<b>790,352</b>
Cash Restricted As To Use	84,414	233,543	(149,129)
Board Designated - Other Assets	-	45,000	(45,000)
Other Investments - Joint Venture	120,227	120,227	-
Investment In Lab - CHSO	(24,884)	181,214	(206,098)
Deferred Refinance Costs (Net Amort)	380,198	394,267	(14,069)
<b>PLANT AND EQUIPMENT -</b>			
Plant Assets	12,921,975	12,592,059	329,916
Allowance for Depreciation	(3,792,352)	(2,957,129)	(835,223)
Construction in Progress	81,798	33,201	48,597
<b>TOTAL PLANT AND EQUIPMENT</b>	<b>9,211,421</b>	<b>9,668,131</b>	<b>(456,710)</b>
<b>TOTAL ASSETS</b>	<b>18,199,435</b>	<b>18,280,089</b>	<b>(80,654)</b>

**HUNTINGTON EAST VALLEY HOSPITAL  
STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2000**

Page 3

	<b>CURRENT MONTH</b>	<b>AUDITED 12/31/1999</b>	<b>NET \$ CHANGE</b>
<b>CURRENT LIABILITIES -</b>			
Accounts Payable	3,213,798	3,442,771	(228,973)
Other Current Liabilities	109,513	159,550	(50,037)
Wages & Amounts Withheld	704,307	441,714	262,593
Interest Payable	67,296	60,362	6,934
Due to Third Party Payors	(51,009)	677,473	(728,482)
Due to Affiliates - Hunt. Foundation	300,000	453,343	(153,343)
Due to Affiliates - Other	1,591,996	42,108	1,549,888
Claims Payable	133,496	2,779,648	(2,646,152)
Current Portion of Long Term Debt	223,506	550,194	(326,688)
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,292,903</b>	<b>8,607,163</b>	<b>(2,314,260)</b>
<b>LONG TERM DEBT -</b>			
1997 Bonds Payable	9,100,000	9,100,000	-
Due to Affiliates - SCHS	1,269,442	1,214,612	54,830
Due to Affiliates - Hunt. Foundation	111,748	-	111,748
Due to Affiliates - Other	3,233,888	2,475,399	758,489
GMAC Payable	-	3,142	(3,142)
Sumitomo Payable	7,171	34,007	(26,836)
Leases Payable	115,072	46,174	68,898
<b>TOTAL LONG TERM DEBT</b>	<b>13,837,321</b>	<b>12,873,334</b>	<b>963,987</b>
<b>TOTAL LIABILITIES</b>	<b>20,130,224</b>	<b>21,480,497</b>	<b>(1,350,273)</b>
<b>NET ASSETS (DEFICIT):</b>			
<b>Unrestricted</b>			
Beginning balance (deficit)	(1,466,041)	1,639,493	(3,105,534)
Contributions from/(to) Affiliates	1,866,794	(1,770,289)	3,637,083
Current year surplus (deficit)	(2,331,542)	(3,105,534)	773,992
<b>DECREASE IN UNRESTRICTED NET ASSET</b>	<b>(1,930,789)</b>	<b>(3,236,330)</b>	<b>1,305,541</b>
Temporarily restricted	-	35,922	(35,922)
<b>TOTAL NET ASSETS</b>	<b>(1,930,789)</b>	<b>(3,200,408)</b>	<b>1,269,619</b>
<b>TOTAL LIAB AND NET ASSETS</b>	<b>18,199,435</b>	<b>18,280,089</b>	<b>(80,654)</b>

HUNTINGTON EAST VALLEY HOSPITAL  
 FINANCIAL STATEMENTS  
 TWELVE MONTHS ENDED DECEMBER 31, 2000

FINANCIAL INDICATORS

	CURRENT MONTH				YEAR TO DATE					
	AMOUNTS		VARIANCE FR BUDGET		AMOUNTS		VARIANCE FR BUDGET			
	ACTUAL	BUDGET	LAST YEAR	AMOUNT	%	ACTUAL	BUDGET	LAST YEAR	AMOUNT	%
VOLUMES										
Adjusted Patient Days, ex NB	1,896	1,930	1,776	-34	-1.76%	21,907	23,160	22,303	-1,253	-5.41%
Patient Days, ex NB	1,404	1,462	1,387	-58	-3.97%	15,412	17,156	16,501	-1,744	-10.17%
Adjusted Patient Admissions, ex NB	401	429	384	-28	-6.59%	4,763	5,036	4,725	-273	-5.41%
Patients Admitted, ex NB	297	318	300	-21	-6.60%	3,351	3,741	3,493	-390	-10.43%
Average Daily Census, ex NB	45	47	45	-2	-4.58%	42	47	45	-4.7	-10.14%
Length of Stay, ex NB, includes Gero	4.7	4.6	4.6	0.1	2.82%	4.6	4.6	4.7	0.0	-0.03%
Length of Stay, ex NB and Gero	3.5	3.7	4.1	-0.2	-5.23%	3.6	3.7	3.9	-0.1	-3.96%
Outpatient Visits	521	272	332	249	91.54%	5,334	3,205	3,346	2,129	66.43%
PHP-Horizon Visits	120	195	110	-75	-38.46%	1,691	2,332	1,881	-641	-27.49%
OP-Horizon Visits	30	43	28	-13	-30.23%	465	538	430	-73	-13.57%
Emergency Visits	837	612	789	225	36.76%	8,334	7,234	7,421	1,100	15.21%
Inpatient Surgical Procedures	91	99	95	-8	-8.08%	1,118	1,181	1,163	-63	-5.33%
Outpatient Surgical Procedures	132	145	116	-13	-8.97%	1,843	1,732	1,571	111	6.41%
Total Surgical Procedures	223	244	211	-21	-8.61%	2,961	2,913	2,726	48	1.65%
Total Deliveries	93	108	79	-15	-13.89%	938	1,273	1,123	-335	-26.32%
GROSS PATIENT REVENUE										
Medicare	24.92%	28.02%	25.64%		-3.10%	27.21%	28.57%	29.33%		-1.36%
Medi-Cal	28.17%	30.33%	19.72%		-2.16%	24.58%	29.37%	27.38%		-4.79%
HMO/PPO	40.99%	38.78%	51.05%		2.20%	43.91%	39.06%	39.30%		4.85%
Insurance	1.60%	0.00%	0.35%		1.60%	1.12%	0.13%	1.37%		0.98%
Self Pay	4.32%	2.87%	3.24%		1.45%	3.18%	2.87%	2.62%		0.32%
Total Gross Patient Revenue	100.00%	100.00%	100.00%		0.00%	100.00%	100.00%	100.00%		0.00%
DEDUCTION FR REV AS % OF GR Pt. REV										
Medicare	14.53%	16.11%	14.29%		-1.58%	14.72%	15.48%	15.54%		-0.76%
Medi-Cal	17.44%	20.14%	4.27%		-2.69%	17.76%	21.66%	19.63%		-3.89%
HMO/PPO	30.15%	26.39%	39.88%		3.76%	33.39%	30.53%	32.34%		2.86%
Other	3.33%	1.82%	4.85%		1.50%	1.41%	1.81%	3.00%		-0.40%
Total Deductions fr Rev as % of Gr Pt. Rev	65.45%	64.46%	63.28%		0.99%	67.29%	69.49%	70.51%		-2.19%
COST - LABOR & TOTAL										
Total Paid FTE's	230.84	220.09	216.63	10.75	4.88%	226.68	220.21	228.25	6.47	2.94%
Total Productive FTE's	214.42	200.57	193.10	13.85	6.91%	207.25	200.62	206.85	6.63	3.30%
Total Prod FTE's per Adjusted Occupied Bed	3.51	3.22	3.37	0.29	8.95%	3.46	3.17	3.39	0.29	9.13%
Labor Cost per Total Prod FTE	5,519	4,661	4,712	858	18.41%	56,766	54,647	54,448	2,119	3.88%
Total Cost per Adjusted Patient Day	988	995	1,614	-7	-0.66%	1,047	982	1,102	66	6.71%
Total Cost per Adjusted Admit	4,672	4,472	7,463	200	4.48%	4,818	4,515	5,202	303	6.71%

AUDITED COMBINED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

Southern California Healthcare Systems

*Years ended December 31, 1999 and 1998*

*with Report of Independent Auditors*

Southern California Healthcare Systems

Audited Combined Financial Statements  
and Other Financial Information

Years ended December 31, 1999 and 1998

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## Report of Independent Auditors

Board of Directors  
Southern California Healthcare Systems

We have audited the accompanying combined balance sheets of Southern California Healthcare Systems as of December 31, 1999 and 1998, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Southern California Healthcare Systems at December 31, 1999 and 1998, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combining balance sheets at December 31, 1999 and 1998, and the combining statements of operations for the years then ended are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ernst & Young LLP*

March 3, 2000, except as to Note 11, as to  
which the date is May 24, 2000

# Southern California Healthcare Systems

## Combined Balance Sheets

	December 31	
	1999	1998
	<i>(In thousands)</i>	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11,087	\$ 8,329
Investments <i>(Note 3)</i>	42,405	19,964
Patient accounts receivable, less allowance for uncollectible accounts of \$17,422 in 1999 and \$19,947 in 1998	68,765	70,572
Inventories	4,565	3,966
Current portion of assets limited as to use <i>(Note 3)</i>	14,443	11,366
Prepaid expenses and other current assets	5,789	6,394
<b>Total current assets</b>	<b>147,054</b>	<b>120,591</b>
 <b>Other assets:</b>		
Assets limited as to use, less current portion <i>(Note 3)</i> :		
By Board	19,047	86,509
Under bond indenture	1,598	1,363
	<b>20,645</b>	<b>87,872</b>
Property, plant and equipment, net of accumulated depreciation and amortization <i>(Note 6)</i>	243,945	240,182
Investments restricted for the acquisition of property, plant and equipment and to provide a permanent source of income <i>(Note 3)</i>	13,463	9,809
Deferred financing costs	4,680	4,911
Investments in affiliates	2,701	1,250
Other assets	9,426	15,209
<b>Total assets</b>	<b>\$ 441,914</b>	<b>\$ 479,824</b>

	<b>December 31</b>	
	<b>1999</b>	<b>1998</b>
	<i>(In thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 35,087	\$ 31,295
Accrued expenses and other liabilities	32,755	23,615
Accrued self-insurance claims	19,093	15,482
Due to third-party payors	6,234	5,445
Due to affiliates	7,282	225
Current maturities of long-term debt <i>(Note 7)</i>	12,144	10,137
Current maturities of notes payable to affiliate <i>(Note 5)</i>	1,999	967
Total current liabilities	<u>114,594</u>	<u>87,166</u>
Long-term debt, less current maturities <i>(Note 7)</i>	108,137	110,057
Notes payable to affiliate, less current maturities <i>(Note 5)</i>	11,247	12,328
Charitable remainder annuity trusts payable	2,105	2,418
Commitments and contingencies <i>(Notes 7 and 9)</i>		
Net assets:		
Unrestricted	164,232	229,885
Temporarily restricted	31,617	30,109
Permanently restricted	9,982	7,861
Total net assets	<u>205,831</u>	<u>267,855</u>
Total liabilities and net assets	<u>\$ 441,914</u>	<u>\$ 479,824</u>

*See accompanying notes.*



# Southern California Healthcare Systems

## Combined Statements of Operations

	<b>Year ended December 31</b>	
	<b>1999</b>	<b>1998</b>
	<i>(In thousands)</i>	
<b>Unrestricted revenues, gains and other support:</b>		
Net patient service revenue	\$ 319,515	\$ 333,614
Premium revenue	75,663	50,474
Management fees	145	4,327
Equity in earnings of affiliates	364	-
Other operating revenue	16,929	17,888
Net assets released from restrictions	2,393	2,300
<b>Total unrestricted revenues, gains and other support</b>	<b>415,009</b>	<b>408,603</b>
<b>Expenses:</b>		
Salaries and benefits	205,718	200,285
Supplies and other	96,355	101,382
Purchased services	61,984	52,250
Medical claims expense	61,330	37,301
Insurance	4,192	6,065
Depreciation and amortization	24,775	21,251
Rental charges <i>(Note 5)</i>	7,253	6,490
Provision for bad debts	10,780	16,501
Interest	7,004	4,185
<b>Total expenses</b>	<b>479,391</b>	<b>445,710</b>
Operating loss before asset impairment	(64,382)	(37,107)
Asset impairment and other charges <i>(Note 4)</i>	(4,066)	(5,263)
<b>Operating loss</b>	<b>(68,448)</b>	<b>(42,370)</b>
<b>Other income:</b>		
Investment income <i>(Note 3)</i>	11,632	18,088
Net unrealized losses on investments	(12,338)	(7,064)
Donations	1,299	4,936
<b>Excess of expenses over revenues</b>	<b>(67,855)</b>	<b>(26,410)</b>
<b>Net assets released from restrictions for the acquisition</b>		
of property, plant and equipment	1,829	9,129
Contributions from affiliates <i>(Note 5)</i>	233	4,152
Other	140	-
<b>Decrease in unrestricted net assets</b>	<b>\$ (65,653)</b>	<b>\$ (13,129)</b>

*See accompanying notes.*

Southern California Healthcare Systems

Combined Statements of Changes in Net Assets

	<b>Year ended December 31</b>	
	<b>1999</b>	<b>1998</b>
	<i>(In thousands)</i>	
<b>Unrestricted net assets</b>		
Excess of expenses over revenues	\$ (67,855)	\$ (26,410)
Net assets released from restrictions for the acquisition of property, plant and equipment	1,829	9,129
Contributions from affiliates <i>(Note 5)</i>	233	4,152
Other	140	-
Decrease in unrestricted net assets	<u>(65,653)</u>	<u>(13,129)</u>
<b>Temporarily restricted net assets</b>		
Contributions and grants	4,383	4,707
Interest, dividends and realized gains	1,822	1,942
Unrealized losses on investments	(876)	(820)
Changes in liability under Unitrust agreements	401	398
Net assets released from restrictions	<u>(4,222)</u>	<u>(11,429)</u>
Increase (decrease) in temporarily restricted net assets	1,508	(5,202)
<b>Permanently restricted net assets</b>		
Contributions and grants	1,943	1,224
Interest, dividends and realized gains	106	253
Unrealized losses on investments	72	(33)
Increase in permanently restricted net assets	<u>2,121</u>	<u>1,444</u>
Decrease in net assets	<b>(62,024)</b>	<b>(16,887)</b>
Net assets at beginning of year	<b>267,855</b>	<b>284,742</b>
Net assets at end of year	<b><u>\$ 205,831</u></b>	<b><u>\$ 267,855</u></b>

*See accompanying notes.*

# Southern California Healthcare Systems

## Combined Statements of Cash Flows

	<b>Year ended December 31</b>	
	<b>1999</b>	<b>1998</b>
	<i>(In thousands)</i>	
<b>Operating activities</b>		
Decrease in net assets	\$ (62,024)	\$ (16,887)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,534	20,906
Amortization of goodwill and intangible assets	241	125
Unrealized losses on investments	13,142	7,917
Asset impairment and other charges	4,066	5,263
Loss on disposal of equipment	257	298
Amortization of deferred financing costs	231	220
Contribution from affiliates	(233)	(4,152)
Equity in earnings of affiliates	(364)	-
Changes in operating assets and liabilities:		
Patient accounts receivable	1,807	(2,793)
Inventories	(599)	(267)
Prepaid expenses and other current assets	605	4,075
Accounts payable and accrued expenses	8,583	15,752
Accrued self-insurance claims	279	(67)
Due to/from third-party payors	789	3,072
Net cash (used in) provided by operating activities	<u>(8,686)</u>	<u>33,462</u>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(28,554)	(79,703)
Decrease in investments, assets limited as to use and investments restricted for the acquisition of property and equipment and to provide a permanent source of income	24,913	34,354
Increase in investment in affiliates	(1,216)	(1,413)
Distributions from affiliates	129	163
Decrease in other assets	9,157	1,559
Decrease in charitable remainder annuity trusts payable	(313)	(343)
Net cash provided by (used in) investing activities	<u>4,116</u>	<u>(45,383)</u>

Southern California Healthcare Systems

Combined Statements of Cash Flows (continued)

	<b>Year ended December 31</b>	
	<b>1999</b>	<b>1998</b>
	<i>(In thousands)</i>	
<b>Financing activities</b>		
Principal payments on long-term debt	\$ (3,879)	\$ (4,853)
Payments of note payable to affiliate	(273)	(1,053)
Proceeds from issuance of long-term debt	3,966	6,300
Proceeds from issuance of notes payable to affiliate, net	224	247
Decrease in due to affiliates	7,057	2,585
Increase in deferred financing costs	-	(26)
Contribution from affiliates	233	4,152
Net cash provided by financing activities	<u>7,328</u>	<u>7,352</u>
Net increase (decrease) in cash and cash equivalents	2,758	(4,569)
Cash and cash equivalents at beginning of year	8,329	15,348
Cash and cash equivalents at end of year	<u>\$ 11,087</u>	<u>\$ 10,779</u>
 Supplemental disclosure of cash flow information:		
Interest paid	\$ 6,157	\$ 5,680
Capital leases	<u>\$ -</u>	<u>\$ 175</u>
 Details of business acquired in purchase transaction:		
Acquisition of physician practice (APPA):		
Fair value of assets acquired (goodwill)	\$ 7,681	\$ -
Liabilities assumed, net	7,681	-
Cash consideration	<u>\$ -</u>	<u>\$ -</u>

*See accompanying notes.*

Southern California Healthcare Systems

Notes to Combined Financial Statements

December 31, 1999

*(Dollars in Thousands)*

**1. Organization and Summary of Significant Accounting Policies**

**Organization**

Southern California Healthcare Systems (SCHS or Company) is a California not-for-profit Corporation which was formed in 1992 to serve the health care needs of the people of the San Gabriel Valley. Under the SCHS bylaws, each of the entities are members of SCHS with each entity designating a number of the voting directors to the SCHS board of directors. The hospitals are referred to as "Member Hospitals." SCHS has certain reserved powers over the Member Hospitals as defined in the Affiliation Agreements. The following related entities are included in the combined financial statements:

*Huntington Memorial Hospital (Huntington)*, a member since 1992, operates a 589-bed hospital and medical center in Pasadena, California. Huntington is the sole corporate member of the Huntington Medical Foundation (Huntington Foundation), which operates as a management services organization and arranges for the provision of medical services to patients through contracting arrangements with medical groups. Huntington also owns Congress Services Corporation, a for-profit corporation providing pharmacy, laboratory, temporary labor, accounting and management services. Huntington is affiliated with the Collis P. and Howard Huntington Memorial Hospital Trust (Trust), a California not-for-profit corporation which engages in the administration of funds for the benefit of Huntington. The five trustees of the Trust serve for life and control the board of Huntington.

*Methodist Hospital of Southern California (Methodist)*, a member since 1992, operates a 347-bed hospital in Arcadia, California. Methodist is the sole corporate member of the Methodist Hospital Foundation (Methodist Foundation), which is organized to engage in the solicitation, receipt and administration of funds and property for the benefit of Methodist, and of Sierra Madre Skilled Nursing Facility, which provides long-term care services to the general public.

*Huntington East Valley Hospital (Huntington East)*, acquired by SCHS in 1994 and converted to non-profit status, operates a 128-bed hospital in Glendora, California. SCHS is the sole corporate member of Huntington East.

# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Organization (continued)**

*Arcadia Health Services dba Southern California Medical Management (SCMM)*, a for-profit corporation owned by SCHS, owns *Foothill Physician Services*, which operates as a management services organization providing management and administrative services to physicians in the local community.

*SCHS Medical Value Plan (MVP)*, a for-profit corporation owned by SCHS which is organized to obtain a limited provider license under Knox-Keene regulations that will enable SCHS to obtain global capitation directly from the payors.

*Southern California Clinical Laboratories (SoCal Clinilab)*, a non-profit corporation established to provide clinical laboratory services for individuals who are patients of SCHS member hospitals (CHSO), and a for-profit corporation established to provide clinical laboratory services for individuals who are referred by physicians and other providers of health care services (LLC). The Members of SCHS are members of the CHSO and they own the stock of the LLC.

#### **Principles of Combination**

The combined financial statements include the accounts of SCHS, its subsidiaries and Member Hospitals (excluding the Trust). All significant balances and transactions have been eliminated in the accompanying combined financial statements.

#### **Use of Estimates**

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### 1. Organization and Summary of Significant Accounting Policies (continued)

#### Net Patient Service Revenue

The Member Hospitals have agreements with third-party payors that provide for payments for health care services at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Member Hospitals are reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Affiliates believe that they are in compliance with all applicable laws and regulations and they are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

During 1998, Huntington received final settlements on its 1996 and 1997 Medicare cost reports and for appeals of previously settled Medicare cost reports. In addition, Huntington East increased its estimated obligation pertaining to the 1997 Medicare cost report. The effect of these settlement adjustments increased net patient service revenue and decreased operating loss/excess of expenses over revenues in 1998 by \$2,776.

## Southern California Healthcare Systems

### Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

#### **1. Organization and Summary of Significant Accounting Policies (continued)**

##### **Net Patient Service Revenue (continued)**

Huntington East is eligible to receive supplemental payments (SB 855 Funds) for the provision of health care services to low-income patients under the Department of Health and Human Services Disproportionate Share Program (DSH Program). Under the DSH Program, the SB 855 Funds are distributable in a period subsequent to the year the services are provided based on DSH Program available funding. For this reason, the Huntington East accounts for the SB 855 Funds when they become distributable. The effect of recording distributable earnings for services provided in earlier periods increased net patient service revenue and decreased operating loss/excess of expenses over revenue by \$2,145 and \$2,004 in 1999 and 1998, respectively.

##### **Premium Revenue**

The Member Hospitals have agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Member Hospitals receive fixed monthly payments based on the number of participants, regardless of services actually performed by the Member Hospitals or other health care providers. Such payments are recorded as premium revenue. The HMOs make additional payments to the Member Hospitals for certain covered services based upon discounted fee schedules. These payments are recorded as net patient service revenue.

The Member Hospitals participate in risk sharing programs (Programs) which are designed to control the utilization of inpatient services. The Member Hospitals record settlements for the Programs, based in part on estimates, in the period in which the related inpatient services are rendered. A \$2,000 receivable has been recorded for the combined 1998 and 1997 estimated amounts due Methodist under the Programs. The receivable is included in other assets since Methodist expects to receive quarterly interest payments only through September 30, 2000, and quarterly interest and principal payments of \$193 beginning December 31, 2000.



# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Medical Claims Expense**

The cost of health services provided by other health care providers to the participants, including administrative costs, out-of-area or emergency services and services contracted for but not provided by the Member Hospitals are accrued in the period which the services are provided, based in part on estimates, including amounts for services provided by others but not reported to the Member Hospitals. The accruals amounted to \$18,078 and \$13,568 at December 31, 1999 and 1998, respectively, and are included in accounts payable.

During 1998, Methodist recorded additional medical claims expense totaling \$3,612 representing the cost of prior year claims. The additional costs were accounted for as a change in estimate and were included in medical claims expense in 1998.

#### **Charity Care**

A policy of the Member Hospitals is to provide care without charge to patients who meet certain criteria under their charity-care policies. Because the Member Hospitals do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Member Hospitals maintain records to identify and monitor the level of charity care they provide. These records include the amount of charges foregone for services and supplies furnished under their charity-care policies. Combined charity care provided, based on established rates, totaled \$13,184 and \$11,578 for the years ended December 31, 1999 and 1998, respectively. In addition, the Member Hospitals provide a number of ongoing services to the community at below or no cost through community support groups, chaplaincy, auxiliary, senior, maternity and education/outreach programs.

#### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Fair value is established based on quoted prices from recognized securities exchanges. Management determines the appropriate classification of all marketable securities at the date of purchase and re-evaluates such designations at each balance sheet date. The Affiliates determined that all

# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Investments (continued)**

marketable securities held at December 31, 1999 and 1998, are designated as trading securities. Accordingly, unrealized gains or losses on marketable securities are reported in excess of expenses over revenues.

Investment income or loss on marketable securities included in temporarily restricted net assets (including realized and unrealized gains and losses on investments, interest and dividends) are part of excess of expenses over revenues unless the income or loss is restricted by donor or law.

#### **Concentration of Credit Risk**

Financial instruments which potentially subject the Member Hospitals to concentration of credit risk consist primarily of investments and accounts receivable. The investment portfolio is managed by each of the Member Hospitals within the guidelines established by each Member Hospital's board of directors which, as a matter of policy, limit the amounts which may be invested in any one issue. Concentration of credit risk with respect to accounts receivable are limited due to the large number of payors comprising the patient base.

#### **Inventories**

Inventories are recorded at cost (by the first-in, first-out method) which is not in excess of market.

#### **Assets Limited as to Use**

Assets limited as to use include board-designated funds, funds held by trustee under bond indenture to secure the payment of principal and interest on the bonds, and deposits with the state of California to secure the payment of self-insured workers' compensation claims. Current portion of assets limited as to use includes amounts which will be used to pay principal and interest on the tax-exempt certificates of participation and workers' compensation claims that are classified as current liabilities.

## Southern California Healthcare Systems

### Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

#### **1. Organization and Summary of Significant Accounting Policies (continued)**

##### **Assets Limited as to Use (continued)**

Through December 31, 1998, assets limited as to use at Huntington also included unrestricted resources designated by the board of directors, including unrestricted gifts and bequests and earnings on investments other than operating funds. These assets had been designated for purposes of replacing or making additions to plant and equipment, providing patient care, research and for other health care purposes. During 1999, the board decided to limit the board-designated assets to specific unrestricted gifts and investment earnings. As a result, the board undesignated the majority of its previously designated investments in 1999. The remaining assets are generally designated for patient and senior care.

At Methodist, assets limited to use also includes unrestricted resources designated by the board of directors, including unrestricted gifts and bequests and earnings and investments other than operating funds. These assets have been designated for purposes of replacing or making additions to property, plant and equipment. Current portion of assets limited as to use includes amounts which will be used to pay the cost of additions to property, plant and equipment included in accounts payable at each year-end.

##### **Property, Plant and Equipment**

Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess of expenses over revenue, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as

# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Property, Plant and Equipment (continued)**

restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### **Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of**

The Member Hospitals account for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. Except as disclosed in Note 4, SCHS and its Member Hospitals have determined that no material long-lived assets are impaired at December 31, 1999 and 1998.

#### **Goodwill**

Goodwill represents the unamortized excess of the cost of acquiring subsidiary companies and physician practices over the fair values of acquired assets at the dates of acquisition. Goodwill at December 31, 1999 and 1998, totaled approximately \$2,826, and is included in other assets. Goodwill is amortized on a straight-line basis over periods not to exceed 20 years. As of December 31, 1999 and 1998, accumulated amortization totaled \$2,826 and \$2,345, respectively.

#### **Charitable Remainder Trusts**

Methodist Foundation is the trustee and beneficiary of various irrevocable charitable remainder annuity trusts (the trusts). The fair market value of the trusts' assets and the related trusts' liabilities to other beneficiaries are included in the combined balance sheets. The differences between the carrying amount of the trusts' assets and the related liabilities are recognized as donations in temporarily restricted net assets in the year received.

## Southern California Healthcare Systems

### Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

#### **1. Organization and Summary of Significant Accounting Policies (continued)**

##### **Deferred Financing Costs**

Deferred financing costs are being amortized over the terms of the related debt using the effective-interest method. Total deferred financing costs at December 31, 1999 and 1998, amounted to \$5,538. The related accumulated amortization at December 31, 1999 and 1998, amounted to \$858 and \$627, respectively.

##### **Fair Value of Financial Instruments**

The Member Hospitals' balance sheets include the following financial instruments: cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities, and long-term obligations. The Member Hospitals consider the carrying amounts of current assets and liabilities in the balance sheets to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. The carrying amount of tax-exempt financings at December 31, 1999 and 1998, was \$108,595 and \$111,070, respectively. This carrying amount approximates the fair value, based on current market rates of debt of the same risks and maturities.

The notational amount of derivative instruments (interest rate swap agreements) at December 31, 1999 and 1998, was \$50,000 and \$70,000, respectively. The fair value of the derivative instruments is based on quotes from dealers. At December 31, 1999 and 1998, the derivative instruments' fair value would represent an asset of approximately \$714 and \$2,690, respectively.

##### **Derivative Instruments**

The Association enters into interest rate swap agreements to manage its fixed/floating debt profile. The Association specifically designates the interest rate swap agreements as hedges of debt instruments and recognizes interest rate differentials as adjustments to interest expense in the period they occur. The Association does not hold or issue financial instruments for trading purposes.

# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Summary of Significant Accounting Policies (continued)**

#### **Accrued Self-Insurance Claims**

The Member Hospitals are self-insured for certain employee health care claims. Employee health care claims are accrued, including an estimate for incurred but not reported claims, based on claims experience. Reinsurance is purchased to cover individual claims that exceed specified limits.

The Member Hospitals have purchased workers' compensation insurance policies with self-insured retention limits ranging from \$75 to \$250 per claims. Workers' compensation claims are accrued, including an estimate for incurred but not reported claims, based on claims experience.

The Member Hospitals have purchased general and professional liability claims-made insurance policies with self-insured retention limits ranging from \$50 to \$100 per claim. Accruals for the self-insured retention limits, uninsured claims and claims incurred but not reported are estimated by actuaries based upon the related claims experience and are discounted at rates ranging from 5.5% to 6.5%.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Member Hospitals has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Member Hospitals in perpetuity.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of operations.

Southern California Healthcare Systems

Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

**1. Organization and Summary of Significant Accounting Policies (continued)**

**Cash Equivalents**

All highly liquid debt instruments with original maturities of three months or less are considered to be cash equivalents.

**Reclassifications**

Certain 1998 amounts have been reclassified to be consistent with current year classifications.

**2. Retirement Plans**

Huntington has a contributory defined benefit retirement plan (Huntington Plan) which is available to its employees who have completed one year of service and who meet certain additional eligibility requirements.

The following tables summarize the Huntington Plan's funded status, amounts recognized in the balance sheets for the years ended December 31, 1999 and 1998, weighted average assumptions to determine the benefit obligation, and other benefit information:

	<b>December 31</b>	
	<b>1999</b>	<b>1998</b>
Benefit obligation	\$ 38,139	\$ 44,357
Fair value of plan assets at end of year held in separate pooled investment accounts consisting of stocks, bonds, real estate and other securities	<u>50,004</u>	<u>41,176</u>
Funded (unfunded) status of plan	<u>\$ 11,865</u>	<u>\$ (3,181)</u>
Prepaid pension cost recognized in balance sheets (included in other assets)	<u>\$ 2,223</u>	<u>\$ 4,549</u>
Weighted average assumptions:		
Discount rate	7.75%	7.25%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	5.00%	5.00%

Southern California Healthcare Systems

Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

**2. Retirement Plans (continued)**

	Year ended December 31	
	1999	1998
Pension cost	\$ 2,326	\$ 1,496
Benefits paid	2,317	2,401

Methodist has a defined contribution plan (Methodist Plan) covering substantially all employees. The Methodist Plan allows employees to contribute up to 16% of their compensation, as defined, with Methodist matching up to a maximum of 5% of an employee's annual compensation. Amounts charged to expense applicable to the Methodist Plan totaled \$1,022 and \$954 for the years ended December 31, 1999 and 1998, respectively.

**3. Investments**

Investments, except for assets limited as to use, stated at fair value are summarized as follows:

	December 31	
	1999	1998
Cash and cash equivalents	\$ 7,480	\$ 1,789
Marketable equity securities	33,837	15,135
Debt securities:		
U.S. government and agencies	3,467	2,493
Corporate and other	5,797	4,043
Mortgage-backed	5,287	4,383
	55,868	27,843
Less:		
Investments restricted for the acquisition of property, plant and equipment, and to provide a permanent source of income	13,463	7,879
	\$ 42,405	\$ 19,964



Southern California Healthcare Systems

Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

**3. Investments (continued)**

Assets limited as to use, stated at fair value, are summarized as follows:

	<b>December 31</b>	
	<b>1999</b>	<b>1998</b>
Cash and cash equivalents	\$ 11,309	\$ 16,208
Marketable equity securities	10,108	49,046
Debt securities:		
U.S. government and agencies	-	5,487
Corporate	8,469	11,150
Mortgage-backed	-	9,628
Other	5,202	7,199
	35,088	98,718
Less current portion	14,443	11,366
	\$ 20,645	\$ 87,352

Investment income includes the following:

	<b>Year ended December 31</b>	
	<b>1999</b>	<b>1998</b>
Interest and dividends	\$ 2,150	\$ 4,612
Realized gains	9,482	13,476
	\$ 11,632	\$ 18,088

**4. Asset Impairment and Other Charges**

The Methodist Foundation is the beneficiary and trustee of eight charitable remainder trusts (CRTs). The donors delivered to the trusts the assets of the CRTs including the outstanding shares of a medical group in 1993, shares of several other medical groups and a management company in 1994, and other assets received at various dates, including assets invested in cash, marketable equity securities, a managed asset account and shares of a financial institution. These assets are held in irrevocable trust estates, which are managed, administered, and distributed by the Foundation as trustee. The CRTs require annuity payments to the donors as specified in the trust agreements.

## Southern California Healthcare Systems

### Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

#### **4. Asset Impairment and Other Charges (continued)**

The medical groups contributed in 1993 and 1994 were combined to form Affiliated Physician Practice Association (APPA) and were immediately sold to an independent physician (Physician) for consideration in the form of interest-bearing notes (Physician Notes) totaling \$2,353. The Physician also received a "Put" option which, upon exercise, required SCMM to purchase the shares and assume the Physician Notes. During 1998, the medical groups experienced significant losses. SCMM concluded it was probable that the "Put" option would be exercised, requiring SCMM to assume the Physician Notes. As a result, SCMM recognized a charge of \$2,353 in the accompanying statement of operations to reserve for the Physician Notes.

On May 1, 1999, the Physician exercised the "Put" option requiring SCMM to purchase the APPA shares and assume the Physician Notes for no consideration. SCMM accounted for the acquired deficiency in net assets of APPA of \$7,681 as an increase in goodwill. SCMM concluded that \$4,066 of the goodwill was not recoverable and recorded an impairment charge. On October 1, 1999, SCMM sold certain assets of APPA in exchange for \$250 in cash and the assumption by the buyer of \$2,000 of shared-risk liabilities. The shared-risk liabilities were converted to an interest bearing note payable over four years. The sale resulted in no gain or loss to SCMM.

During 1998, SCHS concluded that it would no longer finance the losses of its acquired management company. SCMM concluded that the carrying value of goodwill was impaired. As a result, an asset impairment charge of \$2,910 was recognized in the accompanying statements of operations.

#### **5. Transactions with Related Parties**

The Trust owns and leases to Huntington land and buildings which comprise the hospital facilities under a noncancelable operating lease expiring in 2026. The annual rent is equal to the depreciation of building and leaseholds as recorded on the books of the Trust, plus 6% of land cost until the Trust has recouped its land investment. Rent is payable monthly. During the years ended December 31, 1999 and 1998, Huntington paid the Trust \$4,409 and \$4,456, respectively, for rent of the facilities which is included in rental charges.

Southern California Healthcare Systems

Notes to Combined Financial Statements (continued)

(Dollars in Thousands)

**5. Transactions with Related Parties (continued)**

Prior to 1998, the Huntington Foundation entered into a loan agreement (Working Capital Loan) with the Trust, which allowed the Huntington Foundation to borrow up to \$13,134. The Working Capital Loan bears interest at 7%; however, a portion of the Working Capital Loan is interest free until January 1, 1999. The Working Capital Loan is payable over a 10-year period. At December 31, 1999 and 1998, the Huntington Foundation had borrowed the entire \$13,134. Interest cost incurred during 1999 totaled \$908,000.

During 1998, the Huntington Foundation entered into a loan agreement (Construction Loan) with the Trust. This Construction Loan totaled \$161 and is secured by tenant improvements. The principal balance outstanding at December 31, 1999 and 1998, was \$112 and \$161, respectively. These funds were used to pay for tenant improvements. The Construction Loan bears interest at 8% beginning November 1, 1998, and is payable over 42 months.

Principal payments on these loans are due as follows: 2000 – \$1,999; 2001 – \$1,127; 2002 – \$1,174; 2003 – \$1,242; 2004 – \$1,333; and thereafter – \$6,371.

During 1999 and 1998, the Trust contributed \$2,586 and \$2,640, respectively, to Huntington to offset the unreimbursed costs of its medical education programs. The contributions by the Trust was accounted for as an increase in unrestricted net assets.

**6. Property, Plant and Equipment**

Property, plant and equipment consists of the following:

	<b>December 31</b>	
	<b>1999</b>	<b>1998</b>
Land	\$ 4,163	\$ 4,163
Buildings and land improvements	249,435	238,104
Equipment	187,499	177,734
	<u>441,097</u>	<u>420,001</u>
Accumulated depreciation and amortization	(220,261)	(198,089)
Construction in progress	23,109	18,270
	<u>\$ 243,945</u>	<u>\$ 240,182</u>

Southern California Healthcare Systems

Notes to Combined Financial Statements (continued)

(Dollars in Thousands)

**7. Long-Term Debt**

Long-term debt consists of the following:

	<b>December 31</b>	
	<b>1999</b>	<b>1998</b>
California Statewide Communities Development Authority Certificates of Participation, principal payments of \$2,820 to \$4,915 due annually through 2006, \$22,465 due 2010, \$9,200 due 2016, and \$24,235 due 2026, interest payable annually at 4.8% to 5.75%	<b>\$ 85,160</b>	<b>\$ 87,360</b>
California Statewide Communities Development Authority Certificates of Participation, principal payments of \$165 to \$220 due annually beginning in 2001 through 2008, \$500 due by 2010, \$2,095 due 2017, and \$4,950 due 2027, interest payable annually at 4.25% to 5.40%	<b>9,100</b>	<b>9,100</b>
City of Arcadia, California Hospital Revenue Bonds, Series 1992, principal payments of \$260 to \$345 due annually through 2003, \$4,295 due 2012, and \$8,770 due 2022, interest payable semiannually at 5.0% to 6.625%	<b>14,335</b>	<b>14,610</b>
Term loan payable to bank	<b>7,475</b>	<b>6,322</b>
Other (including capitalized lease obligations)	<b>4,211</b>	<b>2,802</b>
	<b>120,281</b>	<b>120,194</b>
Less current maturities	<b>12,144</b>	<b>10,137</b>
	<b>\$ 108,137</b>	<b>\$ 110,057</b>

*Huntington and Methodist*

During 1996, Huntington and Methodist (the Hospitals) issued \$91,410 principal amount of California Statewide Communities Development Authority Certificates of Participation (Certificates). Approximately \$32,000 of the proceeds were used by Huntington to: (1) reimburse Huntington for the construction of a parking structure completed in 1995 which was funded from operating capital; (2) partially fund the construction of three additional floors to an existing building; and (3) acquire additional equipment. Approximately \$36,600 of the proceeds were used by Huntington to repay the

## Southern California Healthcare Systems

### Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

#### **7. Long-Term Debt (continued)**

##### *Huntington and Methodist (continued)*

California Health Facilities Financing Authority Customized Purchased Hospital Revenue Bonds, 1985 Series. Commencing July 1, 2006, the Hospitals' Certificates are subject to optional redemption prior to their stated maturity at redemption prices ranging from 100% to 102% of the principal amount of the Certificates being redeemed. The Hospitals are required to establish a sinking fund with the trustee to pay the principal on the Certificates which mature on July 1, 2010, 2016 and 2026. Deposits with the trustee to satisfy the sinking fund requirements will be made in annual installments of \$3,250 to \$6,070 beginning July 1, 2006.

During 1992, Methodist issued \$15,795 of City of Arcadia, California, Hospital Revenue Bonds, Series 1992 (Series 1992 Bonds). Series 1992 Bond proceeds were deposited into a trust to finance the construction of a new patient tower (Tower) which was substantially completed in 1998. Commencing November 15, 2002, the Series 1992 Bonds are subject to optional redemption prior to their stated maturity at redemption prices ranging from 100% to 102% of the principal amount of the Series 1992 Bonds being redeemed. Methodist is required to establish a sinking fund with the trustees to pay the principal of the Series 1992 Bonds which mature on November 15, 2012 and 2022. Deposits with the trustee to satisfy the sinking fund requirements will be made in annual installments of \$365 to \$1,115 beginning November 2004.

The Certificates and Series 1992 Bonds are collateralized by the revenues of Huntington and Methodist. Pursuant to the Master Indentures of Trust (Indenture), each hospital must comply with certain restrictive financial and other covenants, including the maintenance of certain required funds, limitations on acquisition of properties, limitations on additional indebtedness, and maintenance of service rates and annual debt service requirement. During the year ended December 31, 1999, Huntington had a debt service coverage ratio of less than the 1.10 times required by the Indenture. This deficiency represents an "event of default" as that term is defined in the Indenture. The insurer of Huntington's tax-exempt Certificates agreed to waive any remedy available under the Indenture, including the remedy permitting repayment acceleration, through the period ended January 2, 2001.

Southern California Healthcare Systems

Notes to Combined Financial Statements (continued)

(Dollars in Thousands)

**7. Long-Term Debt (continued)**

*Huntington East*

During 1997, Huntington East issued \$9,100 principal amount of California Statewide Communities Development Authority Certificates of Participation (Huntington East Certificates). Commencing December 1, 2007, the Huntington East Certificates are subject to optional redemption prior to their stated maturity at redemption prices ranging from 100% to 102% of the principal amount of the Huntington East Certificates being redeemed. Huntington East is required to establish a sinking fund with the trustee to pay the principal of the Huntington East Certificates which mature on December 1, 2010, 2017 and 2027. Deposits with the trustee to satisfy the sinking fund requirements will be made in annual installments of \$10 to \$340 beginning in 2008.

The Huntington East Certificates are collateralized by the revenues of Huntington East. Pursuant to the loan agreement, Huntington East must comply with certain restrictive financial and other covenants, including the maintenance of certain required funds, limitations on acquisition of properties, limitations on additional indebtedness, and maintenance of service rates and annual debt service requirements. During the year ended December 31, 1999, Huntington East had a debt service coverage ratio of less than the 1.10 times required by the loan agreement. This deficiency represents an "event of default" as that term is defined in the loan agreement. The insurer of the Huntington East Certificates agreed to waive any remedy available under the loan agreement, including the remedy permitting repayment acceleration, through the period ended January 2, 2001. The Trust is a guarantor of the Certificates. However, SCHS has agreed to indemnify the Trust.

*SoCal CliniLab*

During 1997, SoCal Clinilab obtained a credit line totaling \$6,300 from a bank for the construction of a laboratory facility. The credit line was increased to \$7,500 in December 1998. Interest on the credit line is payable quarterly at 8%, with principal payable on demand and, if demand is not made, on June 1, 2000. At December 31, 1999, \$7,475 was outstanding on the credit line.

# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### 7. Long-Term Debt (continued)

#### *Other*

Interest cost of \$302 and \$2,294 for the years ended December 31, 1999 and 1998, respectively, was capitalized as part of the cost of construction in progress. Interest income of \$74 for the year ended December 31, 1998, on bond-related funds held by trustee has been offset against interest cost capitalized so that only the cumulative net interest costs were added to the cost of construction.

During 1999 and 1998, the Association was party to two interest rate swaps. These swaps changed fixed interest rate exposure to floating interest rate exposure on \$70,000,000 of the Certificates. The first agreement hedges \$50,000,000 at a 4.875% fixed interest rate against a variable rate index (5.46% and 4.00% at December 31, 1999 and 1998, respectively). This agreement terminates on July 1, 2003. The second agreement hedges \$20,000,000 at a 4.466% fixed interest rate against a variable rate index (3.62% and 4.00% at June 30, 1999, and December 31, 1998, respectively). This agreement terminated on July 1, 1999. The use of interest rate swap agreements had a favorable impact on interest expense of \$969,000 and \$890,000 in 1999 and 1998, respectively.

On February 2, 2000, the Association entered into a new interest swap agreement which hedges \$15,000,000 of the Certificates at a 4.58% fixed interest rate against a variable rate index. The swap agreement expires February 1, 2003.

The aggregate amounts of annual maturities of long-term debt and capital lease obligations for the years subsequent to December 31, 1999, are as follows:

2000	\$ 12,144
2001	5,147
2002	5,242
2003	5,357
2004	5,451
Thereafter	86,940
	<u>\$ 120,281</u>

## Southern California Healthcare Systems

### Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

#### 8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	1999	1998
Patient care services	\$ 22,962	\$ 22,296
Time restricted under charitable remainder trust	4,657	4,390
Construction or acquisition of property, plant and equipment	3,481	1,948
Time restricted under other arrangements	191	998
Research	326	477
	<u>\$ 31,617</u>	<u>\$ 30,109</u>

Permanently restricted net assets of \$9,982 and \$7,861 at December 31, 1999 and 1998, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income).

During the years ended December 31, 1999 and 1998, net assets totaling \$4,222 and \$11,429, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes of patient care services, research and acquisition of property, plant and equipment.

#### 9. Commitments and Contingencies

The Member Hospitals are defendants in various legal actions arising from the normal conduct of business. Management believes that the ultimate resolution of the various proceedings will not have a material adverse effect upon the financial position or results of operations of the Member Hospitals.



# Southern California Healthcare Systems

## Notes to Combined Financial Statements (continued)

*(Dollars in Thousands)*

### 10. Functional Expenses

SCHS provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year ended December 31	
	1999	1998
Health care services	\$ 355,916	\$ 341,816
General and administrative	123,475	103,894
	<u>\$ 479,391</u>	<u>\$ 445,710</u>

### 11. Subsequent Events

On March 17, 2000, Southern California Clinical Laboratories, LLC, a provider of laboratory services to physicians and physician groups, completed the sale of certain of its assets to Unilab Corporation for approximately \$5,200. Proceeds from the sale included a cash payment of \$2,600 at closing, with payments of \$650 due every six months thereafter. The sale did not result in a material gain or loss.

On May 24, 2000, SCHS announced that it was evaluating alternatives for Huntington East for the purpose of focusing Huntington East's strategic direction and to secure its financial viability. SCHS's goal is to secure a stable future for Huntington East with new ownership that will allow Huntington East to continue its mission of providing high quality services to patients in communities it serves.

## Other Financial Information

Southern California Healthcare Systems

Combining Balance Sheet

December 31, 1999

(Dollars in Thousands)

	SCHS Members							SoCal Cliniab	Combining Entries	SCHS Combined
	Huntington Consolidated	Methodist Consolidated	Huntington East	Combining Entries	Members Combined	SCMM APPA/FPS	MVP			
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 4,232	\$ 3,960	\$ 483	\$ -	\$ 8,695	\$ 1,082	\$ 22	\$ 955	\$ 333	\$ 11,087
Investments	42,066	-	-	-	42,066	-	339	-	-	42,405
Patient accounts receivable, net	39,339	23,415	3,794	-	66,548	504	-	-	1,713	68,765
Due from affiliates	-	-	336	(336)	-	544	656	647	3,385	(5,232)
Inventories	1,741	2,218	506	-	4,465	-	-	-	100	4,565
Current portion of assets limited as to use	9,886	4,511	46	-	14,443	-	-	-	-	14,443
Prepaid expenses and other current assets	3,325	849	1,299	-	5,473	97	-	27	192	5,789
Total current assets	100,609	34,953	6,464	(316)	141,690	2,227	1,017	1,629	5,723	147,054
Other assets:										
Assets limited as to use, less current portion:										
By board	1,652	17,395	-	-	19,047	-	-	-	-	19,047
Under bond indenture	-	1,319	279	-	1,598	-	-	-	-	1,598
	1,652	18,714	279	-	20,645	-	-	-	-	20,645
Property, plant and equipment, net	148,107	74,975	9,668	-	232,750	38	115	1,269	9,773	243,945
Investments restricted for the acquisition of property, plant and equipment and to provide a permanent source of income	8,833	4,630	-	-	13,463	-	-	-	-	13,463
Deferred financing costs	3,107	1,179	394	-	4,680	-	-	-	-	4,680
Investments in affiliates	4,107	1,024	302	-	5,433	585	-	165	-	2,701
Other assets	4,881	4,525	-	-	9,406	-	-	20	-	9,426
Total assets	\$ 271,296	\$ 140,000	\$ 17,107	\$ (336)	\$ 428,067	\$ 2,850	\$ 1,132	\$ 3,083	\$ 15,496	\$ 441,914

Southern California Healthcare Systems

Combining Balance Sheet (continued)

December 31, 1999

(Dollars in Thousands)

	SCHS Members							SoCal Clinifab	Combining Entries	SCHS Combined	
	Huntington Consolidated	Methodist Consolidated	Huntington East	Combining Entries	Members Combined	SCMM APPA/FPS	MVP				SCHS
<b>Liabilities and net assets</b>											
Current liabilities:											
Accounts payable	\$ 25,554	\$ 5,593	\$ 3,503	\$ (115)	\$ 34,535	\$ 69	\$ 12	\$ 23	\$ 953	\$ (505)	\$ 35,087
Accrued expenses and other liabilities	17,533	10,184	3,381	(1,228)	29,870	3,675	34	199	2,333	(24)	36,087
Accrued self-insurance claims	11,859	3,902	-	-	15,761	-	-	-	-	-	15,761
Due to third-party payors	5,906	328	-	-	6,234	-	-	-	-	-	6,234
Due to affiliate	4,822	1,573	3,690	18	10,103	585	39	-	1,258	(4,703)	7,282
Current maturities of long-term debt	2,300	1,819	550	-	4,669	-	-	-	7,475	-	12,144
Current maturities of notes payable to affiliates	1,999	-	-	-	1,999	-	-	-	-	-	1,999
Total current liabilities	69,973	23,399	11,124	(1,325)	103,171	4,329	85	222	12,019	(5,232)	114,594
Long-term debt, less current maturities	63,940	35,014	9,183	-	108,137	-	-	-	-	-	108,137
Notes payable to affiliates, less current maturities	11,247	-	-	-	11,247	6,343	-	-	-	(6,343)	11,247
Charitable remainder trusts payable	-	2,105	-	-	2,105	-	-	-	-	-	2,105
Net assets:											
Unrestricted	94,199	76,199	(3,236)	989	168,151	(7,822)	1,047	2,861	3,477	(3,482)	164,232
Temporarily restricted	23,131	8,450	36	-	31,617	-	-	-	-	-	31,617
Permanently restricted	8,806	1,176	-	-	9,982	-	-	-	-	-	9,982
Notes receivable under CRT	126,136	85,825	(3,200)	989	209,750	(7,822)	1,047	2,861	3,477	(3,482)	205,831
	-	(6,343)	-	-	(6,343)	-	-	-	-	6,343	-
Total net assets	126,136	79,482	(3,200)	989	203,407	(7,822)	1,047	2,861	3,477	2,861	205,831
Total liabilities and net assets	\$ 271,296	\$ 140,000	\$ 17,107	\$ (336)	\$ 428,067	\$ 2,850	\$ 1,132	\$ 3,083	\$ 15,496	\$ (8,714)	\$ 441,914

Southern California Healthcare Systems

Combining Balance Sheet

December 31, 1998

(Dollars in Thousands)

	SCHS Members							SoCal Clinilab	Combining Entries	SCHS Combined
	Huntington Consolidated	Methodist Consolidated	Huntington East	Members Combined	SCMM APPA/FPS	MVP	SCHS			
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 1,159	\$ 6,295	\$ 244	\$ 7,698	\$ 238	\$ 35	\$ 358	\$ -	\$ -	\$ 8,329
Investments	19,641	-	-	19,641	-	323	-	-	-	19,964
Patient accounts receivable, net	46,516	16,544	5,632	68,692	349	-	-	1,531	-	70,572
Due from affiliates	3,132	156	-	3,288	-	178	1,907	-	(5,373)	-
Inventories	1,859	1,570	512	3,941	-	-	-	25	-	3,966
Current portion of assets limited as to use	7,797	3,529	40	11,366	-	-	-	-	-	11,366
Prepaid expenses and other current assets	2,863	1,192	1,332	5,387	752	8	149	98	-	6,394
Total current assets	82,967	29,286	7,760	120,013	1,339	544	2,414	1,654	(5,373)	120,591
Other assets:										
Assets limited as to use, less current portion:										
By Board	56,012	29,932	565	86,509	-	-	-	-	-	86,509
Under bond indenture	-	1,240	123	1,363	-	-	-	-	-	1,363
	56,012	31,172	688	87,872	-	-	-	-	-	87,872
Property, plant and equipment, net	143,337	74,235	9,560	227,132	407	187	1,518	10,938	-	240,182
Investments restricted for the acquisition of property, plant and equipment and to provide a permanent source of income	6,703	3,106	-	9,809	-	-	-	-	-	9,809
Deferred financing costs	3,264	1,239	408	4,911	-	-	-	-	-	4,911
Investments in affiliates	(357)	(568)	-	(925)	-	-	(160)	-	2,335	1,250
Other assets	9,415	4,770	415	14,600	444	-	33	132	-	15,209
Total assets	\$ 301,341	\$ 143,240	\$ 18,831	\$ 463,412	\$ 2,190	\$ 731	\$ 3,805	\$ 12,724	\$ (3,038)	\$ 479,824

Southern California Healthcare Systems

Combining Balance Sheet (continued)

December 31, 1998

(Dollars in Thousands)

	SCHS Members				SCMM APPA/FPS	MVP	SCHS	SoCal Clinilab	Combining Entries	SCHS Combined
	Huntington Consolidated	Methodist Consolidated	Huntington East	Members Combined						
<b>Liabilities and net assets</b>										
Current liabilities:										
Accounts payable	\$ 16,868	\$ 4,684	\$ 3,957	\$ 25,509	\$ 136	\$ 70	\$ 442	\$ 5,138	\$ -	\$ 31,295
Accrued expenses and other liabilities	13,309	7,893	574	21,776	67	56	660	1,056	-	23,615
Accrued self-insurance claims	10,486	4,996	-	15,482	-	-	-	-	-	15,482
Due to third-party payors	4,650	263	532	5,445	-	-	-	-	-	5,445
Due to affiliates	-	-	2,449	2,449	267	-	128	2,565	(5,184)	225
Current maturities of long-term debt	2,474	504	859	3,837	-	-	-	6,300	-	10,137
Current maturities of notes payable to affiliate	967	-	189	1,156	-	-	-	-	(189)	967
Total current liabilities	48,754	18,340	8,560	75,654	470	126	1,230	15,059	(5,373)	87,166
Long-term debt, less current maturities	66,599	33,813	9,645	110,057	-	-	-	-	-	110,057
Notes payable to affiliate, less current maturities	12,328	-	-	12,328	6,343	-	-	-	(6,343)	12,328
Charitable remainder annuity trusts payable	-	2,418	-	2,418	-	-	-	-	-	2,418
Net assets:										
Unrestricted	144,283	86,427	618	231,328	(4,623)	605	2,575	(2,335)	2,335	229,885
Temporarily restricted	22,692	7,409	8	30,109	-	-	-	-	-	30,109
Permanently restricted	6,685	1,176	-	7,861	-	-	-	-	-	7,861
Notes receivable under CRT	173,660	95,012	626	269,298	(4,623)	605	2,575	(2,335)	2,335	267,855
Total net assets	173,660	88,669	626	262,955	(4,623)	605	2,575	(2,335)	8,678	267,855
Total liabilities and net assets	\$ 301,341	\$ 143,240	\$ 18,831	\$ 463,412	\$ 2,190	\$ 731	\$ 3,805	\$ 12,724	\$ (3,038)	\$ 479,824

# Southern California Healthcare Systems

## Combining Statement of Operations

Year ended December 31, 1999

*(Dollars in Thousands)*

	SCHS Members							SCMM APPA/FPS	MVP	SCHS	SoCal Clinilab	Combining Entries	SCHS Combined
	Huntington Consolidated	Methodist Consolidated	Huntington East	Combining Entries	Members Combined								
Unrestricted revenues, gain and other support:													
Net patient service revenue	\$ 197,412	\$ 98,134	\$ 20,614	\$ -	\$ 316,160	\$ -	\$ -	\$ -	\$ -	\$ 27,493	\$ (24,138)	\$ 319,515	
Premium revenue	35,611	21,997	-	-	57,608	18,055	-	-	-	-	-	75,663	
Management fees	-	-	-	-	-	142	-	-	3	-	-	145	
Equity in (losses) earnings of affiliates	(886)	(309)	-	-	(1,195)	326	-	-	-	-	1,233	364	
Other operating revenue	13,839	1,810	858	-	16,507	6	-	308	-	108	-	16,929	
Parent allocation	-	-	-	-	-	-	-	-	3,147	-	(3,147)	-	
Net assets released from restrictions	2,138	255	-	-	2,393	-	-	-	-	-	-	2,393	
Total unrestricted revenues, gains and other support	248,114	121,887	21,472	-	391,473	18,529	-	3,458	-	27,601	(26,052)	415,009	
Expenses:													
Salaries and benefits	124,377	52,256	10,808	-	187,441	1,224	93	2,333	-	14,627	-	205,718	
Supplies and other	60,946	22,792	2,840	-	86,578	430	74	594	-	8,679	-	96,355	
Purchased services	48,434	22,612	8,259	-	79,305	6,444	-	767	-	2,753	(27,285)	61,984	
Medical claims expense	25,586	16,767	-	-	42,353	18,977	-	-	-	-	-	61,330	
Insurance	3,583	-	285	-	3,868	24	-	125	-	175	-	4,192	
Depreciation and amortization	13,314	8,852	805	-	22,971	110	-	459	-	1,235	-	24,775	
Rental charges	6,330	-	-	-	6,330	110	-	352	-	461	-	7,233	
Provision for bad debts	6,629	3,782	983	(989)	10,405	2	-	-	-	373	-	10,780	
Interest	3,515	2,111	598	-	6,224	247	-	-	-	533	-	7,004	
Total expenses	292,714	129,172	24,578	(989)	445,475	27,568	167	4,630	-	28,836	(27,285)	479,391	
Operating (loss) income before asset impairment	(44,600)	(7,285)	(3,106)	989	(54,002)	(9,039)	(167)	(1,172)	-	(1,235)	1,233	(64,382)	
Asset impairment	-	-	-	-	-	(4,066)	-	-	-	-	-	(4,066)	
Operating (loss) income	(44,600)	(7,285)	(3,106)	989	(54,002)	(13,105)	(167)	(1,172)	-	(1,235)	1,233	(68,448)	

Southern California Healthcare Systems

Combining Statement of Operations (continued)

Year ended December 31, 1999

(Dollars in Thousands)

	SCHS Members										
	Huntington Consolidated	Methodist Consolidated	Huntington East	Combining Entries	Members Combined	SCMM APPA/FPS	MVP	SCHS	SoCal Clinilab	Combining Entries	SCHS Combined
Other income:											
Investment income	\$ 5,414	\$ 6,129	\$ -	\$ -	\$ 11,543	\$ 26	\$ 16	\$ 45	\$ 2	\$ -	\$ 11,632
Net unrealized losses on trading securities	(9,107)	(3,231)	-	-	(12,338)	-	-	-	-	-	(12,338)
Donations	1,299	-	-	-	1,299	-	-	-	-	-	1,299
Excess of expenses over revenues	(46,994)	(4,387)	(3,106)	989	(53,498)	(13,079)	(151)	(1,127)	(1,233)	1,233	(67,855)
Net assets released from restrictions used for the acquisition of property, plant and equipment	1,203	626	-	-	1,829	-	-	-	-	-	1,829
Contributions (to) from affiliates	(4,293)	(6,467)	(748)	-	(11,508)	10,507	804	750	6,730	(7,050)	233
Other	-	-	-	-	-	(627)	(211)	663	315	-	140
(Decrease) increase in unrestricted net assets	\$ (50,084)	\$ (10,228)	\$ (3,854)	\$ 989	\$ (63,177)	\$ (3,199)	\$ 442	\$ 286	\$ 5,812	\$ (5,817)	\$ (65,653)



Southern California Healthcare Systems

Combining Statement of Operations

Year ended December 31, 1998

(Dollars in Thousands)

	SCHS Members							SoCal Clinilab	Combining Entries	SCHS Combined
	Huntington Consolidated	Methodist Consolidated	Huntington East	Members Combined	SCMM APPA/FPS	MVP	SCHS			
Unrestricted revenues, gain and other support:										
Net patient service revenue	\$ 207,401	\$ 91,661	\$ 21,135	\$ 320,197	\$ -	\$ -	\$ -	\$ 24,971	\$ (11,554)	\$ 333,614
Premium revenue	22,066	28,408	-	50,474	-	-	-	-	-	50,474
Management fees	-	-	-	-	4,118	-	209	-	-	4,327
Equity in (losses) earnings of affiliates	(4,249)	(1,617)	-	(5,866)	-	-	(41)	-	5,907	-
Other operating revenue	11,426	2,593	3,658	17,677	211	-	-	-	-	17,888
Parent allocation	-	-	-	-	-	-	5,338	-	(5,338)	-
Net assets released from restrictions	1,744	556	-	2,300	-	-	-	-	-	2,300
Total unrestricted revenues, gains and other support	238,388	121,601	24,793	384,782	4,329	-	5,506	24,971	(10,985)	408,603
Expenses:										
Salaries and benefits	113,561	53,228	11,176	177,965	2,282	175	3,701	16,162	-	200,285
Supplies and other	60,516	23,591	2,712	86,819	1,757	23	1,112	11,671	-	101,382
Purchased services	37,421	19,469	8,441	65,331	221	170	2,132	1,288	(16,892)	52,250
Medical claims expense	16,807	20,494	-	37,301	-	-	-	-	-	37,301
Insurance	3,094	2,717	236	6,047	-	-	18	-	-	6,065
Depreciation and amortization	11,717	6,838	714	19,269	243	54	332	1,353	-	21,251
Rental charges	6,086	-	-	6,086	-	-	-	404	-	6,490
Provision for bad debts	10,210	2,418	322	12,950	1,181	-	2,370	-	-	16,501
Interest	1,767	1,303	735	3,805	380	-	-	-	-	4,185
Total expenses	261,179	130,058	24,336	415,573	6,064	422	9,665	30,878	(16,892)	445,710
Other income (loss) before asset impairment and other charges	(22,791)	(8,457)	457	(30,791)	(1,735)	(422)	(4,159)	(5,907)	5,907	(37,107)
Asset impairment and other charges	-	-	-	-	(5,263)	-	-	-	-	(5,263)
Operating income (loss)	(22,791)	(8,457)	457	(30,791)	(6,998)	(422)	(4,159)	(5,907)	5,907	(42,370)

Southern California Healthcare Systems

Combining Statement of Operations (continued)

Year ended December 31, 1998

(Dollars in Thousands)

	SCHS Members							SoCal Clinilab	Combining Entries	SCHS Combined
	Huntington Consolidated	Methodist Consolidated	Huntington East	Members Combined	SCMM APPA/FPS	MVP	SCHS			
Other income:	\$ 12,274	\$ 5,768	\$ -	\$ 18,042	\$ 6	\$ 16	\$ 24	\$ -	\$ -	\$ 18,088
Investment income	(7,019)	(45)	-	(7,064)	-	-	-	-	-	(7,064)
Net unrealized losses on trading securities	4,936	-	-	4,936	-	-	-	-	-	4,936
Donations	(12,600)	(2,734)	457	(14,877)	(6,992)	(406)	(4,135)	(5,907)	5,907	(26,410)
Excess of expenses over revenues										
Net assets released from restrictions used for acquisition of property, plant and equipment	7,962	1,167	-	9,129	-	-	-	-	-	9,129
Contributions from (to) affiliates, net	1,710	(3,738)	(593)	(2,641)	2,575	563	3,655	2,342	(2,342)	4,152
Increase (decrease) in unrestricted net assets	\$ (2,928)	\$ (5,325)	\$ (136)	\$ (8,389)	\$ (4,417)	\$ 157	\$ (480)	\$ (3,565)	\$ 3,565	\$ (13,129)

**HUNTINGTON EAST VALLEY HOSPITAL**  
**Asset Sales Agreement**  
**Schedule 6.2**  
**Negative Covenants**

NONE.

**HUNTINGTON EAST VALLEY HOSPITAL**  
**Asset Sales Agreement**  
**Schedule 6.5**  
**Third Party Consents**

**OPERATING COMMITMENTS, CONTRACTS AND AGREEMENTS**

<u>Name</u>	<u>Assignable</u>
Pacific Medical Imaging - Nuclear Medicine	With written consent
Access Family TV - Patient Cable TV	With written consent
THM Management - Telephone Service Contract	With written consent
BFI - Waste Management	With written consent
Meditech - Information System - Service contract	With written consent
3M - coding software license	With written consent
LM Systems - alarm monitoring	With written consent

**CAPITAL LEASES**

Beckman Coulter lab equipment	With written consent
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HUNTINGTON EAST VALLEY HOSPITAL  
Schedule 8.8

NON-COMPETE AGREEMENT

THIS NON-COMPETE AGREEMENT, dated as of \_\_\_\_\_, 2001, is made by and between **PANPACIFIC HEALTH ENTERPRISES, INC.**, a California corporation ("Buyer") and **HUNTINGTON EAST VALLEY HOSPITAL**, a California nonprofit corporation ("Seller").

W I T N E S S E T H:

WHEREAS, pursuant to that certain Asset Sale Agreement, dated as of February 14, 2001 (the "Acquisition Agreement"), by and between Buyer and Seller, Buyer has concurrently herewith acquired from Seller certain assets of Seller; and

WHEREAS, Buyer wishes to be assured that Seller and its affiliates will not compete with Buyer for the periods and upon and subject to the terms herein provided.

NOW, THEREFORE, in consideration of the mutual covenants and the agreements hereinafter set forth, and in consideration of Buyer consummating the transactions contemplated by the Acquisition Agreement, the parties hereto covenant and agree as follows:

1. Covenant Against Competition

Seller acknowledges that (i) the principal business of Seller is the operation of an acute care hospital in Glendora, California, and facilities which provide outpatient surgery or services (such business being referred to as the "Seller Business"); (ii) the Seller Business is solely conducted within the State of California; and (iii) Buyer would not acquire the assets of Seller unless Seller entered into this Agreement. Accordingly, Seller covenants and agrees that:

(a) Until the third (3rd) anniversary of the date hereof (the "Restricted Period"), none of Seller, Seller's parent, Southern California Healthcare Systems, a California corporation ("SCHS"), or any affiliate of SCHS ("Affiliate") shall, within the area set forth in Exhibit A hereto (the "Restricted Area"), without the prior written consent of Buyer, (1) compete, directly or indirectly, or participate, directly or indirectly, as agent, employee, consultant, representative or otherwise, or as a stockholder, partner or joint venturer, or have any direct or indirect financial interest, including,

without limitation, the interest of a creditor, in any enterprise engaging within the Restricted Area in the Seller Business, or any business substantially similar to the Seller Business; or (2) engage in the Seller Business or any business substantially similar to the Seller Business for such person's own account.

(b) During the Restricted Period, none of Seller, SCHS or any Affiliate shall solicit or encourage to leave the employment or service of Buyer or any of its subsidiaries or affiliates, any employee of Buyer or any of its subsidiaries or affiliates.

2. Exclusions from Covenant Against Competition. The Buyer acknowledges that SCHS or its Affiliates historically has provided, and continues to provide, certain services in the Restricted Area. These services include Huntington Diagnostic Imaging Center, CPSP OB Clinic, Huntington Senior Care Network and the conduct of health fairs. In addition, SCHS or its Affiliates engage in advertising, marketing and physician recruitment within the Restricted Area. The services described in the preceding two sentences are hereinafter referred to as the "Excluded Services." The Buyer acknowledges that SCHS or its Affiliates intend to continue to provide the Excluded Services within the Restricted Area during the Restricted Period. Accordingly, the covenant against competition set forth in Section 1 hereof shall not apply to the Excluded Services. ~~The parties further agree that the Excluded Services shall not be significantly expanded beyond their current size and activity.~~ *TWC*

3. Rights and Remedies Upon Breach of the Restrictive Covenants

(a) Seller recognizes that Buyer does not have an adequate remedy at law to protect its rights hereunder. Seller agrees that Buyer shall have (i) the right to an injunction without bond in any court of competent jurisdiction permanently enjoining Seller, SCHS or an Affiliate, as the case may be (a "Restricted Person") from a violation of Section 1 hereof (the "Restrictive Covenants"), (ii) the right and remedy to require such Restricted Person to account for and pay over to Buyer all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by such Restricted Person as the result of any transactions constituting a breach of any of the Restrictive Covenants, and such Restricted Person shall account for and pay over such Benefits to Buyer, and (iii) the right to recover any losses, liabilities or damages (including interest, penalties and reasonable attorneys' fees) arising out of or due to a breach of this Agreement.

(b) Seller recognizes and agrees that in the event of a violation of any of the Restrictive Covenants, the period during which a Restricted Person shall not compete shall be suspended during the period it engaged in conduct constituting such violation and shall resume after such violation has been

remedies to the satisfaction of Buyer.

(c) The remedies set forth in subsection 2(a) and (b) above shall not limit, eliminate, prohibit or restrict any other rights that Buyer may have under law for violation by a Restricted Person of this Agreement and shall not be mutually exclusive and any one or all may be pursued without the pursuit of one impairing or precluding the pursuit of another.

4. Severability of Restrictive Covenants.

It is understood and agreed by the parties hereto that the provisions of each of the preceding sections of this Agreement are independent of and severable from each other, and the invalidity of any section or any portion thereof shall not affect the validity or hinder the enforceability of the remaining provisions of this Agreement. The parties expressly agree and declare that the time limitation and geographic scope set forth in Section 1 hereof are reasonable, are properly required for the adequate protection of the business of Buyer, and that in the event such time limitation and/or geographic scope is deemed to be unreasonable by the final decision of a court of competent jurisdiction, Buyer and Seller agree to submit to such revision or modification thereof as said court shall deem reasonable.

5. Notices.

Any notice or other communication hereunder shall be given in writing or by facsimile or other means of instantaneous communication, and such notice shall be deemed to have been given, if by mail, three days after it has been mailed by certified mail, return receipt requested, postage prepaid, and if by instantaneous communication, upon certification of receipt of transmission, at the address for such party set forth in the Acquisition Agreement, or to such other person(s) or address(es) as Buyer shall have furnished to Seller in writing.

6. Assignability.

This Agreement shall be binding upon and inure to the benefit of Buyer, its assigns and successors (by purchase of substantially all of its assets, by merger, reorganization or spin-off or otherwise). This Agreement shall not be assignable by Seller.

7. Entire Agreement.

This Agreement contains the entire agreement between Seller and Buyer with respect to the subject matter hereof.

8. Waivers, Amendments and Further Agreements.

Neither this Agreement nor any term or condition hereof, including without limitation the terms and conditions of this Section 7, may be waived, modified or amended in whole or in part as against Buyer or Seller except by written instrument executed by each of the parties expressly stating that it is intended to operate as a waiver, modification or amendment of this Agreement or the applicable term or condition hereof. Each of the parties hereto agrees to execute all such further instruments and documents and to take all such further action as the other party may reasonably require in order to effectuate the terms and purposes of this Agreement.

9. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California.



IN WITNESS WHEREOF, the parties hereto have executed or caused to be executed this Agreement as of the date first above written.

PANPACIFIC HEALTH ENTERPRISES, INC.

By: *C. Joseph Chang*  
Name: *C. Joseph Chang*  
Title: *President*

HUNTINGTON EAST VALLEY HOSPITAL

By: *James W. Maki*  
Name: *James W. Maki*  
Title: *President and CEO*

ACCEPTED AND AGREED TO:

SOUTHERN CALIFORNIA HEALTHCARE SYSTEM

By: *[Signature]*  
Name:  
Title:

*[Signature]*

*[Signature]*

EXHIBIT A

Restricted Area

The City of Glendora and those portions of the County of Los Angeles located east of the 605 Freeway.

# EXHIBIT A - RESTRICTED AREA

(Restricted Area within **BOLD** outline)

