

EXECUTION VERSION

CONFIDENTIAL

HOSPITAL SERVICES AGREEMENT

between

KAISER FOUNDATION HOSPITALS

and

PALOMAR POMERADO HEALTH

Effective Date: February 1, 2004

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HOSPITAL SERVICES AGREEMENT

Between

KAISER FOUNDATION HOSPITALS

And

PALOMAR POMERADO HEALTH

This HOSPITAL SERVICES AGREEMENT ("Agreement") is entered into effective as of February 1, 2004 ("Effective Date") by and between Kaiser Foundation Hospitals, a California nonprofit public benefit corporation ("KFH") and Palomar Pomerado Health, a California Local Healthcare District Organized Pursuant to Division 23 of the California Health and Safety Code ("PPH").

RECITALS

A. Kaiser Foundation Health Plan, Inc., a California nonprofit public benefit corporation ("Health Plan"), operates health care benefit plans and provides or arranges for the provision of health care services to Health Plan's members, who are persons entitled to receive such services under the terms of their membership agreements with Health Plan.

B. Health Plan has entered into an agreement with KFH to provide or arrange for all medically necessary hospital services for Health Plan's members. KFH provides for such services for all Health Plan Members, and services to members of Health Plan Affiliates (as such term is defined below), through hospital services agreements with community hospitals, as well as through hospitals owned and operated by KFH.

C. Health Plan has entered into an agreement with Southern California Permanente Medical Group, a California professional partnership ("Medical Group"), to provide or arrange for Professional Medical Services for Health Plan's members. Medical Group provides such services through physicians and allied health practitioners employed by Medical Group and through independent physicians with whom Medical Group has contracts. Medical Group and its contractors shall be the primary providers of Professional Medical Services to Members at Palomar Medical Center, a licensed general acute care hospital in Escondido, California. As used herein, the term "Kaiser Permanente" or "KP" means Health Plan, KFH and Medical Group, or one or more of them collectively, depending on the context.

D. KFH desires to contract with PPH for certain hospital services at PMC and other PPH facilities, to secure quality hospital care for Members (as defined below) beginning on the Effective Date.

E. PPH operates PMC and desires to provide certain Covered Hospital Services (as defined below) to Members principally at PMC. In addition, PPH operates a general acute care hospital in Poway, California under the name Pomerado Hospital, and operates certain other facilities, and may from time to time provide certain services at such facilities as described in more detail below in this Agreement.

F. KFH and PPH currently are parties to that certain Hospital Services Agreement, effective as of January 13, 2001, as amended to date ("Existing Agreement"). This Agreement shall replace and supersede the Existing Agreement from and after the Effective Date of this Agreement. This Agreement does not supersede the following agreements for non-acute care hospital services now in effect between the parties, which agreements shall remain in full force and effect in accordance with their terms: (i) Skilled Nursing Services Agreement, effective as of November 1, 1998, as amended to date (relating to skilled nursing services at Villa Pomerado and Palomar Continuing Care Center); (ii) Hospice Services

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Agreement, effective as of November 1, 1998, as amended to date (relating to hospice services at Villa Pomerado). This is not an exclusive agreement and KFH is free to enter into other arrangements in Health Plan's service area for any or all of the same services to be provided hereunder by PPH.

G. The parties acknowledge that KFH's need for Covered Hospital Services from PPH hereunder will fluctuate in an unpredictable manner during the term of this Agreement in accordance with Health Plan enrollment, changes in health care economics, and shifting demographic and political trends. Nonetheless, PPH has agreed to commit sufficient resources to ensure the availability of beds at PMC to the extent described herein throughout the Term of this Agreement. Accordingly, the parties acknowledge that this Agreement should be interpreted in a manner designed to promote flexibility, efficiency, and continuity of mutual performance.

H. PPH and KFH further acknowledge that this Agreement requires a major commitment of resources by each of them for an extended period. Accordingly, although PPH and KFH shall each maintain their separate corporate identities and do not intend to create a partnership or other joint enterprise, each of them agrees to interpret their respective obligations pursuant to this Agreement in a reasonable and constructive manner designed to promote a stable and harmonious long-term relationship between them, and thereby best serve the interests of their respective patients or members and the communities served by them.

In consideration of these Recitals and the mutual covenants and agreements contained in this Agreement, the parties agree as set forth below:

ARTICLE 1 - DEFINITIONS; INTERPRETATION

1.1 Definitions.

The terms set forth below are defined as follows. Certain other terms are defined elsewhere in this Agreement or in Appendices hereto.

"Additional Facility" has the meaning set forth in the definition of "Facility" below.

"Agencies" shall include, without limitation, applicable Federal, State of California and local governmental agencies which shall include, without limitation, the following: DMHC, DHS, CMS, the Secretary of the U.S. Department of Health and Human Services, Medicare peer review organizations, the U.S. Comptroller General, and their respective designees and such other agency officials entitled by law or under Health Plan's Medi-Cal contracts to make, enforce and/or interpret applicable requirements. In addition, "Agencies" shall or may include private accreditation and/or certification agencies including, without limitation, JCAHO and NCQA.

"Allied Health Practitioner" means any person (other than a Physician or certified nurse midwife) who provides health care services under the supervision of a Physician.

"Alternative Hospitalization" has the meaning given to it in Appendix 2.6.2 [REDACTED]

"Authorization" means the approval, given by KFH or its designee pursuant to Article 3 (Eligibility and Authorization; Members) and the Utilization Management Program, of the provision of Covered Benefits to a Member; "Authorized" means that a Covered Benefit was provided, or is to be provided, pursuant to and in compliance with an Authorization; and "Authorize" means the action of providing an Authorization.

"Business Records" has the meaning given to it in Section 8.2 (Business Records).

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"Capacity Guarantee" has the meaning given to it in Section 2.6.1 (Maintenance of Capacity; Capacity Management).

"Capacity Guarantee Compliance Test" has the meaning given to it in Appendix 2.6.1.

"Change" means any change, modification or addition to, or deletion from, a document.

"Change of Control" means, with respect to any Person, (i) the sale, transfer or other conveyance or encumbrance of all or substantially all of its assets, or any management agreement, lease or other arrangement that gives effective control for substantially all daily operational matters to another Person; (ii) its participation in a Combination that results in any occurrence described in clause (i) of this definition; or (iii) any addition, substitution or other change by operation of law in any corporate or economic member of such Person.

"CMS" means the Centers for Medicare & Medicaid Services of the United States Department of Health and Human Services, formerly known as the Health Care Financing Administration (or "HCFA"), or any subsequent name by which such agency may be designated or successor agency.

"COB Program" means the Coordination of Benefits Program adopted by Health Plan, as set forth in the Manual, communicated by KFH to PPH and referenced in Section 4.3 (Coordination of Benefits).

"Combination" means the participation of any Person, directly or indirectly through one or more corporate members or other Affiliates in a merger, affiliation, or other consolidation.

"Confidential Information" has the meaning given to it in Section 8.10 (Confidentiality of Information).

"Contract Year" means the period beginning on the Effective Date and ending on January 31, 2005 (the "First Contract Year"), and each succeeding period of twelve (12) calendar months.

"Copayment" means a charge payable by a Member for Covered Hospital Services pursuant to the Member's Membership Agreement, whether a specified dollar amount or a percentage of applicable charges, and including without limitation any copayment, coinsurance and/or deductible.

"Covered Benefits" means health care services and benefits that a Member is entitled to receive from Health Plan or any Health Plan Affiliate under Health Plan's or such Health Plan Affiliate's commercial, Medicare+Choice, Medi-Cal managed care, and other plans and under employers' self-funded plans, as set forth in the Member's applicable Membership Agreement.

"Covered Hospital Services" means (i) Authorized Hospital Services that are Covered Benefits and (ii) Emergency Services.

"Days" shall mean calendar days, unless otherwise noted. "Working days" or "business days" shall mean normal business days, Monday through Saturday, excluding legal holidays.

"DHS" means the California Department of Health Services or other successor agency administering the California Health and Safety Code.

"Direct Patient Care Rates" means the rates set forth in Attachment A to Appendix 4.1 (Rates) to this Agreement, which rates shall apply to all Covered Hospital Services rendered at any Facility pursuant to this Agreement, from and after the Effective Date.

"Dispute" has the meaning given to it in Section 9.4 (Dispute Resolution).

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"DMHC" means the California Department of Managed Health Care or other successor agency responsible for administering the Knox-Keene Act.

"Emergency Medical Condition" means:

(a) A medical condition manifesting itself by acute symptoms of sufficient severity (including severe pain, psychiatric disturbances and/or symptoms of substance abuse) such that a prudent layperson could reasonably expect that in the absence of emergent medical attention to result in serious jeopardy to the health of the individual (or, in the case of a pregnant woman, the health of the woman or her unborn child), serious impairment to bodily functions, or serious dysfunction of any bodily organ or part; or

(b) In the case of a pregnant woman who is having contractions, a condition in which there is inadequate time to effect a safe transfer to another hospital before delivery, or in which transfer may pose a threat to the health or safety of the woman or the unborn child.

"Emergency Services" means Hospital Services consisting of Medical Screening Examinations and stabilization of an Emergency Medical Condition and that are Covered Benefits.

"EOB" has the meaning given to it in Section 4.2.1 (Billing Format and Submission Information).

"EPRP" means KP's Emergency Prospective Review Program, as it is in effect and modified from time to time.

"Essential Services" has the meaning given to it in Section 2.7.2 (Hospital Services Inventory; Essential Services).

"Evidence of Coverage" means the written evidence of coverage issued to a Member pursuant to his or her Membership Agreement and applicable law, describing the Member's Covered Benefits.

"Facility" and "Facilities" means PMC and Pomerado Hospital and any and all of PPH's other inpatient and outpatient facilities identified by address and name under which such facility is doing business, as set forth in Appendix 1.1-1 (Facilities), and/or at other addresses from time to time agreed upon by the parties in writing. Unless and to the extent otherwise set forth on Appendix 1.1-1 (Facilities), each of the Facilities is separately licensed by DHS as a general acute care hospital. The PMC campus in Escondido, California is intended to be the primary Facility for the provision of Covered Hospital Services under this Agreement, unless and until such time as PPH elects to construct a new general acute care hospital meeting the requirements of Section 7.8 (Additional Facility) (the "Additional Facility") in lieu of or in addition to constructing PMC Expanded Facilities at the PMC campus, in which event the Additional Facility will be a Facility hereunder and will be the primary Facility for purposes of this Agreement, including without limitation for providing the Capacity Guarantee.

"Financial Responsibility Form" means a written statement, in a form mutually acceptable to KFH and PPH, to be signed by a Member or the person financially responsible for the Member, acknowledging that the Member or such person is responsible to pay for the items and/or services described in Section 4.8.2 (Member Recourse Matters). Such form must meet all legal requirements.

[REDACTED]

"Grievances" has the meaning given to it in Section 3.6.3(c) (Informal Member Grievances).

"Guaranteed Bed" has the meaning given to it in Section 2.6.1 (Maintenance of Capacity; Capacity Management).

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"Health Plan" means Kaiser Foundation Health Plan, Inc., a California nonprofit public benefit corporation.

"Health Plan Affiliate" means an organization listed on Appendix 1.1-2 (List of Health Plan Affiliates).

"HIPAA" means the Health Insurance Portability Act of 1996 (Public Law 104-91).

"Hospital Services" means all services that PPH provides or makes available to its patients at the Facilities, from time to time, directly or through contractors, including all necessary administrative, ancillary and support services, including blood and blood products, including without limitation the services as identified more specifically in Appendix 1.1-3 (Hospital Services).

"Independent Allied Health Practitioner" means an Allied Health Practitioner who provides services to Members at the Facilities, but who is not a Medical Group Allied Health Practitioner.

"Independent Physician" means a Physician who provides services to Members at the Facilities, but who is not a Medical Group Physician.

"Inpatient" means a Member who occupies a bed designated by PPH as an "inpatient bed" as of midnight, excluding a Member who occupies such an inpatient bed as of midnight while receiving Observation Services only.

"Inpatient Day" means a twenty-four (24) hour period or portion thereof, in which a Member is receiving Inpatient Services, ending at midnight, including the day of admission, but excluding the day of discharge or death.

"Inpatient Services" means Hospital Services provided or required to be provided to an Inpatient pursuant to Article 2 (Patient Care Services).

"JCAHO" means the Joint Commission on Accreditation of Healthcare Organizations; a successor organization; or an alternative organization engaged in the accreditation of hospitals and/or healthcare organizations, the authority of which is generally accepted within the healthcare industry and by the Medicare program, and which is reasonably acceptable to KFH and PPH.

"Kaiser Permanente" or "KP" means KFH, Health Plan or Medical Group, or any one or more of them collectively, depending on the context.

"KFH" means Kaiser Foundation Hospitals, a California nonprofit public benefit corporation.

"Knox-Keene Act" means the Knox-Keene Health Care Service Plan Act of 1975, as codified at California Health and Safety Code Sections 1340 et seq., and regulations promulgated thereunder.

"Manual" means such manual acknowledged and amended by the parties pursuant to Article 11 (Manual Development and Changes).

"Medical Group" means Southern California Permanente Medical Group, a California professional partnership.

"Medical Group Allied Health Practitioner" means an Allied Health Practitioner who:

(a) is an employee of Medical Group or has entered into a contract with Medical Group to provide services to Members; and

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(b) is identified as a Medical Group Allied Health Practitioner on a written list from time to time furnished to PPH by Medical Group.

"Medical Group Physician" means a Physician who:

(a) is an employee or partner in Medical Group, or is providing services pursuant to a contract with Medical Group under which the Physician has the authority to grant Authorizations; and

(b) is identified as a Medical Group Physician on a written list from time to time furnished to PPH by Medical Group;

"Medical Record" means a Member's hard copy and electronic medical record owned and maintained by PPH pursuant to state and federal law and regulations, which contains all information which is usual and customary for a hospital licensed in California and accredited by the JCAHO to maintain, including all supporting information, such as permanent tissue samples, radiology photographs and prescription files, regardless of medium or form.

"Medi-Cal Plans" means health plans contracting with the State of California to provide prepaid health care services to beneficiaries of the Medi-Cal Program.

"Medi-Cal Program" means that federal-state program that pays for health care for financially needy individuals, including those who are aged, blind or disabled or who are otherwise qualified to receive care under Title 19 of the Social Security Act (42 U.S.C. §§ 1396 et seq.) and the rules and regulations promulgated thereunder and Division 9 of the California Welfare and Institutions Code (commencing at §14000) and the rules and regulations promulgated thereunder.

"Medically-Necessary Transportation" means medical transportation that is provided to a Member whose medical condition would be adversely affected if the Member were transported by other means and that is a Covered Benefit.

"Medical Screening Examination" means any and all treatment and diagnostic services that an emergency medicine physician and/or emergency personnel deems medically necessary and appropriate to determine whether a Member requires stabilization of an Emergency Medical Condition, including laboratory tests, radiology tests (including MRI exams and CT Scans), and cardiac services.

"Medical Staff" refers to the organized medical staff of PMC or other Facility, as applicable. Except as otherwise set forth in this Agreement, requirements applicable to the organization and/or operations of the medical staff of PMC shall apply to the medical staff of each other Facility.

"Medicare Program" means that federal program of health insurance provided to qualified individuals, established under Title XVIII of the Social Security Act (42 U.S.C. §§ 1395 et seq.) and the rules and regulations promulgated thereunder.

"Member" means an individual subscriber or his or her eligible family dependent (as described in the applicable Membership Agreement) who is enrolled in Health Plan or a Health Plan Affiliate and any other person who is from time to time eligible to receive Covered Hospital Services under a self-insurance or other plan offered by Health Plan or a Health Plan Affiliate for which Health Plan or a Health Plan Affiliate is financially responsible. Members fall into the following categories:

(a) A "Medicare+Choice Member" is a Member (i) who is enrolled under a Medicare+Choice (or successor Medicare risk program) contract between Health Plan or a Health Plan Affiliate and CMS and (ii) for whom Health Plan or a Health Plan Affiliate is the primary payor for purposes of this Agreement;

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(b) A "Medicare Cost Member" is a Member (i) who is enrolled under a Medicare Cost contract between Health Plan or a Health Plan Affiliate and CMS and (ii) for whom the Medicare Program is the primary payor for purposes of this Agreement;

(c) A "Regular Medicare Member" is a Member who is entitled to coverage under Part A or Part B of Medicare, or both, but (i) who is not a Medicare+Choice Member or a Medicare Cost Member and (ii) for whom the Medicare Program is the primary Payor for purposes of this Agreement;

(d) A "Medi-Cal Member" is a Member enrolled under a prepaid Medi-Cal Program (including without limitation state-funded child health program) contract between Health Plan or a Health Plan Affiliate and the State of California; and

(e) A "Regular Member" is a Member who is not a Medicare+Choice Member, a Medicare Cost Member, a Regular Medicare Member or a Medi-Cal Member. A "Regular Member" includes an "Affiliate Member," who is a Member for whom Health Plan or a Health Plan Affiliate is obligated as the primary payor for purposes of this Agreement.

"Member Recourse Matter" has the meaning given to it in Section 4.8.2 (Member Recourse Matters).

"Membership Agreement" means the Health Plan Medical and Hospital Services Agreement, as amended from time to time, under which a Member is entitled to receive services. "Membership Agreement" also means other agreements under which Health Plan or a Health Plan Affiliate has agreed to provide or arrange health care services to Members, including employers' self-funded plan arrangements and pre-paid Medi-Cal Programs contracts. The term "Membership Agreement" includes the relevant Evidence of Coverage.

"NCQA" means the National Committee for Quality Assurance; a successor organization; or an alternative organization engaged in similar activities on behalf of health plans and/or healthcare organizations and which is reasonably acceptable to KFH.

"Non-KFH Hospital" means a hospital not owned or operated by KFH.

"Observation Services" means Hospital Services rendered at the Facilities that are provided to a Member who occupies a bed for the purpose of evaluating or determining the need for a possible Inpatient admission.

"Outpatient" means a Member who receives Outpatient Services, who is not admitted as an Inpatient and who remains in the Facilities less than twenty-four (24) hours, including a Member who receives Observation Services.

"Outpatient Services" means Hospital Services provided or required to be provided to an Outpatient, including ambulatory surgery services and Observation Services, but excluding Emergency Services, as referred to in Article 2 (Patient Care Services).

"Payor" means any public or private entity other than KFH, Health Plan or a Health Plan Affiliate that provides, administers, funds or is responsible for paying PPH for Hospital Services.

"Permissible Unilateral Change" means a Change to the Manual permitted to be made unilaterally by KFH under applicable law (e.g., California Health and Safety Code Section 1375.7)

"Person" means a natural person or legal entity.

"PHI" means "protected health information," as that term is defined in 45 CFR Section 165.501.

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"Physician" means a person holding an active license as a physician and surgeon under Division 2 of the California Business and Professions Code.

"PMC" means Palomar Medical Center, a licensed general acute care hospital in Escondido, California. Notwithstanding the foregoing, in the event an Additional Facility is constructed in lieu of the PMC Expanded Facilities, all references in this Agreement to PMC from and after the date of the PMC Expanded Facilities Completion shall be deemed to mean the Additional Facility, either solely or in combination with Palomar Medical Center, in accordance with the requirements of Section 7.8 (Additional Facility) of this Agreement.

"PMC Expanded Facilities" has the meaning set forth in Section 2.6.1.

"PMC Expanded Facilities Completion" means the first date on which each of the following is true and correct: the PMC Expanded Facilities or Additional Facility has been constructed, equipped, staffed with all necessary and appropriate staff (including the use of travelers, registry, standby and on-call nurses and other staff), issued a certificate of completion and/or certificate of occupancy, licensed by DHS, accredited by JCAHO, certified by the Medicare program, and otherwise fully capable, both legally and operationally, to provide Hospital Services to Members and all other prospective patients.

"Post-Termination Period" has the meaning given to it in Section 13.5.2(a).

"Privacy Rule" means 45 CFR Subparts 160 and 164.

"Professional Medical Services" means medical services exclusively provided by Physicians and/or Allied Health Practitioners within the scope of their licensure, as appropriate.

"Required Modification" means a Change to a document necessary (a) to cause the document to be in conformity with (i) any state or federal law, regulation or administrative interpretation of law enacted, adopted or issued by any Agency or (ii) the requirements of an accrediting or regulatory Agency, or (b) to permit a party to or continue to participate in government-funded health programs.

"Term" has the meaning given to it in Section 13.1 (Term).

"Utilization Management Program" means such program adopted by Kaiser Permanente, as amended from time to time and as communicated to PPH. The Utilization Management Program is set forth in both this Agreement and the Manual.

1.2 Interpretation.

The following rules of interpretation shall apply to this Agreement, unless the content requires otherwise:

1.2.1 Statutory References.

Any reference to a statute or regulation refers to the statute or regulation as amended from time to time, and to any successor statute or regulation.

1.2.2 Including.

The word "including" does not imply limitation, and shall in each case be interpreted to mean "including, without limitation" unless the reference specifically states the contrary.

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1.2.3 Captions and Headings.

The captions and headings used in this Agreement are solely for convenience of reference, and shall in no way be held or deemed to define, limit, describe, explain, modify, amplify or add to the interpretation, construction or meaning of any provision of this Agreement.

1.2.4 Gender.

Whenever the context of this Agreement requires, the gender of all words shall include the masculine, feminine and neuter.

1.2.5 Governing Law.

This Agreement shall be governed by, and construed in accordance with, California law, except choice of law rules that would require the application of the law of any other jurisdiction, and federal law, as applicable.

1.2.6 Statutorily Required Provisions.

Any provision required to be in agreements of the type of this Agreement by the Knox-Keene Act, the Medicare Program, the Medi-Cal Program, or other applicable state or federal law or regulation shall bind the parties as if set forth fully herein.

1.2.7 Preparation of Agreement.

This Agreement has been prepared by the combined efforts of the parties and their respective attorneys and shall be construed neither for nor against any party on account of such party's responsibility or role with respect to the preparation of this Agreement.

1.2.8 Obligations of KFH.

Whenever in this Agreement, an obligation to act or omit to act is imposed upon Kaiser Permanente, Health Plan or Medical Group, with respect to such obligation, KFH shall ensure that such Person shall perform such obligation in all material respects and in a timely manner. Nothing stated herein shall prevent KFH from designating employees of Health Plan or Medical Group to perform its obligations; provided, however, that no such obligation shall be construed to relieve KFH of any of its obligations hereunder.

ARTICLE 2 - PATIENT CARE SERVICES

2.1 Hospital Services.

On and after the Effective Date, PPH shall, during PPH's normal business hours and through

licensed professionals and other staff, provide Covered Hospital Services to Members at PMC, and at the other Facilities to the extent (i) capacity is unavailable at PMC and (ii) the applicable Hospital Services are routinely made available to the public at such other Facility(ies) and (iii) KFH elects, in its sole discretion, to utilize such services in accord with the provisions of Section 2.6 of this Agreement. The foregoing sentence notwithstanding, Pomerado Hospital shall provide (i) Emergency Services to Members pursuant to the terms of this Agreement to the extent such Members present at Pomerado Hospital with an Emergency Medical Condition, and (ii) additional Hospital Services if the Member is not transferred to PMC pursuant to the terms of this Agreement.

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[REDACTED]

Except as otherwise set forth in this Agreement, PPH shall provide Hospital Services at PMC, and the other Facilities as and to the extent set forth in this Agreement, twenty-four (24) hours per day, seven (7) days per week every day of the calendar year. PPH shall ensure that Hospital Services are (a) consistent with appropriate standards of care, and (b) readily available and accessible and provided in a prompt manner without excessive or unreasonable delays in terms of waiting times or scheduling of appointments. PPH shall not discriminate against Members and shall make its services available, and assign beds, to Members in the same manner, in accordance with the same standards, and with the same availability, as to its other patients. PPH shall furnish all information about treatment options regarding Hospital Services in a culturally competent manner. Such treatment options shall include the option of no treatment. PPH shall ensure that Members with disabilities are able to communicate effectively with all health care professionals in making decisions regarding such treatment options.

[REDACTED]

[REDACTED]

2.1.2 Surgically Implanted Devices and Prostheses.

PPH shall supply surgically implanted devices and prostheses to be provided to Members in connection with the provision of Covered Hospital Services.

[REDACTED]

2.1.3 Drugs and Pharmaceuticals.

Members with a Kaiser Permanente prescription drug benefit who are receiving Covered Hospital Services under this Agreement as an outpatient must fill prescriptions at a Kaiser Permanente pharmacy to receive coverage under the Membership Agreement. PPH shall supply all drugs and pharmaceuticals for use while a Member is receiving Covered Hospital Services as an Inpatient, including discharge pharmaceuticals to Members if it is not feasible for a Member to obtain them from a Kaiser Permanente pharmacy. KFH and PPH shall cooperate during the Term to reconcile differences between Kaiser Permanente's and PPH's formularies. If and to the extent such formularies are not consistent, a PMC clinical pharmacist (or, if reasonably available, a Kaiser Permanente pharmacist) shall translate the medications prescribed for discharge and shall substitute a generic equivalent drug for a drug prescribed by a physician if that drug has been approved by the Kaiser Permanente pharmacy, unless the prescribing physician specifies otherwise. PPH shall cause its pharmacy staff to use best efforts to assist Independent Physicians with conversion of prescribed drugs and medications to Kaiser Permanente's drug formulary for Members who are being discharged from a Facility.

[REDACTED]

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2.1.4 Blood Products.

PPH shall provide all blood and blood products for Members; provided, however, that KFH may provide autologous donations and directed donor donations from the KP blood donation center.

[REDACTED]

2.1.5 Emergency Services.

(a) Examination and Services.

PPH, when appropriate in accordance with applicable law, shall provide a Medical Screening Examination by an appropriate health care professional to every Member who presents at the Facilities. If the Member has an Emergency Medical Condition, PPH shall provide Emergency Services and promptly upon stabilization shall contact EPRP in accordance with the requirements of the Manual. If the Member is determined to be without an Emergency Medical Condition and without a referral from either Medical Group or KFH, PPH shall advise the Member that provision of Hospital Services by PPH may not be a Covered Benefit, and that care is available through such other facility or facilities designated by KFH. If the Member nevertheless insists upon receiving care, PPH may provide or not provide Hospital Services to the Member in accordance with the Manual and, to the extent not inconsistent with the Manual, any applicable PPH policies and procedures.

(b) Identification; Notification.

As soon as possible, as permitted by law, after a Member is identified as receiving or having received Hospital Services in the emergency department of one of the Facilities other than under the care or direction of a Medical Group Physician, PPH shall notify the Medical Group representative identified in the Manual to inform KFH of the visit and to coordinate the provision of care to the Member.

2.1.6 Observation Services.

PPH shall provide Observation Services to each Member for whom a Medical Group Physician or Independent Physician has clinically determined Observation Services to be appropriate. Observation Services shall be provided in accordance with the Manual.

2.2 Pre-Surgery Services.

The parties acknowledge and agree that KFH and Medical Group desire that, to the extent possible, all pre-surgery services that can be scheduled in advance of a surgical procedure to occur at PPH will be performed by KFH and Medical Group at a KFH facility in a manner consistent with the procedures set forth in the Manual, the treating physician's clinical judgment and the Facility Medical Staff's applicable bylaws, rules and regulations.

[REDACTED]

2.3 Personnel.

PPH shall ensure that all PPH personnel providing Hospital Services to Members (other than Physicians and Allied Health Practitioners and physician support personnel such as specialized surgical technicians, with respect to whom PPH's obligations shall be as set forth in Article 6 (Medical Staff Membership and Privileges)) are qualified and competent and, where required by law, licensed or

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certified to provide such services, and that such personnel provide Hospital Services to Members only within the scope of their qualifications. If PPH has cause to believe that any PPH personnel providing Hospital Services to Members may not meet the requirements of this Section, PPH shall (i) promptly investigate the matter and take appropriate disciplinary action pursuant to PPH employment policies, Corporate Compliance Program, Medical Staff bylaws, rules and regulations and/or collective bargaining agreements, as appropriate; and (ii) promptly report the matter to Agencies in accordance with applicable state and federal law.

2.4 Staffing; Accommodations.

[REDACTED]

[REDACTED]

[REDACTED]

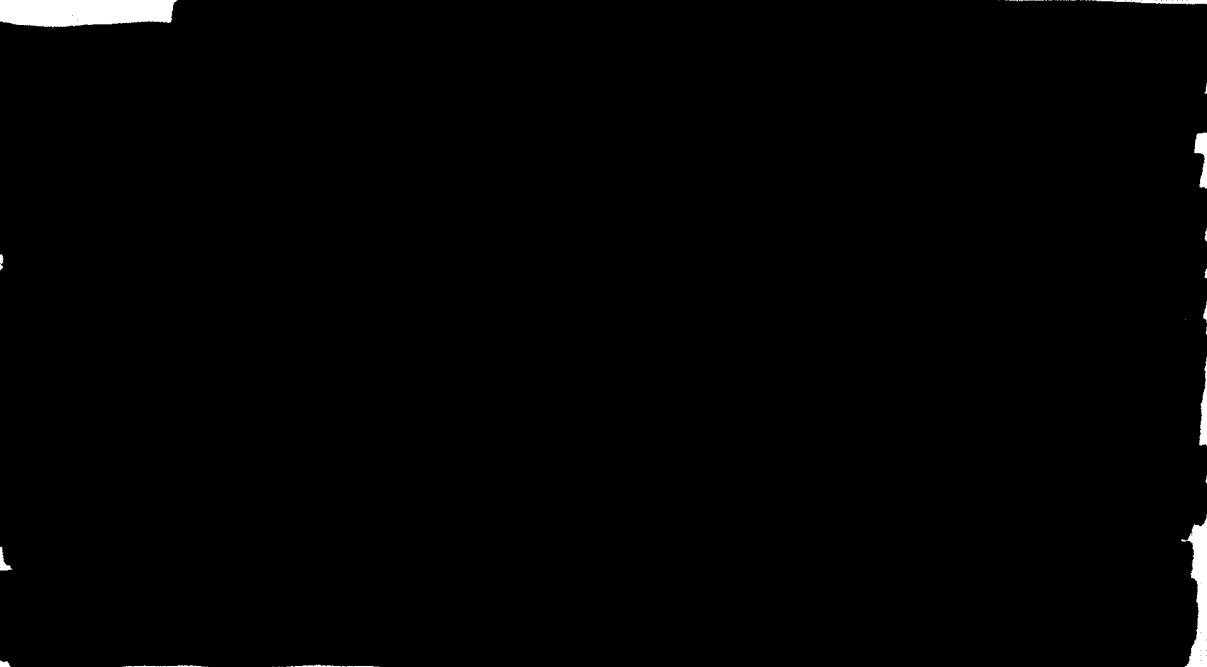
[REDACTED]

2.4.2 Accommodations.

Subject to the terms of this Agreement, PPH shall assign inpatient beds and provide Covered Hospital Services to Members in the same manner as beds are assigned and services are provided to all other patients admitted to PPH and shall not discriminate against Members in such assignment of inpatient beds and such provision of Covered Hospital Services, subject to the provisions of Section 2.6 (Capacity). PPH shall ensure that beds necessary to meet the Capacity Guarantee are staffed and available to meet the needs of Members for Covered Hospital Services as the demand for such services

[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.7 Changes in Hospital Services.

2.7.1 Change in Operations.

Except as provided in Section 2.7.2 (Hospital Services Inventory; Essential Services), PPH shall notify KFH as soon as PPH becomes aware of (but in no event later than 30 days after becoming aware of) any impending change in its operations, either short-term or long-term, that may materially affect the manner in which PPH provides or makes available Hospital Services to Members. In such event, the parties shall promptly meet and confer to assess the impact of such changes on the provision of Hospital Services to Members, to jointly develop interim operating plans, and to determine what amendments, if any, need to be made to this Agreement.

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2.7.2 Hospital Services Inventory: Essential Services.

PPH may not eliminate any Hospital Service at PMC during the Term, except on six (6) months' prior written notice to KFH. The foregoing notwithstanding, PPH may not eliminate, without prior written consent by KFH (which consent shall not unreasonably be withheld or delayed by KFH), any service that is required for maintenance of any of the following (collectively, "Essential Services"): (a) its general acute hospital license; (b) Medicare or Medi-Cal certification; (c) licensure, certification and operation of its emergency department on a 24-hour basis for the provision of basic emergency services; (d) labor and delivery services, including newborn services; and (e) surgical services, including equipped operating rooms.

2.7.3 Unusual Occurrence.

Upon becoming aware of any unusual occurrence that affects any Member who is receiving Hospital Services and that is required to be reported to any governmental agency pursuant to applicable law, including under Title 22, Section 70737 of the California Code of Regulations, PPH shall, to the extent permitted by applicable law, provide KFH with a copy of all written notices concurrently with the submission thereof to the applicable Agency.

2.7.4 Effect of Elimination of a Hospital Service.

Except as otherwise specifically provided herein or agreed upon as a condition to KFH's willingness to approve (which shall be deemed to be a reasonable condition for such approval by KFH), any change or elimination of Hospital Services at PMC shall have no effect on the parties' respective obligations under Section 2.6.2 (Financial Responsibility) and Appendix 4.1 (Rates).

2.8 Independent Physicians in the Area.

Medical Group currently contracts with a number of Physicians in San Diego County and surrounding areas to provide Professional Medical Services to Members, complementing or supplementing the Medical Group Physicians. As Health Plan membership changes, Medical Group assesses whether additional Physicians are necessary to provide such services, based on membership population and location, access, specialty, quality indicators and other factors. Medical Group anticipates that the need will arise from time to time to add new Physicians to Medical Group's existing staff and contracted physicians to provide local Members with such services. Beginning on the Effective Date of this Agreement and throughout the Term as Medical Group's needs arise, Medical Group may meet with interested Physicians in the area who have staff privileges at PMC, or who are willing to seek to obtain such privileges, to discuss the opportunities for employment and partnership with Medical Group and/or requirements for contracting with Medical Group.

2.9 Patient Transfers.

2.9.1 Cooperation; Authorization.

PPH shall cooperate with KFH to refer or transfer Members to or from PMC (or the other Facilities if applicable), in accordance with all applicable laws and regulations. Except in the case of a transfer for stabilization of a Member with an Emergency Medical Condition, Medically-Necessary Transportation of a Member from PMC to another inpatient medical facility (including any other Facility) shall require prior Authorization. PPH shall inform KFH of any transfer of a Member for stabilization of an Emergency Medical Condition, as soon as practicable and in accordance with procedures set forth in the Manual. Except in the case of a transfer for stabilization of a Member with an Emergency Medical Condition, Medically-Necessary Transportation of a Member will be provided by a transportation provider under contract with or approved by KFH. PPH shall be financially responsible for Medically-Necessary Transportation of an Inpatient from PMC or another Facility for tests or other diagnostic or

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therapeutic procedures that are Covered Hospital Services (including without limitation MRI), and for such transportation returning to PMC (or other Facility) immediately following such test or procedure for the continuation of the Member's inpatient stay, unless such tests or procedures were available at PMC and KFH or a Medical Group Physician elected to use Medically-Necessary Transportation for an Inpatient to obtain such tests or procedures elsewhere. Except as set forth in the foregoing sentence, KFH shall be solely responsible for the cost of Medically-Necessary Transportation. Subject to the Member's Covered Benefits, transportation of a Member generally will not be authorized for routine appointments, discharges to home or a lower level of care (i.e., skilled nursing, long-term care), or the Member's inability to obtain other transportation.

2.9.2 Acceptance of Transfers to PMC.

Subject to the provisions of Section 2.1 (Hospital Services) and Section 2.6 (Capacity), PPH will use best efforts to accept all transfers of Members to PMC for Covered Hospital Services, in accordance with applicable laws and regulations.

2.10 Continuation of Hospital Services for Medicare+Choice Members.

In the event of the insolvency of, or other cessation of operations by, Health Plan or KFH, PPH shall continue to provide Covered Hospital Services to Members, including Medicare+Choice Members, who are Inpatients through the later of: (a) the date for which premiums were paid; or (b) the date of discharge. PPH is prohibited by law from billing Members, including Medicare+Choice Members, for such Covered Hospital Service, except for applicable Copayments. This provision shall survive the termination of this Agreement, regardless of the reason for termination, including the insolvency of, or cessation of operations by, Health Plan or KFH, and shall supersede any oral or written agreement between PPH and a Member.

ARTICLE 3 - ELIGIBILITY AND AUTHORIZATION; MEMBERS

3.1 Eligibility Verification.

3.1.1 Procedures for Verification.

PPH shall comply with the verification procedures described in the Manual in order to verify a person's eligibility to receive Covered Hospital Services under this Agreement. PPH will verify the eligibility status of each person claiming to be a Member each time the person presents at one of the Facilities for Hospital Services, even if the subject Hospital Services have been Authorized. PPH access to eligibility verification systems of KP shall be subject in all cases to the requirements of HIPAA and other applicable law, and the parties shall jointly develop mechanisms to restrict access to such systems only to those PPH personnel with a need to know such information, and only to the extent that particular Member-specific information is required for eligibility verification purposes.

3.1.2 Failure to Verify Eligibility.

If a person presents at one of the Facilities claiming to be a Member, but PPH is unable to verify such person's eligibility for Covered Hospital Services in accordance with the verification procedures described in the Manual, PPH may require the person to sign a Financial Responsibility Form. Upon review of such Financial Responsibility Form, PPH shall determine whether or not to provide Hospital Services to the person (even though the Hospital Services have not been Authorized). PPH shall make such determination in a manner that complies with (i) applicable Federal and California law, including without limitation EMTALA and HIPAA, and, to the extent consistent therewith, (ii) the Manual and (iii) PPH policies and procedures not inconsistent with applicable law or the Manual. PPH shall be at financial risk for Hospital Services provided to any such person; provided, however, that if it is subsequently determined that such person was, at the time such Hospital Services were furnished, a

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Member, KFH shall pay for such Hospital Services that were, when provided, a Covered Benefit, the Direct Patient Care Rates and any other applicable compensation under Article 4 (Compensation, Billing and Payment) and Appendix 4.1 (Rates).

3.2 Prior Authorization.

Authorization for Hospital Services to Members shall be sought and obtained in accordance with the procedures set forth in the Manual. Except as otherwise provided in this Agreement, Authorization of Hospital Services shall be a condition precedent to reimbursement of PPH for Hospital Services pursuant to Article 4 (Compensation, Billing, and Payment). PPH shall be entitled to rely on an Authorization for Hospital Services duly provided by KFH or by a Medical Group Physician upon request therefor by PPH pursuant to the Manual and this Agreement. Accordingly, if an Authorization is validly but erroneously made by KFH or a Medical Group Physician, and PPH in good faith reliance on such Authorization renders such Authorized Hospital Service before KFH or the Medical Group Physician notifies PPH of the rescission or modification of such Authorization (which KFH and Medical Group Physicians shall at all times be entitled to do based on Health Plan determinations of eligibility and/or Covered Benefits), then KFH shall pay the applicable compensation for the Authorized Hospital Service; provided, however, that, to the extent permissible under applicable law, including without limitation California Health and Safety Code Section 1371.8, (i) PPH shall not provide the Hospital Service if it has not yet been rendered and, as promptly as it is clinically safe to do so in the sole medical judgment of the treating physician, shall discontinue or modify, in accord with the rescinded or modified Authorization, any preparations or preliminary planning prior to provision of such Hospital Service, and (ii) if such authorization or modification is received by PPH after such Hospital Service was rendered based on PPH's good faith reliance on the Authorization, PPH shall use best efforts to identify the appropriate payor (if other than KP or a Health Plan Affiliate) and shall then bill such payor for any such services actually rendered for at least two billing cycles and use commercially reasonable efforts to collect such amounts from the appropriate payors before seeking all or any portion thereof from KFH. Authorization is not required as a condition precedent to reimbursement of PPH for Emergency Services rendered by PPH to a Member. Except in the case of Emergency Services, and subject to the foregoing, KFH may grant, condition, withhold, modify and/or rescind Authorization in its sole discretion in accordance with policies and procedures described in the Manual. KFH shall use all commercially reasonable efforts to provide PPH with a means to obtain current information regarding the extent to which a Member has exhausted his or her Covered Benefits during the course of the Member's Inpatient hospitalization pursuant to this Agreement.

3.3 Emergency Services.

Notwithstanding anything to the contrary stated herein, PPH, in accordance with EMTALA and other applicable law, shall provide Emergency Services (which shall not require Authorization) to a person who presents at one of the Facilities claiming to be a Member and such person shall not be required to sign a Financial Responsibility Form prior to receiving a Medical Screening Examination or Emergency Services required to stabilize an Emergency Medical Condition. KFH shall reimburse PPH for Emergency Services provided to a Member as specified in Article 4 (Compensation, Billing, and Payment).

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3.4 Non-Covered Hospital Services to Members: Eligibility.

3.4.1 General.

Except and to the extent otherwise expressly set forth in this Agreement, (a) (i) if PPH provides Hospital Services to a Member that are not Covered Benefits or (ii) if PPH provides Hospital Services to a person who is not a Member, then (b) PPH shall look solely to the Member or non-Member (or such person's representative), as appropriate, for compensation, and KFH shall not be liable to PPH for any charge in connection with such Hospital Services rendered by PPH to such Member or non-Member.

3.4.2 Non-Coverage.

Except as to Emergency Services, prior to providing a Member with Hospital Services that are not Covered Hospital Services, PPH shall request that the Member execute a Financial Responsibility Form.

3.4.3 Eligibility.

If PPH first followed Kaiser Permanente's requirements, policies and procedures for determining eligibility, as described in the Manual, and determined that a person was a Member at the time Hospital Services (that were either Authorized or were Emergency Services) were rendered, then KFH shall pay for such Hospital Services as if such person was a Member, even if the eligibility information upon which PPH relied was not correct. Kaiser Permanente will use reasonable efforts to notify PPH of changes in eligibility for Members who have been admitted as inpatients in a Facility or for whom an Outpatient Service has been scheduled; in such an event, KFH will be responsible for Authorized Hospital Services rendered to such person prior to the date KFH notifies PPH of the change in such person's eligibility (either directly or by means of an electronic eligibility verification process that KFH makes available to PPH, at such time as KFH requires PPH to use such process to verify the applicable person's eligibility).

3.5 Subsequently Determined Covered Hospital Services

So long as PPH has complied with the procedures described in this Agreement and the Manual for seeking and obtaining Authorization for Hospital Services that are Covered Benefits, if Hospital Services previously determined by Health Plan not to be Covered Benefits are subsequently determined to have been a Covered Benefit, then, KFH shall pay PPH for such Hospital Services that are Covered Benefits as specified in Article 4 (Compensation, Billing and Payment).

3.6 Member Relations.

3.6.1 Communications to Members.

PPH shall not make communications to Members to the exclusion of the general public without the prior review and approval of KFH and, if required, of the DMHC and CMS; provided, however, that PPH may communicate (a) individually with a Member as necessary for, and incident to, the proper provision of care to the Member (including matters related to the verification of the Member's eligibility and/or the Authorization for the Covered Hospital Services) or in connection with billing for such care if such billing is allowed under this Agreement; and (b) with Members incident to a communication directed to the general public.

3.6.2 No Solicitation.

During the Term, PPH shall not solicit or encourage Members to disenroll from Health Plan or any Affiliated Health Plan or to enroll in any health care benefits plan, carrier or managed care system competing with Health Plan or KFH, except as otherwise provided by law. Notwithstanding the

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foregoing, PPH may distribute communications to the general public disclosing current and prior managed care agreements, subject to Section 15.5 (Proprietary Marks of KFH, Health Plan and Medical Group).

3.6.3 Member Complaints

(a) Proceedings.

PPH shall notify KFH, and KFH shall notify PPH, in writing, of any formal claims, suits or demands for arbitration made against or upon PPH by Members or by claimants acting on behalf of, or related to, Members, and arising out of or related to the provision of Covered Hospital Services by PPH, within fifteen (15) working days after receipt. Each party shall, upon request of the other, provide the other with copies of the initial pleading or demand for arbitration, and the requesting party shall reimburse providing party for its reasonable copying costs not to exceed ten cents (\$0.10) per page (or greater amount if and to the extent required under applicable law).

(b) Health Plan Determinations.

All decisions regarding Covered Benefits under the applicable Membership Agreement are reserved to Health Plan, subject to applicable Member appeal procedures available under applicable law. The provisions of Section 3.6.3(c) (Informal Member Grievances) notwithstanding, PPH shall refer all inquiries from Members about their health benefits coverage to Health Plan's Member Services Department and, except as otherwise provided in this Agreement or agreed by the parties, shall not make or purport to make determinations of Members' health benefits coverage.

(c) Informal Member Grievances.

PPH and its personnel and agents shall use their best efforts to render Covered Hospital Services and interact with Members in a manner that facilitates Members' satisfaction with Hospital Services rendered under this Agreement. PPH and KFH shall cooperate with each other in identifying, processing and resolving all informal complaints and grievances, and all notices or threats of any of the foregoing, made or given by or on behalf of a Member with respect to the provision of Hospital Services by PPH (collectively, "Grievances"). PPH shall notify KFH, and KFH shall notify PPH, of any Grievance within two (2) working days after receipt or knowledge of such Grievance, or sooner if required by law. In such timeframe as Kaiser Permanente may be obligated to address and resolve such Grievance, representatives of Kaiser Permanente and PPH shall thereafter meet, share information (including, as allowed by law, Medical Records) bearing on the Grievance and take all reasonable actions necessary to resolve the Grievance.

(d) Member Claims Arbitrations.

The parties acknowledge that from time to time a claimant's claim as to Kaiser Permanente and Kaiser Permanente employees and Physicians will be subject to the mandatory arbitration provisions of the applicable Membership Agreement. PPH agrees that it will reasonably cooperate with Kaiser Permanente in Kaiser Permanente's efforts to resolve and arbitrate any such claim that is related to the parties' performance under this Agreement.

ARTICLE 4 - COMPENSATION, BILLING AND PAYMENT

4.1 Compensation.

KFH shall pay PPH compensation for Covered Hospital Services provided to Members as set forth in this Section 4.1 and at the rates set forth in confidential Appendix 4.1 (Rates). Appendix 4.1 is composed of three confidential attachments: Attachments A, B and C. [REDACTED]

[REDACTED]

[REDACTED]

The amount of compensation payable to PPH [REDACTED] shall in each case be reduced by the amount of Copayments, if any, which PPH is entitled by this Agreement and the applicable Membership Agreement to collect from Members (whether or not such Copayment is actually collected in whole or in part). [REDACTED]

[REDACTED]

4.1.1 Fees for Members Whose Status Changes.

(a) Member Who Initially Received Emergency Services.

When a Member who receives Emergency Services immediately is admitted to a Facility as an Inpatient, KFHH shall not be liable for payment for the Emergency Services in addition to payment for Inpatient Services received by the Member, and the Inpatient Services shall be payable at the applicable Inpatient all inclusive per diem rates and/or case rates set forth in Appendix 4.1 (Rates) from the first date of admission.

(b) Member Who Initially Receives Emergency or Outpatient Services and Thereafter Receives Observation Services.

When a Member who has received Emergency Services and/or Outpatient Services immediately is admitted to PMC (or another Facility if KFHH requests such admission in accordance with Section 2.6.1) for Observation Services, KFHH shall pay PPH for the Emergency Services and/or the Outpatient Services, as applicable, in addition to payment for Observation Services received by the Member.

4.2 Billing and Payment.

4.2.1 Billing Format and Submission Information.

PPH shall submit to KFHH itemized bills for Covered Hospital Services provided to Members, in accordance with the billing procedures set forth in the Manual, and the requirements of applicable law for a "complete claim" or "clean claim", as applicable. PPH shall submit its itemized bills for Covered Hospital Services payable pursuant to Attachment A to Appendix 4.1 (Rates) no later than ninety (90) days after the Member is discharged from the Facility; provided, however, that if PPH is unable timely to submit its bill for reasons beyond its reasonable control, PPH shall submit its bill within the minimum

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period required under applicable law after the later of (a) the date the Covered Hospital Services are provided, or (b) the date of receipt of an explanation of benefits ("EOB") from a Payor. Each bill shall contain all information requested on the billing form, information required under any definition of "clean claim" or "complete claim" in applicable state or federal statutes and regulations, and such other information set forth in the Manual, including the correct inpatient DRG and the Member's Kaiser Permanente medical record number (each such complete and accurate claim is referred to herein as a "clean claim" or a "complete claim"). PPH shall submit all bills, and address all billing inquiries, in the manner established by KFH and communicated to PPH in writing. Any itemized bills submitted to KFH for the first time later than the time periods set forth above shall not be paid, except as otherwise required by applicable law.

4.2.2 Payment.

[REDACTED]

KFH shall pay claims made by PPH at Direct Patient Care Rates within thirty (30) working days (or a different period if required by law) after receipt of a "clean claim" submitted in accordance with Section 4.2.1 (Billing Format and Submission Information), provided that such claim is not a "contested claim," as that term is defined in California Health and Safety Code Section 1371. The payment obligations of KFH pursuant the preceding sentences shall apply regardless of the insolvency or other adverse financial condition of the State of California or the Medi-Cal or Medicare Programs. Subject to and to the extent permitted by applicable law, if KFH determines in good faith that a claim is a contested claim because PPH's coding of Covered Hospital Services and Emergency Services provided to Members is not in accordance with commonly accepted standards, or that billing or payment is not in accordance with this Agreement or applicable law, KFH may deny, reduce or otherwise adjust payments with respect to the subject claim, and PPH shall refund any overpayment to KFH upon thirty (30) working days' written notice (or other minimum time period required by applicable law). With respect to any undisputed overpayment by KFH to PPH, but not with respect to any other amount actually or allegedly owed by PPH to KFH, KFH shall be permitted to offset and recoup any such amount from a subsequent amount due to PPH if PPH fails to remit such undisputed amount due within 30 working days after request by KFH for reimbursement of the overpayment or within such other period specified under applicable law. In the event of such an offset or recoupment by KFH, KFH shall provide PPH with a detailed written explanation identifying the specific overpayment(s) that has/have been offset against the specific current claim(s). To the extent the Knox-Keene Act provides otherwise, claims governed by that Act shall be processed in accordance therewith. With respect to any "contested claim," KFH shall pay the undisputed portion (if any) in accordance with the time frame set forth in the preceding sentence, but shall have no obligation to pay disputed amounts pending resolution of the dispute. Any disputed amounts determined to be payable shall be paid to PPH by KFH within thirty (30) working days after such determination. The parties shall endeavor to resolve any billing or payment dispute through informal discussions within forty-five (45) working days after a party's giving written notice of the dispute to the other party. Any such dispute relating to claims subject to the Knox-Keene Act (other than a dispute with respect to a Member Recourse Matter) not so resolved may at PPH's option be resolved pursuant to Section 4.2.3 (Informal Knox-Keene Dispute Resolution). Any such dispute not subject to the Knox-Keene Act or not resolved pursuant to Section 4.2.3 shall be subject to dispute resolution in accordance with Article 9 (Contract Administration and Dispute Resolution). Any payments not timely made, including disputed payments determined to be payable to PPH, shall bear interest and/or any additional payment, as required by law.

4.2.3 Informal Knox-Keene Dispute Resolution.

For claims subject to the Knox-Keene Act, Health Plan provides all contractors with a fast, fair and cost effective dispute resolution mechanism under which PPH, as a contracted provider, at PPH's option may submit any and all disputes regarding invoices, billing determinations or any other contract

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disputes. This dispute resolution mechanism may be incorporated into the Manual, but may also be communicated to PPH prior to such incorporation through any other form. To utilize this mechanism, PPH must submit a notice indicating its interest in resolving a dispute under this provision to an address and telephone number designated in Appendix 4.2.3, which Appendix shall be updated from time to time as appropriate. If PPH is not satisfied with the outcome of such procedure, it may then elect to resolve such dispute by exercising the dispute resolution procedures set forth in Section 9.4.

4.2.4 Audits of Claims.

(a) KFH and its respective agents and employees, shall have access to, and may inspect and audit, the Business Records and the Medical Records for the purpose of determining the appropriateness of payments or denials of claims for Hospital Services, subject to the disclosure limitations set forth in Section 6.2 (Privileging Procedures) and the request and notification procedures described in Section 4.2.4(c) and, to the extent applicable, the Knox-Keene Act. PPH agrees that KFH, its agents and employees may, at KFH's expense, duplicate Medical Records and Business Records, to the extent permitted by law. KFH may copy such records itself or make arrangements to use a copying service.

(b) PPH and its agents and employees shall have access to, and may inspect and audit, Member medical records and billing, accounting and administrative records prepared and maintained by Kaiser Permanente related to Hospital Services provided hereunder, for the purpose of determining the appropriateness of payments or denials of claims for Hospital Services, subject to request and notification procedures described in Section 4.2.4(c). PPH and its agents and employees may, at PPH's expense, duplicate such records, to the extent permitted by law. PPH may copy such records itself or make arrangements to use a copying service.

(c) Any inspection or audit of claims pursuant to this Section 4.2.4 shall be scheduled at mutually agreed upon times, during the parties' normal business hours, and shall require a minimum of thirty (30) days' advance written notice by the auditing party to the other. No audit fees or charges will be payable by either party to exercise its rights under this Section. Each party shall be allowed to conduct defense audit(s) within a reciprocal time frame for mutual reconciliation purposes. The audit of claims shall include adjustments for late charges, overcharges and undercharges. Any adjustments will be the net amount(s) as reflected in the audit(s) conducted by the auditing party. Each party shall have forty-five (45) working days after receipt of an audit report from the other party to reconcile any discrepancies. Final reconciliation payment or refund, if any, shall be made within thirty (30) working days after audit approval by the parties, unless another time period is required under applicable law. Subject to applicable law, each party may request an audit of claims and payments for no longer than twelve (12) months from the initial payment date of the specific claim with respect to which an audit is sought.

4.3 Coordination of Benefits.

4.3.1 Compliance with COB Program.

PPH shall cooperate with and abide by the COB Program including the procedures set forth in Section 1300.67.13 of Title 28 of the California Code of Regulations, as described in the Manual. PPH shall use reasonable efforts to determine whether a Member receiving Covered Hospital Services has Medicare coverage or other health benefits, such as workers' compensation coverage or coverage through the Member's spouse, and, if so, shall provide such other coverage information to Health Plan. If, after receiving payment by KFH for Covered Hospital Services furnished to a Member, PPH receives payment for the same services from a Payor that is primary to Health Plan under the COB Program, then PPH shall notify KFH and refund any amount overpaid by KFH pursuant to this Section within thirty (30) working days after such payment is received from such Payor.

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4.3.2 Primary Coverage by Health Plan.

When Health Plan is primary under the COB Program, KFH shall pay to PPH the amount due under Section 4.1 (Compensation) for Covered Hospital Services provided by PPH to Members, less applicable Copayments.

4.3.3 Secondary Coverage by Health Plan.

When Health Plan is secondary under the COB Program, KFH shall pay PPH for Covered Hospital Services furnished to a Member, an amount equal to the difference between the applicable Direct Patient Care Rate under Attachment A to Appendix 4.1 and any lesser amount paid by the primary Payor; provided, however, that in no event shall KFH be obligated to pay more than one hundred percent (100%) of the applicable Direct Patient Care Rate under Attachment A to Appendix 4.1, less applicable Copayments.

4.4 Third Party Lien Claims.

Health Plan shall have the sole and exclusive rights to seek and recover any payments by KFH to PPH, by way of (but without limitation) reimbursement, lien, subrogation and equitable remedies such as constructive trusts, from Members or third parties (including without limitation third party tortfeasors) for Covered Hospital Services provided by PPH hereunder, as a result of an injury or illness caused or alleged to be caused by a third party. PPH shall cooperate with Health Plan and KFH, or their designees, in identifying such claims and shall promptly provide to Health Plan or KFH relevant information reasonably available to PPH.

4.5 Workers' Compensation.

PPH shall look for payment for Hospital Services to the workers' compensation carrier of any Member who receives Hospital Services that are covered by a workers' compensation carrier. KFH shall pay PPH the lesser of (i) the Direct Patient Care Rates set forth in Attachment A to Appendix 4.1 (Rates) or (ii) the workers' compensation statutory fee schedule for: (a) Covered Hospital Services provided to Members enrolled in Kaiser Permanente's workers' compensation program, if any, and (b) Hospital Services provided to employees of KFH, Health Plan or Medical Group and related to an industrial injury or illness.

4.6 Medicare Members.

4.6.1 Regular Medicare Members/Medicare Cost Members.

If PPH provides Covered Hospital Services to a Regular Medicare Member or Medicare Cost Member (i.e., non-risk Medicare Members), then PPH shall submit the bill directly to Medicare. Upon receipt of a copy of the Medicare Summary Notice (formerly the Explanation of Medicare Benefits) and an invoice from PPH, KFH shall pay PPH any applicable Medicare coinsurance and deductible amounts (but not Copayments that are the Medicare Member's obligation to pay pursuant to the Member's Membership Agreement), and any amounts due for Hospital Services not covered by Medicare but that are Covered Benefits and were Authorized. Except as provided in the preceding sentence, PPH shall not assert any claims for payment against KFH with respect to Hospital Services provided to Regular Medicare Members or Medicare Cost Members. Except as otherwise provided herein, PPH shall not assert any claim for compensation against Regular Medicare Members or Medicare Cost Members for Medicare-covered Hospital Services. PPH agrees to accept, as payment in full for Hospital Services provided to Regular Medicare Members and Medicare Cost Members, (i) the applicable Regular Medicare payment plus (ii) the amounts paid by KFH pursuant to this Section 4.6.1 plus (iii) any Copayment due from such Member pursuant to the applicable Membership Agreement. In the event that Health Plan requires that Regular Medicare Members or Medicare Cost Members pay any Copayment,

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PPH will have the sole right and responsibility to collect such monies in accordance with Section 4.8.2 (Member Recourse Matters).

4.6.2 No Unpermitted Claims to Medicare and Medi-Cal Programs.

PPH shall not claim payment in any form from the Medicare Program or the Medi-Cal Program for Covered Hospital Services furnished to Medicare+Choice Members or Medi-Cal Members, except as approved by CMS or the Medi-Cal Program, and PPH shall not otherwise shift the burden of any price reductions offered pursuant to this Agreement to the extent that increased payments are claimed from the Medicare Program or the Medi-Cal Program.

4.7 Copayments.

PPH shall collect, and shall be solely at risk for the collection of, applicable Copayments (as established from time to time by Health Plan in its sole discretion and approved by necessary regulatory agencies) with respect to every Member to whom it provides Covered Hospital Services in accordance with its policies and procedures. If a Member is unable to pay an applicable Copayment at the time the Hospital Service is rendered, PPH shall obtain a Financial Responsibility Form from such Member and may bill the Member directly for any unpaid Copayment. If collection proceedings are necessary, PPH shall follow its normal collection procedures, not inconsistent with the Knox-Keene Act requirements therefor and any applicable provisions in the Manual. KFH shall make available to PPH a means to identify the applicable Copayment to be charged on a Member or line of business or other basis, in a manner that is accessible by PPH on an expedited or real-time basis.

4.8 Payment in Full.

4.8.1 General Rule.

Subject to the provisions of Section 4.7 (Copayments), Section 4.8.2 (Member Recourse Matters) and the COB Program, PPH shall accept payments established pursuant to this Article 4 as payment in full for Covered Hospital Services provided to Members, irrespective of the cost to PPH of providing such Covered Hospital Services, or of PPH's customary charges for such services. Except as otherwise provided in this Agreement, PPH shall look solely to KFH for compensation for Hospital Services rendered to Members and agrees that in no event, including non-payment by KFH, insolvency or breach of this Agreement by KFH, shall PPH bill, charge, collect a deposit from, seek compensation, remuneration or reimbursement from, or have any recourse against, any Member, a person acting on the Member's behalf, DHS or Medi-Cal Plans for Hospital Services provided pursuant to this Agreement. For purposes hereof, "non-payment by KFH," shall mean, without limitation, failure of KFH to pay, timely or otherwise, claims that are disputed or contested by KFH for any reason or claims that have been denied on any basis, including, without limitation, lack of medical necessity, PPH's failure to adhere to procedures for verification of eligibility or Authorization, documentation or claims submission. In addition, PPH shall hold harmless the State of California, Medi-Cal Plans and Members in the event that KFH does not pay for Covered Hospital Services. This provision shall survive the termination of the Agreement, regardless of the reason for termination, including the insolvency of KFH or Health Plan, and shall supersede any oral or written agreement between PPH and a Member.

4.8.2 Member Recourse Matters.

The provisions of Section 4.8.1 (General Rule) notwithstanding, PPH may bill and collect from a Member, and PPH shall have no recourse against KFH, Medical Group or Health Plan, only in the following circumstances ("Member Recourse Matters"):

(a) Copayments.

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For applicable Copayments.

(b) Non-Covered Benefits.

For Hospital Services and items that are not Covered Benefits, if PPH advised the Member, prior to the provision of such services or items, that they were not or might not be Covered Benefits and the Member signed a Financial Responsibility Form that specifically references the Hospital Services for which PPH is seeking payment by a Member; provided, however, PPH may not bill and collect from a Member on account of any non-payment or breach of this Agreement by KFH;

(c) Exhaustion of Benefits.

For Hospital Services provided after such Member's Covered Benefits under his or her Membership Agreement have been exhausted and the Member agreed to accept liability for such services and signed a Financial Responsibility Form.

(d) Coordination of Benefits

PPH may have recourse against a Member only to the extent the Member has received benefits directly from a primary Payor and only in accordance with the COB program.

4.8.3 Surcharges.

PPH understands and agrees that surcharges by PPH against Members are prohibited and that KFH or Health Plan will take appropriate action if surcharges are imposed. A surcharge is an additional fee, regardless of how it is identified, which is charged to a Member that is not approved by the DMHC or expressly permitted under the applicable Membership Agreement. In the event PPH violates this provision, KFH may, among other things, (i) require PPH to refund all amounts to Members collected in violation of this provision and (ii) require PPH to remit to KFH or Health Plan the amount of any fine or penalty incurred by Health Plan relating to any such surcharge.

4.8.4 Survival.

With respect to Hospital Services provided pursuant to this Agreement, the provisions of this Section 4.8 (Payment in Full) shall survive the termination of this Agreement, regardless of the cause giving rise to termination, and shall be for the benefit of Members.

ARTICLE 5 - QUALITY AND UTILIZATION

5.1 Quality Assessment and Improvement.

5.1.1 Participation in KFH Quality Assessment Program.

PPH at all times shall demonstrate expertise in and a commitment to assess and seek to improve the quality of Hospital Services. PPH acknowledges that KFH and Health Plan are required by state and federal law and by NCQA standards to monitor the quality assessment and improvement activities of PPH. To the extent required by law or NCQA (or successor accreditation agency) standards, PPH shall participate in and reasonably support the KFH Quality Assessment Program established from time to time, including without limitation by satisfying the requirements set forth in Appendix 5.1.1 (Requirements of KP Quality Management Program) and in Appendix 5.1.1-2 (Quality Assurance Requirements), review by KP's quality assurance committees and staff, and cooperating with KP to monitor and evaluate Hospital Services provided to Members at the Facilities. The parties shall utilize the Quality Review Subcommittee of the Joint Operating Committee, as described in Section 9.1.1, for purposes of, among other things, assisting PPH in the performance of its obligations under this Section

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5.1.1. KP may from time to time conduct Member satisfaction and quality assessment studies at the Facilities using reasonable procedures to be established by KP in order to ensure the consistency and integrity of the results of such studies. To the extent required by law, NCQA standards, or regulatory or accrediting agencies, PPH shall cooperate with any quality review and improvement organization or other review organization that is retained by KP as part of its quality assessment and improvement program. PPH acknowledges and agrees that KFH has informed PPH of the requirements of KP's quality assessment program at least 15 business days prior to the Effective Date of this Agreement.

5.1.2 Maintenance of PPH Program.

PPH shall maintain, at all times during the Term, a quality assessment and improvement program that meets all state and federal licensing, accreditation and certification requirements, including accreditation standards of JCAHO and also those of NCQA as necessary for Health Plan to retain its NCQA accreditation. KFH shall participate in PPH's quality assessment and improvement program as it pertains to Members and only in accordance with the terms of this Agreement and subject to applicable statutory and common law privileges, including those related to peer review. Nothing stated herein shall be in derogation of Medical Group Physicians' obligations under PPH's Medical Staff bylaws, rules and regulations.

5.1.3 Resolution of Problems.

PPH shall promptly investigate any condition at the Facilities related to the care of Members that has been identified by KFH or any governmental agency, JCAHO or NCQA as unsafe to the physical or mental health of patients or other persons or that is reasonably likely to be in material violation of applicable laws or regulations. PPH shall use commercially reasonable efforts to timely investigate any other condition at the Facilities related to the care of Members that has been identified by KFH or any governmental agency, JCAHO or NCQA as unsatisfactory in any other respect. To the extent an unsatisfactory condition is identified, PPH shall take appropriate steps to promptly correct it. KFH shall designate an individual by title who shall be responsible for communicating KFH's quality concerns to PPH. The parties shall work together on an ongoing basis to improve and maintain the quality of care provided to Members and to resolve problems related to the provision of Covered Hospital Services promptly as they arise.

5.1.4 Inspection of Facilities.

PPH shall permit inspection of PMC and the other Facilities by CMS, JCAHO, Medicare peer review organizations, DHS and other regulatory or accrediting agencies and by Kaiser Permanente to the extent necessary to comply with its regulatory and accrediting obligations. Hospital shall participate in all utilization management, quality assessment and improvement, privileging, and any other activities required of it by regulatory and accrediting agencies. Kaiser Permanente shall give reasonable notice of any such inspections that it wishes to perform and shall take into account reasonable requests by PPH for scheduling of such inspections.

5.1.5 Medical Group Guidelines.

Medical Group may adopt and implement its own continuous quality improvement and clinical guidelines for the provision of care to Members at the Facilities, provided that such guidelines are compatible with and do not conflict with any continuous quality improvement and clinical guidelines established by PPH, the Facilities' Medical Staff bylaws, and applicable regulations, rules, policies and procedures of the Facilities.

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5.2 PPH's Responsibility.

PPH will assume, for each Member to whom Covered Hospital Services are rendered by or on behalf of PPH, full responsibility for the manner in which Covered Hospital Services are rendered by PPH employees and subcontractors (including physicians contracted by PPH). KFH's obligations under this Agreement do not relieve PPH of any duty of care to provide Members with Covered Hospital Services in accordance with the appropriate standard of care.

5.3 Development of Clinical Protocols.

KFH, Medical Group and PPH shall cooperate in the development of clinical protocols, standardized care paths and preprinted orders for the treatment of Members. PPH shall allow Health Plan, Medical Group, and KFH, and their respective employees or physicians, access to all PPH's patient care protocols, policies, procedures of the Medical Staff bylaws, rules and regulations affecting the delivery of Hospital Services. Kaiser Permanente shall allow PPH access to Kaiser Permanente's patient protocols relevant to Hospital Services provided to Members. KFH and PPH each acknowledge that the protocols, policies, procedures, rules and regulations of the other are Confidential Information to the extent provided in Section 8.10.1 ("Confidential Information" Defined; Ownership of Confidential Information). KFH and PPH shall acquire no rights in or to the other's protocols, policies, procedures, rules and regulations other than to use them for purposes related to this Agreement.

5.4 Utilization Management.

5.4.1 Participation in KP Programs.

PPH acknowledges that Kaiser Permanente maintains a Utilization Management Program regarding the care provided to Members. PPH shall participate and cooperate with the Utilization Management Program as it pertains to Members and only in accordance with the terms of this Agreement. PPH shall allow KFH utilization management personnel physical and telephone access (including access to PPH's computer files in compliance with applicable privacy laws and regulations) necessary to review, observe and monitor Member care and PPH's performance of its obligations under this Agreement. PPH shall provide space, as available, within PMC reasonably required for use by KFH to support KFH's Utilization Management Program activities at PMC. PPH acknowledges and agrees that KFH has informed PPH of the requirements of KP's Utilization Management Program at least fifteen (15) business days prior to the Effective Date of this Agreement.

5.4.2 PPH's Program.

PPH shall maintain, at all times during the Term, a utilization management program that meets all state and federal licensing, accreditation and certification requirements, including accreditation standards of ICAHO and also those of NCQA as necessary for Health Plan to retain its NCQA accreditation. KFH shall participate in PPH's utilization management program, as it pertains to Members and subject to any applicable statutory or common law privileges, including those pertaining to peer review.

5.4.3 Discharge Planning.

PPH shall provide discharge planning services for Members pursuant to a written plan mutually agreed upon by the parties and included in the Manual. PPH shall cooperate with KFH to assure timely and appropriate discharge of Members. Discharge planning services shall begin on the Member's admission and shall be completed by the medically appropriate discharge date, as determined by the attending Physician. PPH shall provide to KFH documentation of the discharge planning process. With respect to each discharge, PPH shall furnish KFH with advance notice to permit timely and orderly discharge of the Member. PPH shall furnish necessary documentation for Member transfers to subacute care settings, skilled nursing settings, and post-discharge care by home health agencies and/or alternative

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care settings. KFH may, at its discretion, provide discharge planning services onsite directly to Members receiving care at PMC and the other Facilities, so long as KFH coordinates with PPH reasonably in advance of the applicable discharge planning. PPH shall allow KFH discharge planning personnel physical and telephone access (including access to PPH's computer files in compliance with applicable laws and regulations) necessary to perform appropriate and timely discharge and discharge planning of Members.

5.4.4 Utilization Information.

PPH shall provide KFH with such utilization information as required by the Manual or as necessary for Kaiser Permanente to meet its regulatory and legal requirements.

5.4.5 Social Services.

PPH shall be responsible for providing social services to Members to the same extent such services are provided to non-Members. KFH shall timely furnish PPH with information necessary for PPH to satisfy regulatory reporting requirements in this regard with respect to Members.

5.4.6 Combined Services.

KFH and PPH shall cooperate in the integration, to the extent deemed feasible by each party, of utilization management, discharge planning and social services provided for Members at PMC and the other Facilities.

5.5 Information Provided.

All information provided by PPH to KFH, Medical Group and Health Plan pursuant to this Agreement and all information provided by KFH, Medical Group and Health Plan to PPH pursuant to this Agreement shall be truthful, accurate and complete and, as required by applicable law, or accreditation agency standards, shall make such information available to CMS, other state and federal governmental agencies, JCAHO and NCQA upon request.

5.6 Performance Standards.

The parties in good faith will work together to develop and adopt Performance Standards concerning measured levels of performance (including without limitation relating to avoidable delays, errors, and lack of timely discharge planning) to be achieved by the parties in their performance of certain obligations under this Agreement and a plan for measuring the outcomes in performing such obligations. The processes for development of such Performance Standards and such Performance Standards themselves, once developed, will be included in the Manual.

ARTICLE 6 - MEDICAL STAFF MEMBERSHIP AND PRIVILEGES

6.1 Medical Staff.

6.1.1 Medical Staff Generally.

The parties hereto acknowledge that the Medical Staff is a separate body with the capacity to set its own standards in accordance with applicable laws and regulations, and which possesses substantial independence in its decision-making processes regarding Medical Staff membership, privileging and related activities. In light of but notwithstanding the foregoing, PPH shall exercise its best efforts to encourage the Medical Staff to adopt bylaws, rules, regulations, practices, and policies that do not adversely affect the interests of Medical Group Physicians and Medical Group Allied Health Practitioners, either individually or as a class, with respect to Medical Staff membership or clinical

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privileges at the Facilities, procedure scheduling, operating room scheduling, parking, dining room, sleep rooms and use of conference rooms (collectively, the "Material Interests") by virtue of their employment by or other affiliation with the Medical Group.

6.1.2 Express Discrimination.

PPH or the governing body of PMC or other applicable Facility shall refuse to ratify or approve any action by the Medical Staff that expressly discriminates against the Material Interests of any Medical Group Physician or Medical Group Allied Health Practitioner, either individually or as a class, by virtue of their employment by or other affiliation with the Medical Group. The Medical Staff shall be deemed to have expressly discriminated against the Material Interest of an individual Medical Group Physician or Medical Group Allied Health Practitioner with respect to Medical Staff membership or clinical privileges by making a final determination adverse to such practitioner on the basis of findings that refer to such Physician's or Allied Health Professional's employment or other affiliation with the Medical Group. The Medical Staff shall be deemed to have so expressly discriminated against Medical Group Physicians or Medical Group Allied Health Practitioners through the adoption of any bylaw, rule, regulation, practice, or policy that applies, whether by express designation or description, in a manner that adversely affects the Material Interests of Medical Group Physicians or Medical Group Allied Health Practitioners but not to other physicians or allied health practitioners. In the event of express discrimination as described in this Section, PPH or the governing board of PMC or other applicable Facility shall have no other obligation than to refuse to ratify or approve the expressly discriminatory action and to remand the matter to the Medical Staff for action consistent with the requirements of the Medical Staff Bylaws and this Section.

6.1.3 Implied Discrimination.

The Medical Staff shall be deemed to have engaged in implied discrimination against Medical Group Physicians or Medical Group Allied Health Practitioners through the adoption of any bylaw, rule, regulation, practice, or policy that does not constitute express discrimination pursuant to Section 6.1.2 but which disproportionately and adversely affects the Material Interests of Medical Group Physicians or Medical Group Allied Health Practitioners as a class in relation to its effect upon other classes of physicians and allied health practitioners. In such event, the Chief Executive Officer of PPH or his or her designee shall meet and confer with responsible officers of the Medical Staff to discuss possible amendments to such bylaw, rule, regulation, practice, or policy to avoid any such implied discriminatory effect. If such proposed amendments are unacceptable to KFJ, KFJ may, but shall not be obligated to, refer the matter to the JOC, and PPH shall exercise all commercially reasonable efforts to cause the Medical Staff to adopt such amendments as the JOC may direct.

6.1.4 Departmental Closure.

If, at any time after the Effective Date, PPH proposes to close a department or Hospital Service in the Facility with the effect of restricting the ability of qualified Medical Staff members to render patient services therein, in addition to applicable legal requirements, PPH shall provide notice to KFJ at least sixty (60) days prior to the proposed date of closure, and in no event later than such time as notice of such proposed closure is first given to any member of the Medical Staff. KFJ shall have the right to provide input with respect to such proposal, and PPH shall, and shall use best efforts to cause the Medical Staff to, consider in good faith any such input and, if requested, seek and consider in good faith alternatives to closure of such department. Notwithstanding the foregoing, the final determination regarding department closures shall be that of PPH, in accordance with applicable law. After closure of a department in accordance with this Section 6.1.4, any agreement between PPH and any individual Independent Physician and/or group of Independent Physicians to provide exclusive Professional Medical Services in such department shall be subject to the provisions of Appendix 2.1.1 (Hospital-Based Professional Medical Services).

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6.2 Privileging Procedures

Acting through and subject to its Medical Staff and governing body, PPH shall privilege, and re-privilege as necessary and appropriate, all qualified Physicians and Allied Health Practitioners providing services to Members, assuring that appropriate privileging criteria and procedures are adopted and implemented, in compliance with law and with the standards of applicable licensing agencies and accreditation bodies. Health Plan and KFH shall have the right upon reasonable notice to review PPH's policies and procedures with respect to such privileging and re-privileging. Notwithstanding the foregoing, Medical Group Physicians and Medical Group Allied Health Practitioners who desire such privileges and who have not yet obtained them shall be required to submit a formal application for Medical Staff membership and privileging which shall be acted upon as set forth in Section 6.3.1 (Privileging). KFH and Health Plan may also review non-privileged summaries setting forth the status of Physician privileges and the existence of any disciplinary actions. PPH shall not disclose the substance of any peer review or disciplinary proceedings, including minutes or any other information otherwise protected from disclosure or discovery by federal and state law, including California Evidence Code Section 1157, to the extent such disclosure would be unlawful or would void a privilege from discovery otherwise available but for such disclosure. To the extent an inadvertent disclosure occurs, KFH and/or Health Plan shall immediately return the privileged information and shall not treat the disclosure of inadvertent information as a waiver.

6.3 Privileging

6.3.1 Privileging

PPH shall act upon and/or use best efforts within the limits of applicable law to encourage the Medical Staff of the applicable Facility to timely and expeditiously act upon each application for privileges from a Medical Group Physician or Medical Group Allied Health Practitioner in accordance with the applicable Medical Staff bylaws, rules and regulations and the requirements of state and federal law. The governing board of PPH shall, in turn, timely and expeditiously act upon recommendations of the Medical Staff with respect to said applications in accordance with the applicable Medical Staff bylaws and rules, and the requirements of applicable law. PPH does not guarantee receipt of privileges by every Medical Group Physician or Medical Group Allied Health Practitioner applicant. The parties acknowledge that, pursuant to California law, neither PPH, PMC nor any of the Facilities controls or directs its respective Medical Staff or any committee thereof in the exercise of judgment regarding clinical matters, including without limitation the exercise of judgment concerning the clinical competence of any applicant for clinical privileges.

6.3.2 Problems with Privileging

If KFH or Medical Group in good faith believes that the application of a Medical Group Physician for active privileges at a Facility is not being processed in strict accordance with the applicable Medical Staff bylaws or is being subjected to inappropriate delays, upon the request of KFH, PPH's Medical Director shall promptly meet and confer diligently and in good faith with Medical Group in an attempt to resolve whatever problems may exist with such privileging process.

6.4 Allied Health Professionals

6.4.1 Physician Assistants, Registered Nurse Practitioners, Certified Nurse Midwives

PPH shall permit Medical Group's physician assistants, registered nurse practitioners, certified nurse midwives and other Medical Group Allied Health Practitioners to provide services to Members in the Facilities, in accordance with PPH's Medical Staff bylaws, rules and regulations.

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6.4.2 Other Allied Health Professionals.

PPH, in a timely manner, shall use best efforts (subject to legal limitations) to encourage the Medical Staffs of PMC and the other Facilities to amend the Medical Staff bylaws, rules and regulations of PMC and the other Facilities to make reasonable accommodation to Kaiser Permanente to permit Medical Group Allied Practitioners as requested by KFH or Medical Group to participate in PPH's Medical Staff and to render care to Members in the Facilities. KFH acknowledges that if such Medical Group Allied Practitioners are permitted to participate in the PPH Medical Staff and render care to Members, the Medical Staff shall have the right, with input from KFH and Medical Group which shall be considered in good faith by the Medical Staff, to accept or modify KFH's and Medical Group's standard criteria for such participation.

6.5 Peer Review Activities.

PPH shall promptly notify KFH and Medical Group's Area Associate Medical Director-San Diego of any action or proposed action against any Medical Group Physician, who is an employee or partner of Medical Group, to deny, curtail, suspend or terminate Medical Staff membership or clinical privileges.

6.6 Notification Requirements.

Subject to any requirements of California Evidence Code Section 1457 to the contrary, PPH shall immediately notify KFH and Medical Group's Area Associate Medical Director-San Diego of any of the following actions against any Medical Group Physician, who is an employee or partner of Medical Group, or Medical Group Allied Health Practitioner, who is an employee of Medical Group, KFH or Health Plan, who provides services to Members: (a) any license, certification or clinical privilege of any such person is revoked, suspended or otherwise limited (b) any peer review action, inquiry, or corrective action proceeding or investigation is initiated against such person, (c) such person is the subject of private or governmental legal action or governmental inquiry or accusation concerning his or her qualifications or competence to perform Professional Medical Services or Hospital Services (including any allegation of malpractice), or (d) any report is submitted to the Medical Board of California, the Board of Registered Nursing or the National Practitioner Data Bank (or other reporting agency) of adverse action against such person.

6.7 Access to Records.

Upon request, and subject to the limitation on disclosure set forth in Section 6.2 (Privileging Procedures), PPH shall give KFH and its authorized representatives who are employees or physicians of Medical Group, KFH, or Health Plan access to non-privileged and non-proprietary information from PPH's quality improvement program, including quality, utilization, patient satisfaction, complaint and medical records review information relating to Professional Medical Services and/or Hospital Services provided to Members, subject to any release or authorization reasonably required under PPH's general policies.

6.8 Reports.

From time to time, upon request of Health Plan or KFH, PPH shall furnish a list of all Medical Group Physicians and Medical Group Allied Health Practitioners who have Medical Staff membership at any Facility, identifying each Medical Group Physician's and each Medical Group Allied Health Practitioner's department, service, status and clinical privileges.

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6.9 Graduate Medical Education Programs.

PPH shall coordinate with KFH (and, at the request of KFH, coordinate with educational institutions with which KFH contracts) with respect to Kaiser Permanente's residency, fellowship and/or other graduate medical education programs as well as the active participation by residents and fellows in such programs at PMC, and PPH shall make best efforts to accommodate such programs at PMC and any other Facility, in light of the operational requirements of each such Facility.

6.10 Qualifications of Independent Physicians and Allied Health Practitioners.

All Independent Physicians and Independent Allied Health Practitioners who provide services to Members at the PMC and the other Facilities shall at all times be privileged, credentialed, licensed, qualified and in good standing in accordance with all applicable local, state and federal laws (including the requirements of the Medicare and Medi-Cal Programs) and in accordance with all applicable standards and privileging criteria of PPH pertaining to the provision of health care services within the Facilities. PPH shall, in accordance with its regular Medical Staff membership, privileging and peer review procedures, obtain and review the documentation necessary to confirm that such persons are appropriately licensed, that they maintain any necessary Drug Enforcement Administration certification and Medicare and Medi-Cal provider status and that they have demonstrated that they meet the standards of PPH's Medical Staff. In connection with credentialing and re-credentialing or as otherwise required by law, PPH shall obtain certification from each Independent Physician and Independent Allied Health Practitioner providing services as contemplated under this Agreement that such Physician or Practitioner has not been excluded from participation under the Medicare Program nor has opted out of the Medicare Program. PPH shall make such inquiries to the Medical Board of California and to the National Practitioner Data Bank ("Data Bank") as may be required by law and shall act appropriately upon the responses from such Medical Board or Data Bank. Subject to the limitation on disclosure set forth in Section 6.2 (Privileging Procedures), upon request PPH shall provide satisfactory evidence of licensing, certification, education, training, professional liability coverage, and verification of past and present professional and practice affiliations of any Independent Physician or Independent Allied Health Practitioner providing services to Members. If at any time during the Term, the license, certifications, or privileges of any Independent Physician or Independent Allied Health Practitioner are suspended, revoked or restricted, upon PPH's receipt of actual notice of suspension, revocation or restriction of a license, certification or privilege, PPH shall ensure that such Physician or Allied Health Practitioner shall not provide services to Members during the period of any such suspension, revocation or restriction (except, in the case of a restriction, in accordance with the terms thereof).

ARTICLE 7 - FACILITIES AND INFORMATION TECHNOLOGY

7.1 Maintenance of Facilities.

PPH shall maintain its Facilities in a high state of cleanliness and good condition and repair, in compliance with all applicable laws, regulations and standards, including applicable zoning and land use laws and regulations, building and safety codes, seismic safety codes, laws governing use and storage of hazardous materials, licensing requirements and standards of applicable accreditation Agencies (including JCAHO and NCQA). PPH shall notify KFH of surveys and inspections to be made of the Facilities that are reasonably likely to adversely affect Hospital Services. To the extent such survey and inspection reports are a necessary component of quality assurance, utilization management or other required programs, PPH shall make such reports available to KFH.

7.2 Use of Facilities.

Except as provided in this Agreement, PPH shall grant KFH personnel and representatives access to, and use of, the Facilities equal to the access and use afforded other users. PPH shall grant Medical

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Group Physicians and KFH personnel and representatives unrestricted access to Members to the extent permitted by applicable laws.

[REDACTED]

[REDACTED]

7.4 Operating Room Use.

PPH shall provide use of operating rooms at PMC for Members and Medical Group Physicians for blocks of time or on a dedicated basis if supportable on the basis of projected and actual utilization, which access shall be on at least a basis equal to that provided for other patients admitted to PMC and other physicians. The scheduling process shall be as set forth in the Manual, which Manual provisions KFH and PPH shall ensure are consistent with then-existing applicable Medical Staff bylaws, rules and regulations relating to operating room scheduling, as well as in compliance with state and federal law and the requirements of JCAHO and NCQA.

7.5 Information Technology.

7.5.1 Information Systems.

The parties shall use all commercially reasonable efforts to establish an interface between their information systems, to permit electronic data transfer in "real time" to KFH's systems of pertinent Member data and electronic claims processing and payment. The parties in good faith will meet to develop a mutually agreeable plan for addressing electronic data interchange and access and other information technology issues related to the administration of this Agreement, consistent with the Information Technology Requirements set forth in Appendix 7.5.1 (Information Technology Requirements) attached hereto, which requirements shall, at a minimum, reference compliance with all aspects of HIPAA. Such mutually agreed upon plan shall be reduced to writing and shall include an explicit allocation between the parties of the costs associated with the implementation of the plan. While the plan is being developed, PPH, using currently available manual means or existing electronic systems, shall provide KFH with daily census, discharge, admissions, reports, Medical Group Physician encounters with non-Member patients and billing information on Form UB-92. Failure for any reason of the parties to develop and/or implement a plan for electronic data interchange shall not be a basis for termination of this Agreement or for relief, including damages, to either party, unless the parties agree otherwise in writing.

7.5.2 Help Desk and Training Function.

PPH shall provide on a continuous basis necessary applications and systems training and help desk services at PMC for KFH and Medical Group personnel using PPH's information systems existing at PMC at the time this Agreement is signed. KFH shall provide on a continuous basis necessary

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applications and systems training and help desk services at PMC for PMC personnel using KFH's information systems existing at PMC at the time this Agreement is signed. The parties shall promptly transfer to each other's respective help desk those requests for assistance necessitated by the other's information systems, after verifying that the help desk request clearly relates to a problem with the other party's information system.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

ARTICLE 8 - RECORDS; CONFIDENTIALITY

8.1 Maintenance of Medical Records.

PPH shall prepare Medical Records relating to Hospital Services provided to Members pursuant to this Agreement. PPH shall document in the Member's Medical Record whether or not the Member has executed an advance directive. PPH shall be bound fully by the requirements in Title 42 of the Code of Federal Regulations, Sections 2.1, et seq., relating to the maintenance and disclosure of Members' Medical Records received or required by federally assisted alcohol or drug programs. PPH shall maintain Medical Records of Members in accordance with its retention practices (or longer if so required by CMS), with applicable state and federal requirements, including privacy and confidentiality requirements, prudent record-keeping standards and procedures generally accepted in the medical and hospital communities. PPH shall afford Health Plan, KFH and Medical Group access to Member Medical Records. Prior to disposing of Member Medical Records, PPH shall afford KFH a reasonable opportunity to take custody of such records for safekeeping, at KFH's expense. Kaiser Permanente shall provide Hospital access to Members' medical records maintained by Kaiser Permanente, to the extent necessary for the provision of Hospital Services. The provisions of this Section 8.1 (Maintenance of Medical Records) shall survive the termination of this Agreement.

8.2 Maintenance of Business Records.

PPH shall prepare appropriate, legible and timely patient billing, accounting and administrative records related to Covered Hospital Services provided to Members ("Business Records"), including those that are customarily maintained by PPH for purposes of verifying claims information. PPH shall maintain Business Records in accordance with prudent record-keeping standards and procedures generally accepted in the medical and hospital communities and applicable state and federal requirements, including privacy and confidentiality requirements. PPH shall preserve the Business Records for the longer of (i) seven (7) years after termination of this Agreement, (ii) one (1) year after the Member reaches the age of majority, if the Member is a minor, (iii) the period of time required by state and federal law, including the period required by the governing state laws, Medicare and Medi-Cal Programs and contracts to which KFH or Health Plan is subject, (iv) six (6) years from the expiration or termination of this Agreement or from the date of completion of any audit, whichever is longer, and (v) such time as may be required by CMS. The provisions of this Section 8.2 (Maintenance of Business Records) shall survive the termination of this Agreement.

8.3 Incorporation of Pre-admission Reports.

If KFH has elected to provide pre-surgery Covered Hospital Services as set forth in Section 2.2 (Pre-Surgery Services), KFH shall provide to PPH pre-admission and pre-operative reports related to Covered Hospital Services furnished to Members. Such reports shall become part of the Member's Medical Record at PPH.

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8.4 Discharge Summaries and Statements of Care.

PPH shall provide KFH and the attending Medical Group Physician copies of each hospitalized Member's written discharge summary, operative reports, emergency visit summary, consultations and other statements of care within twenty-four (24) hours after discharge and dictation. However, in no event shall PPH provide such documents to KFH and the attending Medical Group Physician more than forty-eight (48) hours after dictation. Such copies will be provided in electronic form and, at the request of KFH, in hard copy as well, and in a format acceptable to KFH in its reasonable discretion, provided that such medium and format are consistent with health care industry practice and do not require that PPH purchase new software or hardware to accommodate such requests for production of records. Records needed for immediate follow-up on an outpatient basis will be prepared in accordance within the time limitations described in this Section. Notwithstanding the foregoing, PPH's obligations pursuant to this Section are contingent upon the timely completion of medical records and other documentation by Medical Group Physicians and Independent Physicians, as appropriate. PPH shall exercise its best efforts to cause the Medical Staffs of PMC and other Facilities to monitor and enforce requirements for timely medical recordkeeping in compliance with this Section, but failure by Medical Group Physicians and Independent Physicians to timely complete said medical records shall not constitute a breach of this Agreement by PPH.

8.5 Access to Medical Records and Business Records.

8.5.1 Access.

KFH and its agents and employees shall have access to PPH's Business Records and the Medical Records, subject to the disclosure limitations set forth in Section 6.2 (Privileging Procedures). PPH agrees that KFH and its agents and employees may duplicate Medical Records and Business Records, to the extent permitted by law. KFH may copy such records itself or make arrangements to use a copying service.

8.5.2 Scheduling.

Access shall be scheduled at mutually agreed upon times, during the parties' normal business hours and shall require a minimum of thirty (30) days' advance notice, unless such time must be shortened due to regulatory or accrediting agencies.

8.5.3 Third Parties.

When requested by KFH, PPH shall, subject to the notice provisions of Subsection 8.5.2, and any legal requirements regarding confidentiality and privilege, provide access to Business Records, Medical Records and other information to third party administrators, and Agencies, as required by them. The provisions of this Section shall survive the termination of this Agreement.

8.6 Copies of Medical Records.

Upon request in accordance with Section 56.10 of the California Civil Code and without additional written patient consent, PPH shall furnish copies of Members' Medical Records to Health Plan, KFH and/or Medical Group free of charge. Health Plan, KFH or Medical Group may, at its own expense, expedite the copying of said records to which it is entitled under this Agreement by arranging for said copying through a copying service, subject to reasonable request and notification to PPH.

8.7 Disclosure to Agencies.

PPH shall comply with all provisions of the Omnibus Reconciliation Act of 1980 regarding access to books, documents and records. Without limiting the foregoing, PPH shall maintain, provide

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access to and, at KFH's expense, at PPH's reasonable cost therefor, but not to exceed ten cents (\$0.10) per page, provide copies of Business Records, Medical Records, this Agreement and other information to Agencies, as may be necessary for compliance by KFH and Health Plan with the provisions of all state and federal laws and contractual requirements governing KFH and Health Plan, including the Knox-Keene Act, and the regulations thereunder and the Medicare Program and Medi-Cal Program. Such records shall be available at all reasonable times at PPH's place of business, in offsite storage, or at some other mutually agreeable location in California.

8.8 Intentionally Left Blank.

8.9 Government or Accreditation Required Information.

PPH shall supply KFH with reports and information pertaining to Hospital Services provided to Members, on such forms and within such times as may be required by KFH to enable KFH and Health Plan to meet all federal, state, JCAHO and NCQA standards. PPH hereby acknowledges that Kaiser Permanente is required to provide CMS and other federal and state regulatory agencies and accrediting organizations with encounter data as requested by such agencies and organizations. Such data may include Medical Records and all other data necessary to characterize each encounter between a Member and PPH. PPH agrees to cooperate with Kaiser Permanente and provide Kaiser Permanente with all such information in such form and manner, to the extent feasible, as requested by Kaiser Permanente.

8.10 Confidentiality of Information.

8.10.1 "Confidential Information" Defined; Ownership of Confidential Information.

(a) Each party acknowledges that it will have access to confidential information relating to or otherwise acquired from the other party, including trade secrets, information concerning such party's employees, products, services, contracts, membership, prices, operations, business plans, business systems, business strategies, technical and marketing information, planning and finance information, practice and advice protocols, drug formularies, scientific or statistical data, information furnished to the other party hereto pursuant to, without limitation, Article 4 (Compensation, Billing and Payment), Article 5 (Quality and Utilization) or Article 6 (Medical Staff Membership and Privileges), or other proprietary information relating thereto, together with analyses, compilations, studies or other documents, records or data prepared by either party which contain or otherwise reflect or are generated from such information ("Confidential Information"). The term "Confidential Information" does not include information received by a party (for purposes of this Agreement, the "Receiving Party") in connection with the transactions contemplated hereby which: (i) is or becomes publicly available other than as a result of a disclosure by the Receiving Party or its representatives; (ii) was known by or otherwise within the Receiving Party's possession prior to its being received by the Receiving Party, provided that such information shall not have been subject to a confidentiality agreement with, or other contractual, legal or fiduciary obligation of confidentiality to, the Disclosing Party or any other Person with respect to such information; (iii) was developed by a party without the use of any Confidential Information, or (iv) becomes available to the Receiving Party on a non-confidential basis from a source other than the other party or any of its employees, agents or subcontractors, provided that such source is not bound by a confidentiality agreement with, or other contractual, legal or fiduciary obligation of a party's employees, agents and subcontractors to, that party or any other Person with respect to such information.

(b) All Confidential Information shall be and remain the property of the party who originally possessed such information.

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8.10.2 Disclosure and Use of Confidential Information.

(a) Each party shall treat the terms of this Agreement and all Confidential Information in strict confidence and shall not disclose any Confidential Information except to its employees, agents and subcontractors with a specific need to know such Confidential Information or as otherwise authorized by the other party in advance and in writing.

(b) Neither party shall use any Confidential Information for any purpose not contemplated by this Agreement.

(c) Each party shall use all reasonable efforts to cause its employees, agents and subcontractors to comply with the requirements of this Section 8.10 (Confidentiality of Information), and shall be responsible for any breach of this Agreement by any of its employees, agents or subcontractors. If, however, Confidential Information is disclosed or used by a party or its employee, agent or subcontractor in breach of this Section 8.10 (Confidentiality of Information), that party shall immediately notify the other of such disclosure or use in writing and take all reasonable steps required to mitigate any reasonably foreseeable damages as a result thereof, and to prevent further disclosure or use.

(d) The other provisions of this Section 8.10.2 (Disclosure of Confidential Information) notwithstanding, the Receiving Party may disclose Confidential Information:

(i) to DMHC, DHS, CMS, NCQA, or other governmental or accrediting agencies, as required by law, or as necessary for the Receiving Party to obtain or maintain its accreditation status or any approvals necessary for the implementation and continued effectiveness of or performance under this Agreement; and

(ii) to the extent necessary to obtain payment or reimbursement with respect to Covered Hospital Services furnished pursuant to this Agreement.

(e) If the Receiving Party or any of its employees, agents or subcontractors or Affiliates is requested (by oral questions, interrogatories, requests for information or documents in legal proceedings, requests for public records under Government Code § 6250 et seq., subpoena, civil investigative demand or other similar process seeking to compel disclosure), or, in good faith after consultation with and based on the opinion of legal counsel, believes it is required by operation of law, to disclose any Confidential Information, that party shall, except as provided in paragraphs (i) through (ii) below, give the other party prompt written notice of the request or requirement, which notice shall, if practicable, be at least forty-eight (48) hours prior to making such disclosure, so that the other party may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Agreement. If, in the absence of a protective order or other remedy or the receipt of such a waiver, the Receiving Party or any of its representatives are nonetheless, in the opinion of counsel, legally compelled to disclose Confidential Information, then the Receiving Party may disclose that portion of the Confidential Information which such counsel advises is legally required to be disclosed, provided that the Receiving Party uses its reasonable efforts to preserve the confidentiality of the remaining Confidential Information, whereupon such disclosure shall not constitute a breach of this Agreement.

(f) KFH has represented to PPH that information set forth in each of Appendix 2.2.1, Appendix 2.6.1, Appendix 2.6.2, Attachment A to Appendix 4.1, Attachment B to Appendix 4.1, and Attachment C to Appendix 4.1 constitutes "trade secrets" of KFH that KFH believes are appropriately subject to protection from appropriation under the Uniform Trade Secrets Act set forth in California Civil Code §§ 3426 et seq. ("Trade Secrets"). KFH represents that it has expended a substantial amount of time and resources to develop this information and continues to take reasonable measures to guard the secrecy of this and other trade secret information. KFH believes that disclosure of such Trade Secrets would give an unfair economic advantage to its competitors or otherwise result in economic disadvantage

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to KFH. KFH and PPH shall use best efforts to protect Trade Secrets from disclosure subject to the provisions of this Section 8.10.2.

(g) PPH and KFH agree that certain aspects of "Trade Secrets" set forth in this Agreement are protected from disclosure to third parties pursuant to various provisions of California law. PPH and KFH have agreed to segregate and mark as "confidential" the Trade Secret information in Appendices 2.1.1, 2.6.1, 2.6.2 and 4.1, and attachments thereto. PPH shall segregate these Appendices and attachments from its general filing system and shall file such Appendices and attachments in a manner that will prevent access by unauthorized persons. In accordance with Government Code § 6254.5(c), PPH shall ensure that only persons authorized in writing by the PPH Chief Executive Officer, as agreed to by KFH, shall be permitted to obtain the confidential Trade Secret information, which shall be used only for purposes which are consistent with existing law and this Agreement, which purposes shall include, without limitation, the facilitation of financing of the PMC Expanded Facilities and/or the Additional Facility by disclosing the terms and conditions of this Agreement to the extent deemed reasonably necessary by bond counsel and counsel for PPH and counsel for KFH, respectively and, in connection with such determination and the granting of approval requested from KFH and/or its counsel, such determination and/or approval shall not be unreasonably delayed or withheld by KFH or its counsel. If PPH receives any requests for records that may include the confidential Trade Secret information, PPH shall provide KFH at least five (5) business days to determine whether such information is, or is still at the time of such request, proprietary and confidential. KFH may thereupon instruct PPH to withhold such information or, if appropriate, to redact all confidential Trade Secret information prior to disclosure. In no event shall PPH release any such information in contravention of any instruction to the contrary until KFH has an opportunity to present its case in court and to seek an appropriate protective order.

(h) The parties acknowledge and agree that Trade Secrets are protected by the official information privilege, as defined by Evidence Code Section 1040. PPH hereby authorizes KFH to assert the privilege to protect such information under Evidence Code Section 1040, on PPH's behalf and at KFH's expense. PPH shall provide KFH with prompt written notice of any request for such information as soon as practicable and in no event later than seventy-two (72) hours of PPH's receipt of the request. The parties further acknowledge and agree that disclosure of official information set forth in the Appendices or otherwise related to this Agreement is against the public interest because there is a necessity for preserving the confidentiality of the information that outweighs the necessity for disclosure.

[REDACTED]

8.10.3 Confidentiality of Medical Records.

(a) The parties must ensure the confidentiality and accuracy of the Medical Records or other health and enrollment information of Members for which the parties are responsible and must abide by all federal and state laws regarding confidentiality and disclosure of mental health records, Medical Records or other health or membership information. The parties shall not sell, release or otherwise disclose the name or address of any Member to any third party for any purpose, including scientific study. The parties shall also provide Members timely access to their Medical Records and other relevant information.

(b) No person, other than the Member to whom such Medical Record relates, shall have access to any Medical Record of any Member, except as necessary to provide Hospital Services to Members; provided, however, that subject to applicable federal and state laws, Medical Records may be disclosed (i) as provided in this Agreement, (ii) as required by applicable laws, regulations or by JCAHO

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or NCQA standards, (iii) as required by JCAHO or NCQA, (iv) in legal or government administrative proceedings, (v) as required for privileging, peer review, quality assurance or utilization management activities, (vi) as required by PPH's Medical Staff bylaws, or (vii) otherwise as permitted by applicable law, including to Kaiser Permanente providers and representatives under California Civil Code Section 56.10, without any additional release or authorization.

8.10.4 Members Receiving Public Social Services.

Notwithstanding any other provision of this Agreement, names of Members receiving public social services under this Agreement are confidential and are to be protected from unauthorized disclosure in accordance with 42 CFR Sections 431.3000 et seq., and Section 14100.2 of the California Welfare and Institutions Code and regulations adopted thereunder. For the purposes of this Agreement, all information, records, data and data elements collected and maintained for the operation of the Agreement and pertaining to such Members shall be protected by PPH from unauthorized disclosure to anyone, including KFJ and Health Plan.

8.10.5 Medi-Cal Member Information.

With respect to any identifiable information concerning a Medi-Cal Member under a Medi-Cal Plan or Health Plan's Medi-Cal contracts that is obtained by PPH, PPH shall (a) not use any such information for any purpose other than performing its obligations under this Agreement (including the sharing of information with Kaiser Permanente in order to accomplish the purposes of this Agreement); (b) promptly transmit to DHS or the applicable Medi-Cal Plan all requests for disclosure of such information; (c) not disclose, except as otherwise specifically permitted by this Agreement, any such information to any party other than DHS and the applicable Medi-Cal Plan, without prior written authorization pursuant to 42 CFR Sections 431.33 et seq., and Section 14100.2 of the California Welfare and Institutions Code and regulations adopted thereunder, specifying that the information may be released; and (d) upon the expiration or termination of this Agreement, return all such information to DHS and the applicable Medi-Cal Plan or maintain such information according to written procedures sent to Health Plan by DHS and the applicable Medi-Cal Plan for this purpose.

8.10.6 HIPAA.

PPH understands and agrees that this Agreement and certain data that may be exchanged hereunder are subject to HIPAA. To the full extent applicable by the provisions of HIPAA, PPH agrees to comply with HIPAA, including but not limited to the HIPAA standards for (i) privacy, (ii) code set, (iii) data transmission standards, and (iv) security regarding physical storage, maintenance, transmission of and access to individual health information.

PPH acknowledges that it is a "covered entity" as that term is defined under HIPAA, and the Privacy Rule issued by the Department of Health and Human Services. As a covered entity, PPH has specified responsibilities to limit the uses and disclosures of protected health information ("PHI"), as that term is defined by the Privacy Rule (45 CFR Section 164.501).

PPH will use and disclose PHI only as permitted by HIPAA and the Privacy Rule, subject to any additional limitations, if any, on the use and disclosure of that information as imposed by the contract entered into between PPH and Kaiser Permanente. PPH acknowledges that it is required to maintain and distribute a Notice of Privacy Practices to patients using its Hospital Services. PPH will distribute its Notice of Privacy Practices (45 CFR Section 164.520) to and obtain acknowledgments from Members receiving Hospital Services from PPH consistent with its practices for other patients. PPH shall give Kaiser Permanente a copy of its Notice of Privacy Practices and shall give Kaiser Permanente a copy of each subsequent version of its Notice of Privacy Practices whenever a material change has been made to the original Notice.

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PPH has the responsibility under HIPAA and the Privacy Rule to provide the patient with access to his or her PHI (45 CFR Section 164.524), to allow that patient to amend his or her PHI (45 CFR Section 164.526), and to provide an accounting of those disclosures identified under the Privacy Rule as reportable disclosures (45 CFR Section 164.528). PPH will extend these same rights to Members who are patients. If PPH amends, allows a Member to amend, or includes in its records any statement of a Member pursuant to 45 CFR Section 164.526, it will give a copy of such item to Kaiser Permanente.

If PPH sends PHI through electronic means, such electronic data transmission shall conform with the HIPAA regulations entitled "Security Standards for the Protection of Electronic Protected Health Information" codified at 45 CFR parts 160 and 164, Subpart C, as will be in effect April 21, 2005 ("Security").

8.11 Confidentiality of Privileging, Peer Review and Quality-Related Information.

PPH shall maintain the confidentiality of all privileging, peer review and quality-related information. Access to this information is prohibited under this Agreement in accordance with the provisions of California Evidence Code Sections 1156 and 1157, California Health and Safety Code Section 1370 and other applicable laws and regulations. Nothing in this Agreement is intended to be, and access to non-privileged PPH and Medical Staff records by KFHC or Health Plan shall not be, a waiver of the privileges and immunities authorized by law, including California Evidence Code Sections 1156 and 1157 and California Health and Safety Code Section 1370.

8.12 Remedies.

If there is an actual or threatened material breach of the terms of this Article 8 (Records, Confidentiality) by any party which may result in irreparable harm to the other party, the other party shall be entitled to pursue injunctive relief, as provided in Article 9 (Contract Administration and Dispute Resolution).

ARTICLE 9 - CONTRACT ADMINISTRATION AND DISPUTE RESOLUTION

9.1 Administration.

The parties shall establish various committees to facilitate the implementation and administration of this Agreement. These committees shall include the "Executive Oversight Committee" ("EOC"), the "Joint Operations Committee" ("JOC") and the Physician Advisory Committee ("PAC").

9.1.1 The Executive Oversight and the Joint Operations Committees.

The EOC shall be responsible for policy, planning and communications between the senior management of the parties or their delegates and their affiliated corporations on matters related to this Agreement; in no event shall the EOC have any right to act for or on behalf of the board of directors of either party hereto. The EOC representatives of Kaiser Permanente shall appoint the Kaiser Permanente Liaison and the EOC representatives of PPH shall appoint the PPH Liaison. The JOC shall serve as a forum for Kaiser Permanente and PPH to raise operational issues, including access to Hospital Services, patient satisfaction, and information flow and scheduling. In no event shall the JOC have any right to act for or on behalf of the board of directors of either party hereto. The EOC and JOC shall each also serve as a forum for informal dispute resolution pursuant to Section 9.4.1 (Informal Dispute Resolution). The membership of each committee shall contain representatives from both parties. Representation by PPH and Kaiser Permanente on the EOC and JOC shall be equal and the exact membership, the specific functions and responsibilities, and the processes of each committee and subcommittee shall be as described in the Manual. The JOC shall have a subcommittee, referred to as the Quality Review Subcommittee, which shall have as its primary duty to review compliance with Article 5 (Quality and Utilization) of this Agreement.

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9.1.2 The Physician Advisory Committee.

The Physician Advisory Committee will be composed of equal numbers of Medical Group Physicians with privileges on the PPH Medical Staff and Independent Physicians with privileges on the PPH Medical Staff who are willing to participate, on a completely voluntary basis, on the PAC in order to represent the views of Independent Physicians. The specific functions and responsibilities of the Physician Advisory Committee shall be as described in the Manual.

9.1.3 Liaisons.

In addition to representatives to serve on the committees and subcommittees described in Sections 9.1.1 and 9.1.2, PPH and KFH each shall designate at least one on-site liaison to serve as a point of contact for daily issue resolution between KFH and PPH. These coordinators will function as described in the Manual. Such coordinators are sometimes referred to herein respectively as the "Kaiser Permanente Liaison" and the "PPH Liaison". Each coordinator shall have prompt access to decision-makers for such party, and to the other coordinator. These individuals shall serve as an initial focal point for discussion on all matters relevant to Hospital Services provided under this Agreement.

9.2 Policies and Procedures.

PPH and KFH shall share with each other, on an ongoing basis, those institutional and corporate policies and procedures adopted or ratified by the governing board and/or management, as applicable, of such party that are necessary for each party to meet its obligations in performing this Agreement.

9.3 Marketing.

PPH acknowledges that marketing materials that target Members may be subject to restrictions and rules of the DMHC and/or CMS. Accordingly, PPH shall not market any services or products directly to Members without the prior written approvals of KFH and Health Plan. Notwithstanding the foregoing, PPH may distribute communications to the general public, or a targeted population of the general public, so long as such communications are not targeted directly to Members.

9.4 Dispute Resolution.

9.4.1 Informal Dispute Resolution.

Except with respect to proceedings elected by PPH pursuant to Section 4.2.3 (Informal Knox-Keene Dispute Resolution), and except as otherwise expressly provided in Appendix 4.1 (Rates), KFH and PPH first shall attempt to resolve any claims, disputes or other matters arising out of or relating to or in connection with this Agreement, including the performance or failure to perform any term, covenant or condition herein; the right of a party to terminate this Agreement; the effective date of such termination; or the adequacy of a proposed or actual cure or remedy of an alleged breach hereof (collectively "Disputes") in an informal collegial manner. If necessary, a Dispute shall be considered by the JOC, which shall serve as an intermediate forum for informal dispute resolution pursuant to this Section 9.4.1 (Informal Dispute Resolution). A Dispute that cannot be so resolved by the JOC shall be considered by the EOC, which shall be the final forum for informal dispute resolution pursuant to this Section 9.4.1 (Informal Dispute Resolution). The parties shall exercise their best efforts to ensure the availability of members of the JOC and EOC to permit resolution within thirty (30) working days from the time notice of a Dispute is first given. If, after passage of said thirty (30) working days, KFH and PPH are unable to resolve a Dispute between them in such manner, they shall follow the procedures set forth in Section 9.4.2 (Mediation). Nothing stated herein shall apply to the subject matter of Section 4.8.2 (Member Recourse Matters).

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9.4.2 Mediation.

The parties shall refer to mediation any Dispute that is not resolved pursuant to Section 9.4.1 (Informal Dispute Resolution) or Section 4.2.3 (Informal Knox-Keene Dispute Resolution), except as otherwise provided in Appendix 4.1 (Rates). The mediator shall be selected by mutual agreement of the parties. In the event that the parties cannot mutually agree to a mediator, then a mediator shall be selected by the parties from a list supplied by Judicial Arbitration & Mediation Services ("JAMS") in accordance with its procedures. The fees and costs of the mediator shall be shared equally by the parties to the mediation. This Section shall not apply to a matter that is the subject of Section 3.6.3 (Member Complaints) or Section 4.8.2 (Member Recourse Matters). In the case of any mediation concerning a Dispute which, if unresolved, could result in termination of this Agreement pursuant to Section 13.3.1, the members of the EOC shall personally participate in the mediation. In such instance, the parties shall instruct the mediator to continue the proceedings on a day-to-day basis until there is no reasonable possibility of resolution or until the one hundred twentieth (120th) day after selection of the mediator, whichever occurs first.

9.4.3 Binding Arbitration.

(a) Any Dispute that is subjected to, but not resolved pursuant to, Section 9.4.2 (Mediation) or Section 4.2.3 (Informal Knox-Keene Dispute Resolution) shall be submitted for final adjudication to binding arbitration. Notice shall be given as set forth in Section 15.15 (Notices) of this Agreement. PPH and KFH shall mutually select the arbitrator from a list supplied by JAMS in accordance with its procedures. If PPH and KFH cannot mutually agree upon an arbitrator, then an arbitrator shall be selected by the San Diego County Superior Court from such list supplied by JAMS in accordance with procedures established by the California Code of Civil Procedure. The arbitration award may be entered as a judgment in accordance with applicable law in any court having jurisdiction thereof. The decision of the arbitrator may, where applicable, be entered as a declaratory judgment concerning the right of a party to terminate this Agreement; the effective date of such termination; or the adequacy of a proposed or actual cure or remedy of an alleged breach hereof. The obligations set forth in this Section shall also apply to any claims, disputes, or other matters, irrespective of the legal theories asserted, between PPH and Medical Group, KFH or Health Plan. Notwithstanding the foregoing, any disputes with Medical Group arising out of peer review, credentialing, or other Medical Staff procedures shall be pursued according to remedies afforded by statute, case law and by the applicable Facility's Medical Staff bylaws. In the event of a dispute solely between (i) Medical Group, KFH and/or Health Plan and (ii) PPH, venue shall be in Los Angeles County, California. The fees and costs of the neutral arbitrator shall be shared equally by PPH and KFH. Each party shall be responsible for its own attorneys' fees and costs, and the arbitrator shall have no authority to determine otherwise. Except as otherwise set forth herein, all proceedings will be in accordance with California Code of Civil Procedure Sections 1280.1 et seq., including Section 1283.05 thereof. An arbitration under this Section 9.4.3 (Arbitration) shall be consolidated with any other arbitration that includes claims based on the same incident, transaction or related circumstances; provided, however, that an arbitration under this Section shall not be consolidated with any arbitration between PPH and any payor or health care service plan that is not a Health Plan Affiliate.

(b) A Dispute shall be waived and forever barred if (i) on the date notice thereof is received, the claim, if asserted in a civil action, would be barred by the applicable California statute of limitations, or (ii) the claimant fails to pursue the arbitration claim in accord with the procedures prescribed herein with reasonable diligence.

9.4.4 Injunctive Relief.

(a) Notwithstanding anything in this Agreement to the contrary, any party may seek temporary or preliminary injunctive relief in a court of competent jurisdiction in Los Angeles County.

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(b) The parties acknowledge that a breach of the obligations of confidentiality in Article 8 (Records, Confidentiality) of this Agreement would cause irreparable injury to the injured party which could not be compensated adequately in damages and that the injured party shall be entitled, in addition to any other remedies or damages, to a temporary restraining order and/or preliminary injunction to restrain the violation of Article 8 (Records, Confidentiality), without the necessity of proving irreparable injury. Such injunctive relief shall be granted without requiring the injured party to post bond or other security, and shall not impair or limit any other right or remedy available to the affected party.

ARTICLE 10 - INSURANCE AND INDEMNIFICATION

10.1 Insurance.

10.1.1 KFH.

(a) KFH shall ensure that Medical Group's employed Physicians and Medical Group Allied Health Practitioners maintain coverage for professional liability in accordance with the requirements of PPH's Medical Staff bylaws and policies, except that self-insurance or other alternative risk programs shall be deemed to meet these professional liability coverage requirements.

(b) KFH shall at all times maintain, at its sole cost and expense, coverage for commercial general liability (including automobile) and hospital professional liability through insurance or alternative risk programs (which may include self-insurance) reasonably acceptable to PPH based on similar programs for comparable organizations with limits of not less than Twenty Million Dollars (\$20,000,000) per occurrence and Twenty Million Dollars (\$20,000,000) aggregate. KFH shall provide to PPH evidence of such financial responsibility upon request.

(c) KFH shall provide to PPH evidence of coverage required by this Section (including endorsements demonstrating that such coverage includes KFH's indemnity obligations hereunder) within sixty (60) days after execution of this Agreement and from time to time thereafter upon request.

10.1.2 PPH.

(a) PPH shall at all times maintain, at its sole cost and expense, coverage for (a) commercial general liability (including automobile) and hospital professional liability through insurance or alternative risk programs (which may include self-insurance) reasonably acceptable to KFH based on similar programs for comparable organizations, with limits of not less than Twenty Million Dollars (\$20,000,000) per occurrence and Twenty Million Dollars (\$20,000,000) aggregate; and (b) automobile and property damage insurance with commercially reasonable limits, in accordance with good management practices for similarly sized hospitals for all Facilities in which PPH provides Hospital Services or other services to Members hereunder.

(b) If PPH obtains one or more claims-made insurance policies to fulfill its obligations under this Section, it shall (a) maintain coverage with the same company during the Term and for at least ten (10) years following termination of this Agreement, or (b) purchase or provide coverage that assures protection against claims that occur during the Term of this Agreement but which are asserted after the claims-made insurance policy has expired.

(c) PPH shall maintain fidelity bonding or commercial crime insurance not less than statutory requirements, and with excess limits of Ten Million Dollars (\$10,000,000).

(d) During the construction period for the PMC Expanded Facilities, PPH shall at all times maintain "all risk" builder's risk insurance, or equivalent property insurance, covering course of construction risks (whether on-site or off-site), including risk of collapse, flood and wind, in an amount of

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not less than the full replacement value of the PMC Expanded Facilities per approved plans and specifications upon completion. Upon PMC Expanded Facilities Completion and at all times thereafter, PPH shall maintain "all risk" insurance, or equivalent property insurance, including risk of flood and wind, in an amount of not less than the full replacement value of the entire PMC Facility. Promptly following the Effective Date, PPH and KFH shall complete the application process for and pursue obtaining an extra expense endorsement on the "all risk" builder's insurance in place during the construction period of the PMC Expanded Facilities covering up to Ten Million Dollars (\$10,000,000) in expenses incurred by PPH and/or KFH due to a delay in the commencement of operations of the PMC Expanded Facilities. Before PMC Expanded Facilities Completion, PPH shall obtain an extra expense endorsement on the insurance otherwise required under this Section covering up to Ten Million Dollars (\$10,000,000) in expenses incurred by PPH and/or KFH due to the unavailability of or damage to the PMC Facility (including without limitation the PMC Expanded Facilities), if such coverage is available at commercially reasonable rates agreeable to the parties. If either or both of the endorsements described in this Section is obtained, it shall name PPH and KFH as loss payees.

(e) PPH shall provide to KFH evidence of coverage required by this Section (including endorsements demonstrating that such coverage includes PPH's indemnity obligations hereunder) within sixty (60) days after execution of this Agreement and from time to time thereafter upon request.

10.1.3 EOC Review of Insurance Coverage.

The parties hereto acknowledge and agree that the provisions of this Section 10.1 are based on the parties' knowledge and understanding of industry standard types and amounts of insurance coverage at the time of entering into this Agreement but, given the long term of this Agreement, the parties further acknowledge and agree that the provisions of this Section 10.1 may not be adequate to address changes in the insurance industry, the health care industry and inflation over time. As such, the parties agree that, among the specific tasks of the EOC, the EOC (or a subcommittee thereof) shall regularly (and not less often than once every two (2) years) evaluate the requirements under this Section 10.1 and recommend to the parties hereto any changes it deems necessary or appropriate in light of changes since the most recent evaluation. The parties shall in good faith review and act upon the recommendations of the EOC, but neither party shall be obligated to agree to the recommendations of the EOC if its risk management personnel and/or consultants advise it in good faith not to accept such recommendation.

10.1.4 Material Change in Coverage.

The insurance required by this Section 10.1 (Insurance) shall state, if the insurer so agrees, that coverage may not be canceled or materially modified without at least thirty (30) days' prior written notice to the other party. Upon request by PPH or KFH, and if at any time there is a material change, amendment or modification to the coverage set forth in this Section, KFH or PPH (as the case may be) shall provide to the other information regarding its insurance program. Such information shall include coverage limits, deductibles and retentions and names of insurance companies, if applicable.

10.1.5 Insurers; Certificates of Insurance.

Any policy of insurance that either party is required to maintain pursuant to this Section 10.1 shall be reasonably acceptable to the other party; provided that (i) any such policy obtained from a company duly licensed to do business in the State of California and having a Standard and Poor's or A.M. Best rating of at least A- (or an equivalent or comparable rating from another rating agency), or (ii) any plan of self-insurance that, in the reasonable opinion of an independent insurance consultant, reasonably demonstrates the financial capability of the self-insured party to meet the obligations established pursuant to this Article, shall be deemed acceptable. Each party shall provide the other party with certificates of insurance or other reasonable evidence demonstrating that it maintains the arrangements required by this Section 10.1 (Insurance) upon execution of this Agreement and from time to time thereafter upon request.

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10.1.6 Claims-Made Policies.

If either party obtains one or more claims-made insurance policies to fulfill its obligations under this Section, it shall purchase or provide "tail" coverage that assures protection against claims that occur during the period of this Agreement but which are asserted during any applicable statutory period of limitations on action continuing after the claims-made insurance policy has expired.

10.1.7 Medical Staff Professional Liability Insurance.

PPH shall ensure that each member of its Medical Staff who is not a Medical Group Physician and who provides services to Members maintains professional liability coverage with commercially reasonable limits as specified in PPH's Medical Staff bylaws, rules and regulations.

10.1.8 Workers' Compensation and Unemployment Insurance.

PPH and KFH shall maintain in full force and effect appropriate workers' compensation protection and unemployment insurance as required by law.

ARTICLE 11 - MANUAL DEVELOPMENT AND CHANGES

11.1 Manual.

11.1.1 Development of Manual.

The parties acknowledge and agree that many provisions of this Agreement refer to the Manual and contemplate its existence and application as of the Effective Date of this Agreement. The parties have been unable to develop a comprehensive Manual as of the Effective Date but represent that (i) the basic Manual has been reviewed and approved in the form and substance existing on the Effective Date and (ii) it is their mutual desire to, and each party agrees that it shall, jointly with the other complete the Manual in a manner that is reasonably satisfactory to each party (i.e., neither party shall unreasonably withhold or delay consent to any requested additional provision of the Manual necessary or appropriate to implement this Agreement in accordance with the terms of this Agreement) as soon as reasonably possible after the Effective Date. The parties agree that the Manual shall not contradict any term, covenant or condition of this Agreement, except in the event of a written amendment executed by each of the parties hereto; provided, however, that with respect to proposed or actual changes in the Manual upon which the Agreement is silent and not otherwise in conflict, such Manual provision shall govern upon adoption in accordance with the terms of this Agreement and applicable law. Any proposed Manual change(s) after the Effective Date shall first be submitted to the JOC for its review and approval and, upon approval by the JOC, such change(s) shall be submitted to the EOC for its approval, upon which such change(s) shall be deemed final. Any disputes between the parties with respect to development of the Manual or any subsequent amendments to or implementation of the Manual shall be subject to the dispute resolution procedures of Section 9.4 (Dispute Resolution) and/or Section 4.2.3 (Informal Knox-Keene Dispute Resolution).

11.1.2 Compliance with Manual.

The parties recognize that many of the provisions of this Agreement need to be further detailed on an operational level. Such operational detail shall be set forth in the Manual as it exists on the Effective Date and as it may be changed from time to time, in all cases to be consistent with the provisions of this Agreement. In the event of any irreconcilable conflict between this Agreement and the Manual, the terms of this Agreement shall govern. The parties shall comply with the policies and procedures set forth in the Manual.

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11.1.3 Categories of Provisions.

The Manual will contain two (2) categories of operational detail (but need not be organized specifically as such if the parties agree on a different organizational scheme): (1) policies and procedures and other matters that are of general applicability to contracted hospitals, including utilization management, quality assessment, eligibility verification, Member Grievances, billing and credentialing ("Administration Matters"); and (2) those policies and procedures that by their nature can vary among the non-KFH hospitals with which KFH contracts, such as collection of utilization data and coordination of pre-surgery services ("Operations Matters").

11.1.4 Amendment.

(a) As to Administration Matters: KFH shall not make any Change to the Manual except (i) a Permissible Unilateral Change that is a Required Modification or (ii) with the prior written consent of PPH, which shall not be unreasonably withheld; provided that KFH may make a nonmaterial Permissible Unilateral Change to Administration Matters upon reasonable prior notice to PPH, the consent to which shall be deemed to have been given if such nonmaterial Permissible Unilateral Change has not been objected to by notice in writing from PPH to KFH given within forty-five (45) business days after KFH's notice of its intent to make such Change. Unless otherwise required by law or an accrediting agency, KFH shall give PPH forty-five (45) business days' prior written notice of any proposed Change to Administrative Matters in the Manual. The parties shall negotiate and mutually agree upon each Change to Administrative Matters in the Manual, except for (i) nonmaterial Permissible Unilateral Changes as to which PPH has not objected and (ii) Permissible Unilateral Changes that are Required Modifications. The parties shall meet and confer before any Required Modification is made.

As to Operations Matters: No Change to the Manual shall be made except with the prior written consent of PPH and KFH. KFH and PPH shall jointly participate in the development of policies and procedures relating to Operations Matters, taking into account each party's goal of consistency in operationalizing its own policies and procedures; provided that neither party shall be under any obligation to agree to any such Change. If one party, in good faith, views a particular Change as essential, it shall explain the rationale and benefits of the Change to the other party. The other party shall consider the proposed Change in good faith, and if in agreement therewith, shall implement the proposed Change to the extent feasible.

ARTICLE 12 - REPRESENTATIONS, WARRANTIES AND COVENANTS

12.1 PPH's Representations, Warranties and Covenants.

PPH represents and warrants, as of the Effective Date, and covenants that, except as set forth in Appendix 12.1 (Exceptions to PPH's Representations and Warranties):

12.1.1 Organization and Standing.

PPH is a California statutory health care district, pursuant to The Local Health Care District Law (California Health and Safety Code Sections 32000 *et seq.*) (hereafter the "District Law"). PPH possesses all licenses, permits, authorizations, franchises, certifications, accreditations, and rights and privileges necessary to the conduct of its business as it is now being conducted. PPH is not a party to, nor shall it enter into, any contract or agreement or voluntarily take or suffer any action, except one that is required by law or an accrediting agency, to be taken that would prevent or restrict the power or authority of PPH to enter into or perform this Agreement. This Agreement shall not result in a breach of any other agreement between PPH and any physician, physician group or contractor of PPH.