

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

**BOARD OF DIRECTORS
AGENDA PACKET**

November 12, 2007

*The mission of Palomar Pomerado Health
is to heal, comfort and promote health
in the communities we serve.*

A California Health Care District (Public Entity)

PALOMAR POMERADO HEALTH BOARD OF DIRECTORS

Marcelo R. Rivera, MD, Chairman
Bruce G. Krider, MA, Vice Chairman
Linda C. Greer, RN, Secretary
T. E. Kleiter, Treasurer
Nancy L. Bassett, RN, MBA
Alan W. Larson, MD

Michael H. Covert, President and CEO

*Regular meetings of the Board of Directors are usually held on the second Monday
of each month at 6:30 p.m., unless indicated otherwise
For an agenda, locations or further information
call (858) 675-5106, or visit our website at www.pph.org*

MISSION STATEMENT

*The Mission of Palomar Pomerado Health is to:
Heal, Comfort, Promote Health in the Communities we Serve*

VISION STATEMENT

*Palomar Pomerado Health will be the health system of choice for patients, physicians and employees,
recognized nationally for the highest quality of clinical care and access to comprehensive services*

CORE VALUES

Integrity

To be honest and ethical in all we do, regardless of consequences

Innovation and Creativity

To courageously seek and accept new challenges, take risks, and envision new and endless possibilities

Teamwork

To work together toward a common goal, while valuing our difference

Excellence

To continuously strive to meet the highest standards and to surpass all customer expectations

Compassion

*To treat our patients and their families with dignity, respect and empathy at all times and
to be considerate and respectful to colleagues*

Stewardship

To inspire commitment, accountability and a sense of common ownership by all individuals

Affiliated Entities

Escondido Surgery Center * Palomar Medical Center * Palomar Medical Auxiliary & Gift Shop * Palomar Continuing Care Center *
Palomar Pomerado Health Foundation * Palomar Pomerado Home Care * Pomerado Hospital * Pomerado Hospital Auxiliary & Gift Shop *
San Marcos Ambulatory Care Center * Ramona Radiology Center * VRC Gateway & Parkway Radiology Center * Villa Pomerado
• Palomar Pomerado Health Concern * Palomar Pomerado Health Source * Palomar Pomerado North County Health Development, Inc. *
• North San Diego County Health Facilities Financing Authority *

**PALOMAR POMERADO HEALTH
BOARD OF DIRECTORS
REGULAR MEETING AGENDA**

Monday, November 12, 2007

Commences 6:30 p.m.

**Pomerado Hospital
Meeting Room E
15615 Pomerado Road
Poway, California**

Mission and Vision

"The mission of Palomar Pomerado Health is to heal, comfort and promote health in the communities we serve."

"The vision of PPH is to be the health system of choice for patients, physicians and employees, recognized nationally for the highest quality of clinical care and access to comprehensive services."

		<u>Time</u>	<u>Page</u>
I.	CALL TO ORDER		
II.	OPENING CEREMONY	2 min	
	A. Pledge of Allegiance		
III.	OATH OF OFFICE	5	1-2
	- administered by Lori Holt Pfeiler Linda Bailey		
IV.	PUBLIC COMMENTS	5	
	<i>(5 mins allowed per speaker with cumulative total of 15 min per group – for further details & policy see Request for Public Comment notices available in meeting room).</i>		
V.	* MINUTES	2	
	Regular Board Meeting – October 8, 2007 <i>(separate cover)</i>		
	Special Board Annual P.I. Meeting – August 27, 2007 <i>(separate cover)</i>		
	Joint BOD/Strategic Planning Committee Meeting – October 16, 2007		3-7
VI.	* APPROVAL OF AGENDA to accept the Consent Items as listed	5	8-128
	A. Consolidated Financial Statements		
	B. Revolving Fund Transfers/Disbursements – September 2007		
	1. Accounts Payable Invoices	\$26,174,247.00	
	2. Net Payroll	<u>9,623,081.00</u>	
	Total	<u>\$35,797,328.00</u>	

"In observance of the ADA (Americans with Disabilities Act), please notify us at 858-675-5106, 48 hours prior to the meeting so that we may provide reasonable accommodations"

*Asterisks indicate anticipated action;
Action is not limited to those designated items.*

Regular Board Meeting Agenda, November 12, 2007

- C. Ratification of Paid Bills
- D. September 2007 & YTD FY 2008 Financial Report
- E. **PPH Outpatient Imaging Services**
- F. **Professional and Medical Director Services Agreements**
 - Valley Radiology Consultants Medical Group, Inc. – Services of Scott Olson, MD - Addendum to Add Endovascular Neurointerventional Radiology Services, PMC;
 - X-Ray Medical Group Radiation Oncology, Inc – Radiation Oncology Services – PMC (Nov 1, 2007 – Oct 31, 2010);
 - Children’s Specialists of San Diego, Inc. – Third Amendment for Neonatal Services – PMC and Pomerado Hospital (Nov 1, 2007 – Dec 31, 2010)
- G. **Medical Director Services Agreement**
 - X-Ray Medical Group Radiation Oncology, Inc – Services of Lori Coleman, MD – Breast Cancer (Sept 25, 2007 – Sept 24, 2008)
- H. **Physician Independent Contractor Agreements**
 - Aria Anvar, BS, MD, MBA – Information Systems Services (Apr 1, 2007 – Mar 31, 2008);
 - Cerner Physician Advisory Council (CPAC) – Cerner Optimization (May 3, 2007 – May 2, 2008);
 - Marc Gipsman, MD, and Rick Engel, MD – DocuSys (Sept 1, 2007 – Aug 31, 2008)
- I. **Administrative Services Agreement**
 - William S. Samuel, MD – Quality & Clinical Effectiveness Dept & Stroke Unit – PMC (Jun 14, 2007 – Jun 14, 2008, with one-year renewal option)
- J. **Acceptance of Diversity Commitment Statement (per Aug 21 HR Committee)**

VII. PRESENTATIONS (None)

VIII. REPORTS

- A. **Medical Staffs** 15
 - * 1. Palomar Medical Center – *John J. Lilley, M.D., Chief of Staff.*
 - a. Credentialing/Reappointments 129-140
 - * 2. Escondido Surgery Center – *Marvin W. Levenson, M.D.*
 - a. Credentialing/Reappointments 141
 - * 3. Pomerado Hospital – *Franklin M. Martin, M.D., for Benjamin Kanter, M.D.*
 - a. Credentialing/Reappointments 142-143
 - b. **Acknowledgements & Presentations to Pomerado Hospital Medical Staff – Oct 2007 Firestorms** – *Steve Gold*

*Asterisks indicate anticipated action;
Action is not limited to those designated items.*

Regular Board Meeting Agenda, November 12, 2007

B. Administrative

1. Chairman of Palomar Pomerado Health Foundation – Al Stehly
 - a. Update on PPHF Activities 5 Verbal Report
2. Chairman of the Board – Marcelo R. Rivera, M.D. 10 Verbal Report
 - a. Service Award Pin 144
Linda Bailey – Assuming Office
following Board Appointment Nov 1, 2007
 - b. Brief Overview of Board Appointment outcome
 - c. October, 2007 Firestorms
 - d. Joint Conference Committee Update Oct 15
 - e. * **Resolution No. 11.12.07 (01) – 13** 145-146
Amending Established Dates of Regular Board Meetings
For Calendar Year 2007 (from Dec 10 to Dec 17, 2007)
3. President and CEO – Michael H. Covert, FACHE 10 Verbal Report
 - a. October, 2007 Firestorms – Acknowledgements to Staff,
Employees, Medical Staffs, Auxiliaries, and Emergency
Services
 - b. CAO Pomerado Interviews Update
 - c. Physicians’ Gala

IX. **INFORMATION ITEMS** (Discussion by exception only) 147-196

- | | |
|---|------------------------------|
| A. Review of HR Policies 04 and 05 | Human Resources |
| B. Presentation by Customer Relationship Management | Community Relations |
| C. Campus Marketing Update | Community Relations |
| D. Media Relations Update | Community Relations |
| E. Branding Update | Community Relations |
| F. Monthly Reports August and September, 2007 | Community Relations |
| G. Facility Update | Joint BOD/Strategic Planning |
| H. Strategic Plan | Joint BOD/Strategic Planning |

X. **COMMITTEE REPORTS** -

- A. Finance Committee – Director T. E. Kleiter, Chair 15
 - * 1. **Approval: Updated Financial and Capital Plan, and Resolution No. 11.12.07 (02) – 14 Authorizing Issuance of Not to Exceed \$250,000,000 Aggregate Principal Amount of PPH G.O. Bonds Election of 2004 and taking of all other actions in connection with the Issuance and Sale of said Bonds** 197-207
(& ADDENDUMS A1 & A2-- separate packet)

*Asterisks indicate anticipated action;
Action is not limited to those designated items.*

- * 2. **Approval: Joint Venture Agreement between PPH and Trilogy Joint Venture, LLC, with US Radiosurgery** 208-330
- * 3. **Approval: Resolution No. 11.12.07 (03) – 15 Adopting Authorized Signatories, by Title, for all PPH Bank and Investment Accounts *except* the Auxiliary and Health Development Bank Accounts and the G.O. Bond and Citracado Road Public Benefit Development Investment Accounts** 331-339
- * 4. **Approval: Resolution No. 11.12.07 (04) – 16 Adopting Authorized Individuals and Enabling Resolutions for a Metropolitan Life Insurance Company Deposit Account with JP Morgan Chase Manhattan Bank** 340-342
- * 5. **Approval: Resolution No. 11.12.07 (05) – 17 Directing PPH’s Officers, Acting on Behalf of 343 E. 2nd Avenue Investors Ltd (“343, Ltd.”) to Formally Transfer Title of Partnership Assets to PPH and to Formally Dissolve “343, Ltd.”** 343-344
- * 6. **Approval: Resolution No. 11.12.07 (06) – 18 Authorizing the Acquisition of the Property and Building located at 451 E. Valley Parkway, Escondido, CA subject to the Final Acceptance of the Standard Offer and Agreement and Completion of Due Diligence** 345-356

XI. BOARD MEMBER COMMENTS/AGENDA ITEMS FOR NEXT MONTH

XII. ADJOURNMENT

*Asterisks indicate anticipated action;
Action is not limited to those designated items.*

OATH OF OFFICE

TO: Board of Directors

DATE: November 12, 2007

FROM: Michael Covert, CEO

BY: Christine Meaney for Michael Covert

BACKGROUND:

As a result of a vacancy existing on the Board of Directors of Palomar Pomerado Health following the resignation of Mr. Gary L. Powers effective October 1, 2007, a special board meeting was held September 17, 2007 at which it was unanimously agreed to provide for a board appointment and legally noticed search within the 60-day timeframe, and not hold a special election. Following a further special board meeting held November 1, 2007 during which interviews of candidates were conducted, candidate Ms Linda Bailey, was unanimously appointed to the Board.

An Oath of Office will be taken by Ms Linda Bailey at which time she will take her seat on the Board.

PALOMAR POMERADO HEALTH

OATH OF OFFICE

*(Chapter 8, Division 4, Title 1, Government Code
and Section 3, Article XX, California Constitution)*

I, **Linda Bailey**, do solemnly swear or affirm that I will support and defend the Constitution of the United States and of the State of California against all enemies, foreign and domestic; that I will bear true faith and allegiance to the Constitution of the United States and the Constitution of the State of California; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties upon which I am about to enter; to wit:

**Member of the Board of Directors of
Palomar Pomerado Health**

And I do further swear or affirm that I do not advocate, nor am I a member of any party or organization, political or otherwise, that now advocates the overthrow of the Government of the United States or of the State of California by force or violence or other unlawful means; that within the five years immediately preceding the taking of this oath or affirmation I have not been a member of any party or organization, political or otherwise, that advocated the overthrow of the Government of the United States or of the State of California by force or violence or other unlawful means and that during such time as I hold the office of Member of the Board of Directors of Palomar Pomerado Health, I will not advocate nor become a member of any party or organization, political or otherwise, that advocates the overthrow of the Government of the United States or of the State of California by force or violence or other unlawful means.

Signature

Date

**Palomar Pomerado Health
JOINT BOD/STRATEGIC PLANNING COMMITTEE
POMERADO HOSPITAL**

October 16, 2007

AGENDA ITEM	DISCUSSION	CONCLUSION/ ACTION	FOLLOW-UP/ RESPONSIBLE PARTY
CALL TO ORDER	Dr. Larson called the PPH Board meeting to order at 6:35 p.m. There were no requests for public comments.		
ESTABLISHMENT OF QUORUM	Dr. Larson, Dr. Rivera, Nancy Bassett, RN, Linda Greer, RN, Ted Kleiter, Michael Covert and Dr. Kanter. Also attending were Gerald Bracht, Steve Gold, Bob Hemker, Marcia Jackson, Lorie Shoemaker and Dr. Martin. Guests: Mike Shanahan, George Gigliotti, Dr. Macleay, Natalie Bennett, Steve Yerxa, Joe Hook, Greg Palmer, Jose Garcia, Mike Samudio.		
NOTICE OF MEETING	The notice of meeting was mailed consistent with legal requirements.		
APPROVAL OF MINUTES – September 18, 2007		Motion by Nancy Bassett, seconded by Linda Greer, and carried unanimously for approval.	

AGENDA ITEM	DISCUSSION	CONCLUSION/ ACTION	FOLLOW-UP/ RESPONSIBLE PARTY
<p>FACILITY MASTER PLAN UPDATE</p>	<p>This agenda item consisted of a periodic Facility Master Plan update.</p> <p>Mike Shanahan and Mike Samudio from Rudolph and Sletten presented an update on the PMC West campus. The team made several jobsite tours to gain lessons learned from other project to help us prepare for our project. Grading has begun on the site. Over the next three months activities include the following:</p> <ul style="list-style-type: none"> • Activities through 2007 <ul style="list-style-type: none"> - Rock crushing, blasting of rock - Selection of concrete contractor - Detailing for foundations (reinforcing steel, rock anchors and anchor bolts) - Steel mill order - Complete hospital basement excavation - MEP systems fully coordinated in BIM model (Basement through Level 3) <p>Basement excavation is the critical path at this time. We have to excavate about 23 feet.</p> <p>For the Pomerado update Mike and Mike presented that the Phase 1 work is 98% complete. Current efforts include the installation of new utility upgrades, off-site improvements at Twin Peaks and Camino del Norte and relocation of the helistop. The bridge connection from the parking structure is a top priority at POM to establish an easy access through the rear entrance prior to closing the front entrance. Activities for the next three months at Pomerado are:</p> <ul style="list-style-type: none"> • Activities through 2007 <ul style="list-style-type: none"> - Relocation of underground utilities for New Patient Tower - MEP systems fully coordinated in BIM model for initial OSHPD submission - Exterior building envelope will be detailed for initial OSHPD submission 		

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AGENDA ITEM	DISCUSSION	CONCLUSION/ ACTION	FOLLOW-UP/ RESPONSIBLE PARTY
	<p>Mike and Mike also presented a cost summary of the Facilities Master Plan from July 2004 through July 2007.</p> <p>Mike Shanahan and Joe Mascari from Childs, Warner Mascari Architects presented the design of the Ramona facility. The design provides for a 40,000 square foot building. The architects have carefully considered an architectural design that respects the heritage of Ramona and also conveys a modern, future-oriented health care facility.</p> <p>Mike presented a timeline for the entitlement process for Rancho Peñasquitos:</p> <ul style="list-style-type: none"> • Resubmit back to City of San Diego – 11/07 • Planning group meeting – 3/08 • Planning commission – 5/08 • City Council – 6/08 <p>We have initiated the developer selection process for Rancho Peñasquitos and Ramona, with the following estimated timeline:</p> <ul style="list-style-type: none"> • Release RFQ for development services – 10/07 • Level 1 response to PPH – 11/07 • Short listed developer interviews – 12/07 • Developer selection and award – 1/08 <p>Mike and Joe next presented the design proposed for the PMC East campus. Rebirth is the theme for the campus design. They have attempted to better connect the hospital campus with Grand Avenue.</p> <p>With developers it is felt that there will be significant opportunity for housing and retail to become part of the campus. Also there is a focus on wellness programs and services.</p> <p>Dr. Larson was very complimentary towards the PMC East design. He suggested we connect with Palomar College about joint health education development given their recent bond passage and their plans</p>		

AGENDA ITEM	DISCUSSION	CONCLUSION/ ACTION	FOLLOW-UP/ RESPONSIBLE PARTY
	<p>for expansion.</p> <p>There was a question about the gardens with the water shortages in our area. Our landscape is predominantly drought resistant.</p> <p>Ted Kleiter expressed that he felt the design and plans reflect a great revitalization for the downtown campus.</p>		
<p>STRATEGIC PLAN</p>	<p>The draft Strategic Plan had been presented and discussed at the August Strategic Planning Committee meeting. Marcia was asked to follow-up individually with Board members not on the committee to discuss their input and questions, which was done. The Strategic Plan was an agenda item for this meeting to seek Board approval of the plan. The Board and Committee members were asked for any additional comments or questions. Ted Kleiter suggested that the Workforce Development efforts should address the people leaving the military who could become health care providers. In particular he noted that corpsman are not licensed in California, but they have excellent training. Lorie Shoemaker stated that they do qualify for an LVN with minimal additional requirements. Then they can take the necessary steps to move from an LVN to and RN. Marcia Jackson noted that the Health Care Workforce Training Network diagram on page 27 of the plan does depict a pathway for individuals with military training to flow into a health care career. So, this issue has been noted; however, there are no specific efforts underway currently.</p>	<p>Marcia Jackson will share the input on military personnel with Wallie George and Brad Wiscons.</p> <p>Nancy Bassett made a motion to approve the PPH Strategic Plan. Ted Kleiter seconded the motion. The Plan was approved unanimously.</p>	<p>Marcia Jackson</p>
<p>COMMITTEE COMMENTS, SUGGESTIONS</p>	<p>There were no additional Committee comments or suggestions.</p>		
<p>ADJOURNMENT</p>	<p>7:55 p.m.</p>		

AGENDA ITEM	DISCUSSION	CONCLUSION/ ACTION	FOLLOW-UP/ RESPONSIBLE PARTY
SIGNATURES Board Chairperson Committee Chairperson Recording Secretary	<u>Marcelo Rivera, M.D., Board Chair</u> <u>Alan Larson, M.D., Committee Chair</u> <u>Marcia Jackson</u>		

**PALOMAR POMERADO HEALTH
CONSOLIDATED DISBURSEMENTS
FOR THE MONTH OF
SEPTEMBER 2007**

09/01/07	TO	09/30/07	ACCOUNTS PAYABLE INVOICES	\$26,174,247.00
09/07/07	TO	09/21/07	NET PAYROLL	<u>\$9,623,081.00</u>
				\$35,797,328.00

I hereby state that this is an accurate and total listing of all accounts payable, patient refund and payroll fund disbursements by date and type since the last approval.



CHIEF FINANCIAL OFFICER

APPROVAL OF REVOLVING, PATIENT REFUND AND PAYROLL FUND DISBURSEMENTS:

Treasurer, Board of Directors PPH _____

Secretary, Board of Directors PPH _____

This approved document is to be attached to the last revolving fund disbursement page of the applicable financial month for future audit review.

cc: M. Covert, G. Bracht, R. Hemker

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September 2007 & YTD FY2008 Financial Report

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: Robert Hemker, CFO

Background: The Board Financial Reports (unaudited) for September 2007 and YTD FY2008 are submitted for the Board's approval.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the Board Financial Reports (unaudited) for September 2007 and YTD FY2008.

Motion: X

Individual Action:

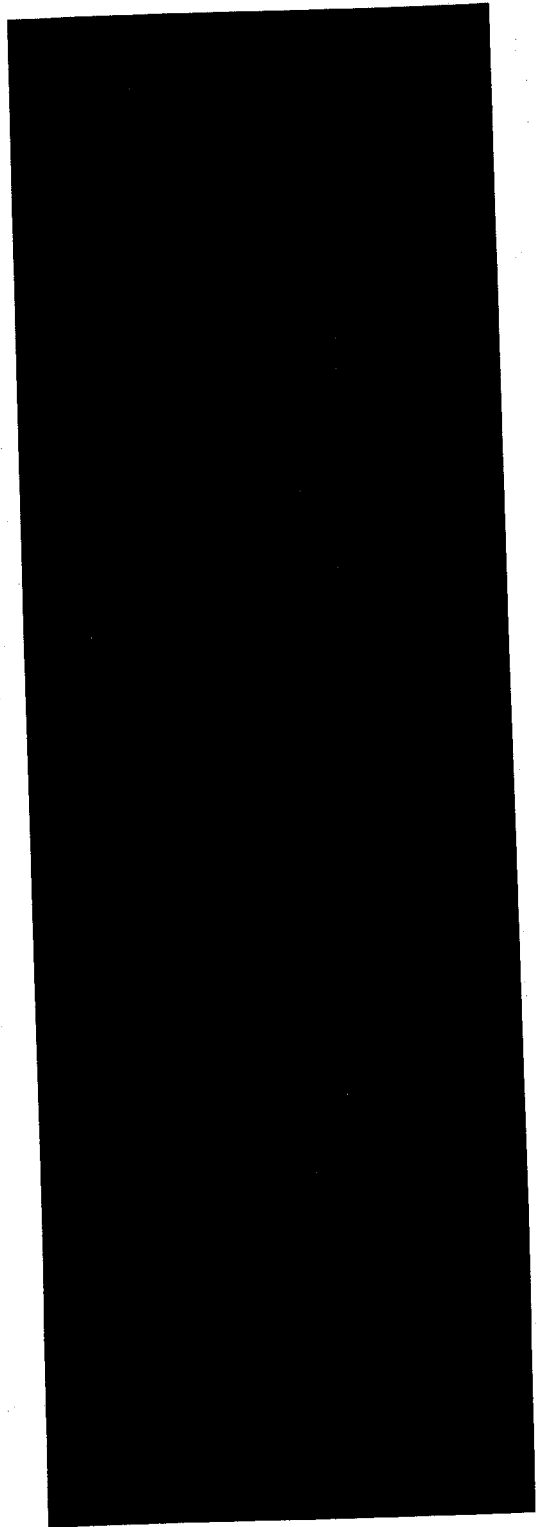
Information:

Required Time:

Financial Statements

September 2007

PALOMAR
POMERADO
HEALTH
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Board Financial Report

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September 2007 Financial Results Executive Summary and Highlights

Statistics:

	Aug	Sep	Aug vs Sep % Change	Sep Budget	Act vs Bud % Variance
CONSOLIDATED					
Patient Days Acute	9,910	9,617	-3.0%	9,352	2.8%
Patient Days SNF	6,703	6,262	-6.6%	6,335	-1.2%
ADC Acute	319.67	320.57	0.3%	311.74	2.8%
ADC SNF	216.23	208.73	-3.5%	211.17	-1.2%
Surgeries CVS Cases	8	15	87.5%	12	25.0%
Surgeries Total	1,097	982	-10.5%	953	3.0%
Number of Births	472	511	8.3%	451	13.3%
NORTH					
Patient Days Acute	7,255	7,205	-0.7%	7,061	2.0%
Patient Days SNF	2,843	2,564	-9.8%	2,632	-2.6%
ADC Acute	234.02	240.19	2.6%	235.37	2.0%
ADC SNF	91.71	85.47	-6.8%	87.73	-2.6%
SOUTH					
Patient Days Acute	2,655	2,412	-9.2%	2,291	5.3%
Patient Days SNF	3,860	3,698	-4.2%	3,703	-0.1%
ADC Acute	85.65	80.39	-6.1%	76.36	5.3%
ADC SNF	124.52	123.27	-1.0%	123.43	-0.1%

September 2007 Financial Results Executive Summary and Highlights (cont'd)

Balance Sheet:

Current Cash & Cash Equivalents increased \$22.8 million from \$45.4 million in August to \$68.2 million in September. This increase is due to a reclass of funds from Board Designated Non-Current Asset. Total Cash and Investments are \$95.3 million, compared to \$92.4 million at August 31, 2007. Days Cash on Hand went from 91 days in August to 85 days in September.

Net Accounts Receivable increased to \$88.8 million in September as compared to \$84.3 million in August. Gross A/R days decreased from 51.3 days in August to 51.2 days in September. September patient account collections including capitation are \$30.0 million compared to budget of \$33.1 million. September YTD collections are \$93.8 million compared to budget of \$99.3 million.

Construction in Progress increased \$13.9 million from \$132.1 million in August to \$146.0 million in September. The increase is attributed to Building Expansion A & E Services and construction costs \$9.0 million, Pomerado Outpatient Pavilion tenant improvements \$2.0 and Pomerado Phase I construction costs \$0.6 million.

Other Current Liabilities decreased \$1.6 million from \$23.9 million to \$22.3 million primarily due to the realization of Deferred Property Tax Revenue of \$1.1 million in September. The Foundation's liability decreased \$397 thousand due to a transfer of funds to PPH primarily for the purchase of capital equipment.

September 2007 Financial Results Executive Summary and Highlights (cont'd)

Income Statement:

Gross Patient Revenue for YTD reflects a favorable budget variance of \$10.0 million. This favorable variance is composed of \$2.5 million favorable volume variance and \$7.5 million favorable rate variance.

Routine revenue (inpatient room and board) reflects an unfavorable \$0.4 million budget variance.

Inpatient Ancillary revenue represents a \$5.4 million favorable budget variance. North reflects \$2.7 million favorable variance and South reflects \$2.7 favorable variance. The favorable variance is primarily due to the Surgery and Cat Scanner departments.

Outpatient revenue reflects a favorable budget variance of \$5.0 million. North has a \$5.6 million favorable variance. This amount is decreased by South \$0.1 million unfavorable variance and Outreach \$0.5 million unfavorable variance.

Deductions from Revenue reflect a YTD unfavorable variance of \$10.0 million. Total Deductions from Revenue is 70.22% of gross revenue compared to a budget of 69.38%. Deductions from Revenue (excluding Bad Debt/Charity/Undocumented expenses) is 65.92% of YTD Gross Revenue compared to budget of 65.03%.

September 2007 Financial Results Executive Summary and Highlights (cont'd)

Income Statement (cont'd):

The net capitation reflects a YTD favorable budget variance of \$0.5 million. Cap Premium has \$2.9 million favorable budget variance and Network Claim Expense has a \$0.5 million favorable budget variance. Both are due to retro 2006 premium adjustment. Cap Valuation shows an unfavorable variance of \$2.9 million due to using bill drop date instead of discharge date.

Other Operating Revenue reflects a YTD unfavorable budget variance of \$1.4 million. The most significant contributor to this variance is the Foundation where actual revenue is zero versus a budget of \$885 thousand. After the budget was prepared, a change in procedure was initiated to credit the Foundation's expenses instead of crediting revenue for funding requests. Therefore, the offset to this revenue loss is a reduction to expenses. This variance will be ongoing throughout the year. PPNC Health Development has a YTD unfavorable variance of \$320 thousand. Also contributing to this variance is the Grant program for Welcome Home Baby and Home Health Outreach where the YTD variances are unfavorable by \$319 thousand and \$197 thousand, respectively.

Salaries, Wages & Contract Labor has a YTD favorable budget variance of \$0.5 million. The breakdown is as follows:

	YTD Actual	YTD Budget	Variance
Consolidated	49,100,668	49,599,099	498,431
North	28,373,923	28,656,159	282,236
South	11,913,206	11,602,126	(311,080)
Central	6,477,542	6,801,827	324,285
Outreach	2,335,997	2,538,987	202,990

September 2007 Financial Results Executive Summary and Highlights (cont'd)

Income Statement (cont'd):

Benefits Expense has a YTD unfavorable budget variance of \$427 thousand. This variance is due to various categories. They are: Health and Dental – unfavorable by \$367 thousand; FICA – unfavorable by \$354 thousand and Workers Compensation – unfavorable by \$70 thousand. These are partially offset by a favorable variance in Other Benefits of \$334 thousand.

Supplies Expense reflects a YTD favorable budget variance of \$38 thousand. This favorable variance is composed of a \$411 thousand favorable volume variance and \$373 thousand unfavorable rate variance. The favorable variance is pharmacy at \$261 thousand. The unfavorable variance is comprised of other medical at \$125 thousand, and surgical general at \$98 thousand.

Prof Fees & Purchased Services reflect a YTD favorable budget variance of \$0.9 million. The favorable variance of \$0.9 million in professional fees is due to physician income guarantees not realized and consulting fees in both Design/Facility and Welcome Home Baby.

Non-Operating Income reflects a YTD favorable variance of \$1.4 million. This is due to a favorable investment income variance of \$1.1 million. Interest expense is also favorable by \$0.2 million.

Ratios & Margins:

All required bond covenant ratios were achieved in September 2007.

Balanced Scorecard Financial Indicators September 30, 2007

		YTD 2008				
		Actual	Budget	Variance	% Actual to Budget	Prior Year Actual
June	July	August	September			
Actual	Actual	Actual	Actual	Budget / PY	Variance	% Actual to Budget
-9.0%	10.1%	8.6%	10.1%	9.7%	0.4%	99.0%
\$2,032.80	\$2,720.58	\$2,613.59	\$2,665.13	\$2,728.97	\$ 63.84	2,481.09
\$1,120.05	\$1,618.11	\$1,516.53	\$1,566.15	\$1,580.16	\$ 14.01	1,465.30
6.00	6.65	6.29	6.41	6.63	0.22	6.06
12,994	12,587	13,756	13,284	12,568	716	38,235
PPH Indicators:						
OEBITDA Margin w/Prop Tax						
Expenses/Mtd Day						
SWB/Mtd Day						
Prod FTE's/Adj Occupied Bed						
Weighted Patient Days						
PPH North Indicators:						
OEBITDA Margin w/Prop Tax						
Expenses/Mtd Day						
SWB/Mtd Day						
Prod FTE's/Adj Occupied Bed						
Weighted Patient Days						
PPH South Indicators:						
OEBITDA Margin w/Prop Tax						
Expenses/Mtd Day						
SWB/Mtd Day						
Prod FTE's/Adj Occupied Bed						
Weighted Patient Days						

Weighted Patient Days is compared with Prior Year Actual

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Admissions - Acute

PALOMAR
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3,000

2,500

2,000

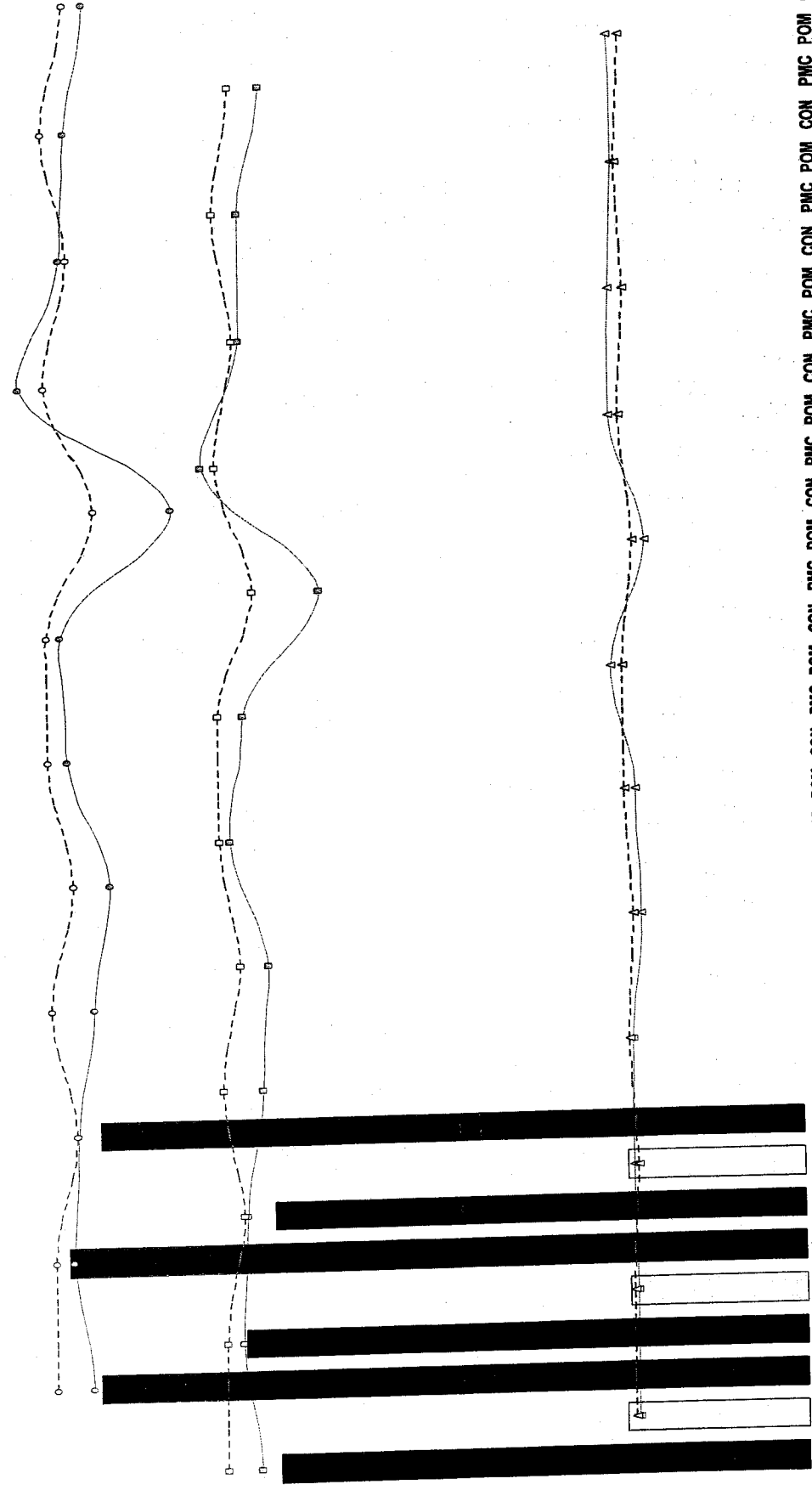
1,500

1,000

500

9

FISCAL YEAR 2008



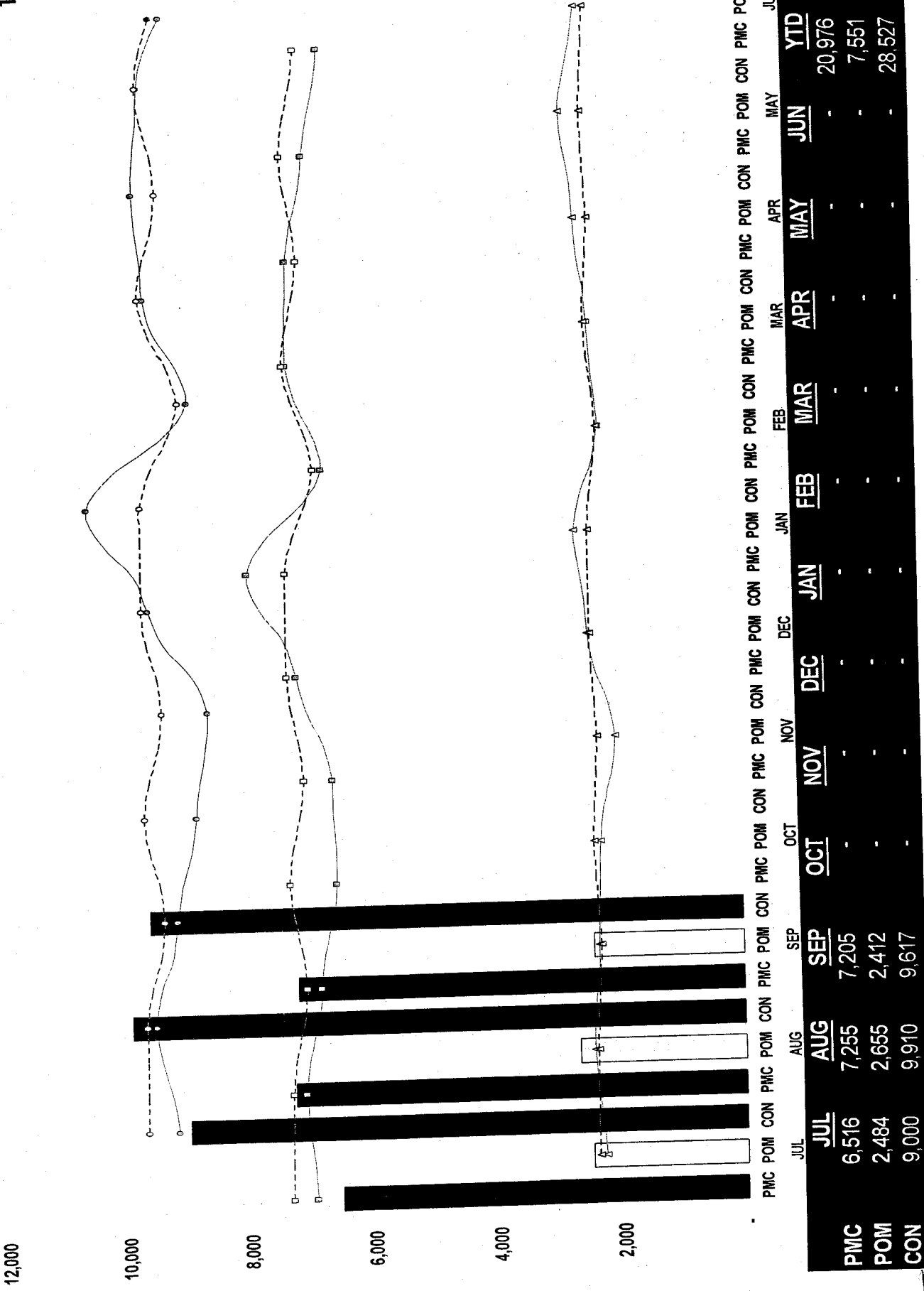
	FY												YTD	Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN			JUN
PMC	1,770	1,885	1,777	-	-	-	-	-	-	-	-	-	-	5,432	5,781
POM	608	595	592	-	-	-	-	-	-	-	-	-	-	1,795	1,716
CON	2,378	2,480	2,369	-	-	-	-	-	-	-	-	-	-	7,227	7,497

18

Patient Days - Acute

PALOMAR
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10 FISCAL YEAR 2008

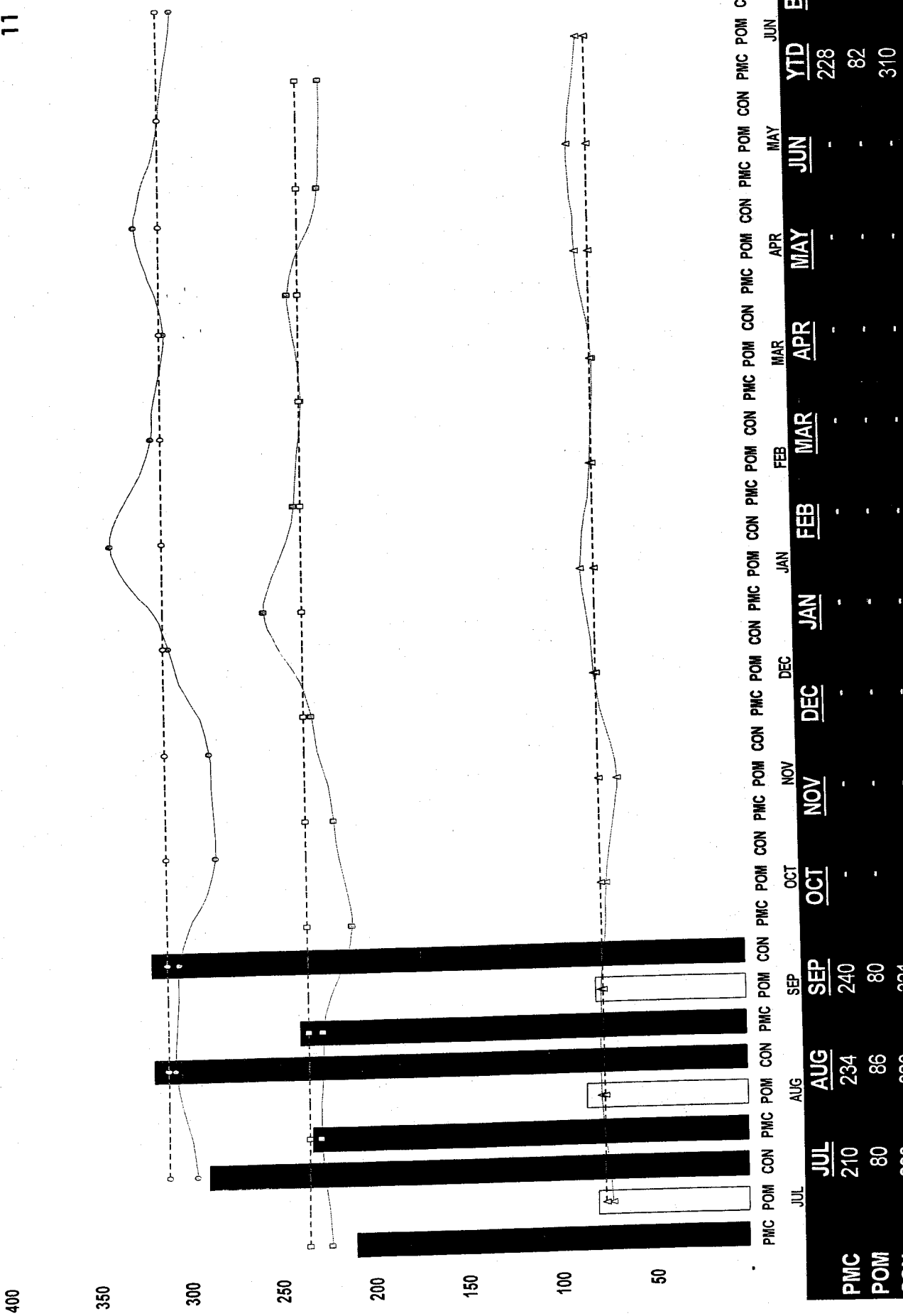


Average Daily Census - Acute

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

11

FISCAL YEAR 2008



Patient Days

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

12

F I S C A L Y E A R 2 0 0 8

JUN -
MAY -
APR -
MAR -
FEB -
JAN -
DEC -
NOV -
OCT -

SEP	414	750	1,104	833	2,169	206	1,003	489	856
AUG	461	793	1,123	900	2,451	174	930	512	775
JUL	371	732	949	731	2,186	205	983	425	856

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	Bud YTD
PMICU	6,516	7,255	7,205	-	-	-	-	-	-	-	-	-	20,976	21,657
POM	2,484	2,655	2,412	-	-	-	-	-	-	-	-	-	7,551	7,027
CON	9,000	9,910	9,617	-	-	-	-	-	-	-	-	-	28,527	28,684

10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000

REHAB ACUTE
LDR
PDS
TZ SURG
MED SURG
SURG-ORTHO
MED-ONCO
NICU
TELEMETRY
ICU/CCU

10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000

REHAB ACUTE
LDR
PDS
TZ SURG
MED SURG
SURG-ORTHO
MED-ONCO
NICU
TELEMETRY
ICU/CCU

10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000

REHAB ACUTE
LDR
PDS
TZ SURG
MED SURG
SURG-ORTHO
MED-ONCO
NICU
TELEMETRY
ICU/CCU

10,000
9,000
8,000
7,000
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1,000

REHAB ACUTE
LDR
PDS
TZ SURG
MED SURG
SURG-ORTHO
MED-ONCO
NICU
TELEMETRY
ICU/CCU

10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000

REHAB ACUTE
LDR
PDS
TZ SURG
MED SURG
SURG-ORTHO
MED-ONCO
NICU
TELEMETRY
ICU/CCU

Surgeries (In-Patient)

PALOMAR
POMERADO
HEALTH
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800

700

600

500

400

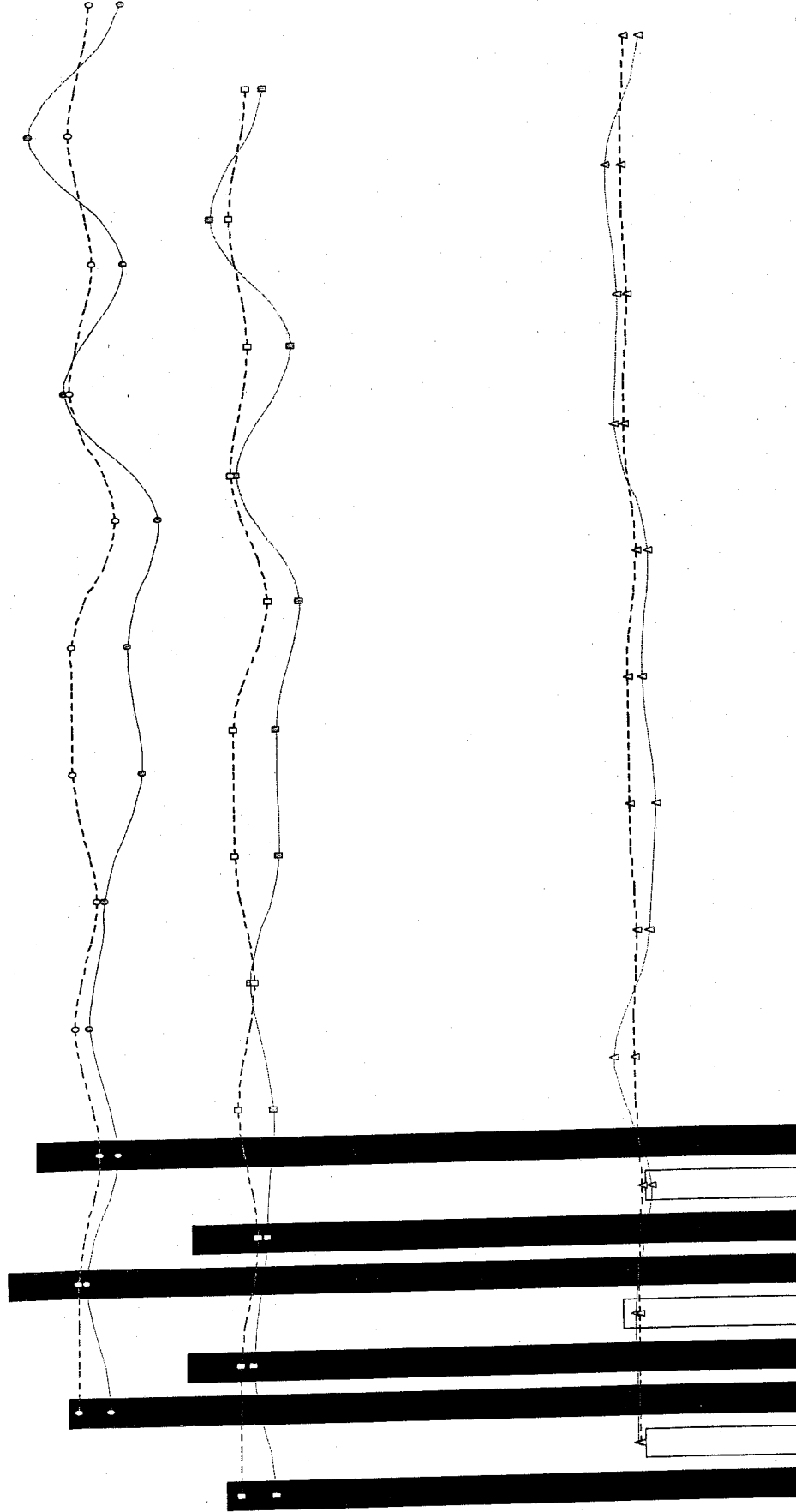
300

200

100

13

FISCAL YEAR 2008



	FY												Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		YTD
PMC	516	552	547	-	-	-	-	-	-	-	-	-	1,615	1,490
POM	143	163	140	-	-	-	-	-	-	-	-	-	446	439
CON	659	715	687	-	-	-	-	-	-	-	-	-	2,061	1,929

Surgeries (Out-Patient)

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

450

400

350

300

250

200

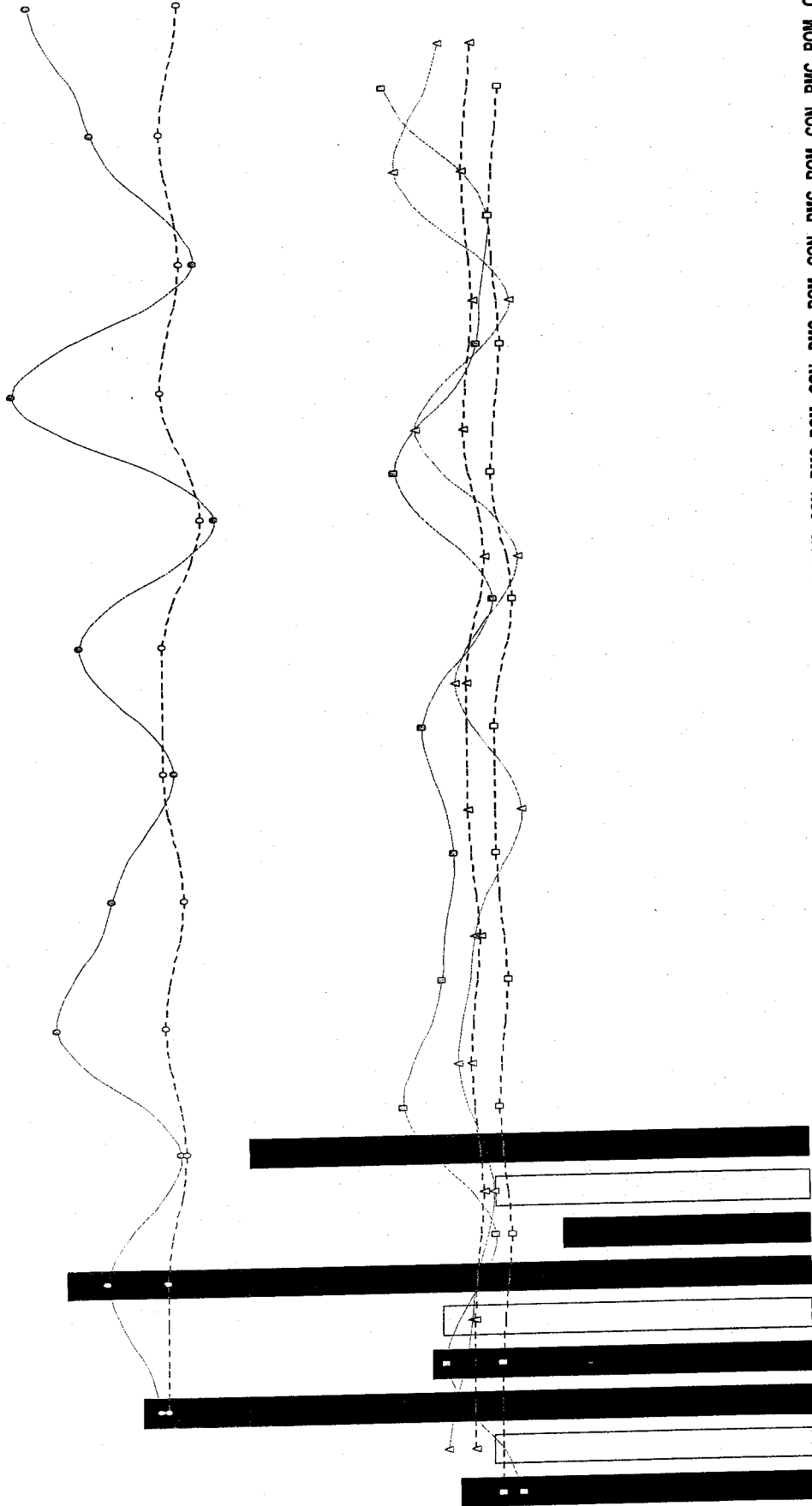
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100

50

14

FISCAL YEAR 2008



PY	FISCAL YEAR 2008												YTD	Bud YTD
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		
PMIC	176	190	123	-	-	-	-	-	-	-	-	-	489	457
POM	159	184	157	-	-	-	-	-	-	-	-	-	500	499
CON	335	374	280	-	-	-	-	-	-	-	-	-	989	956

Surgeries - CVS (PMC)

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

18

16

14

12

10

8

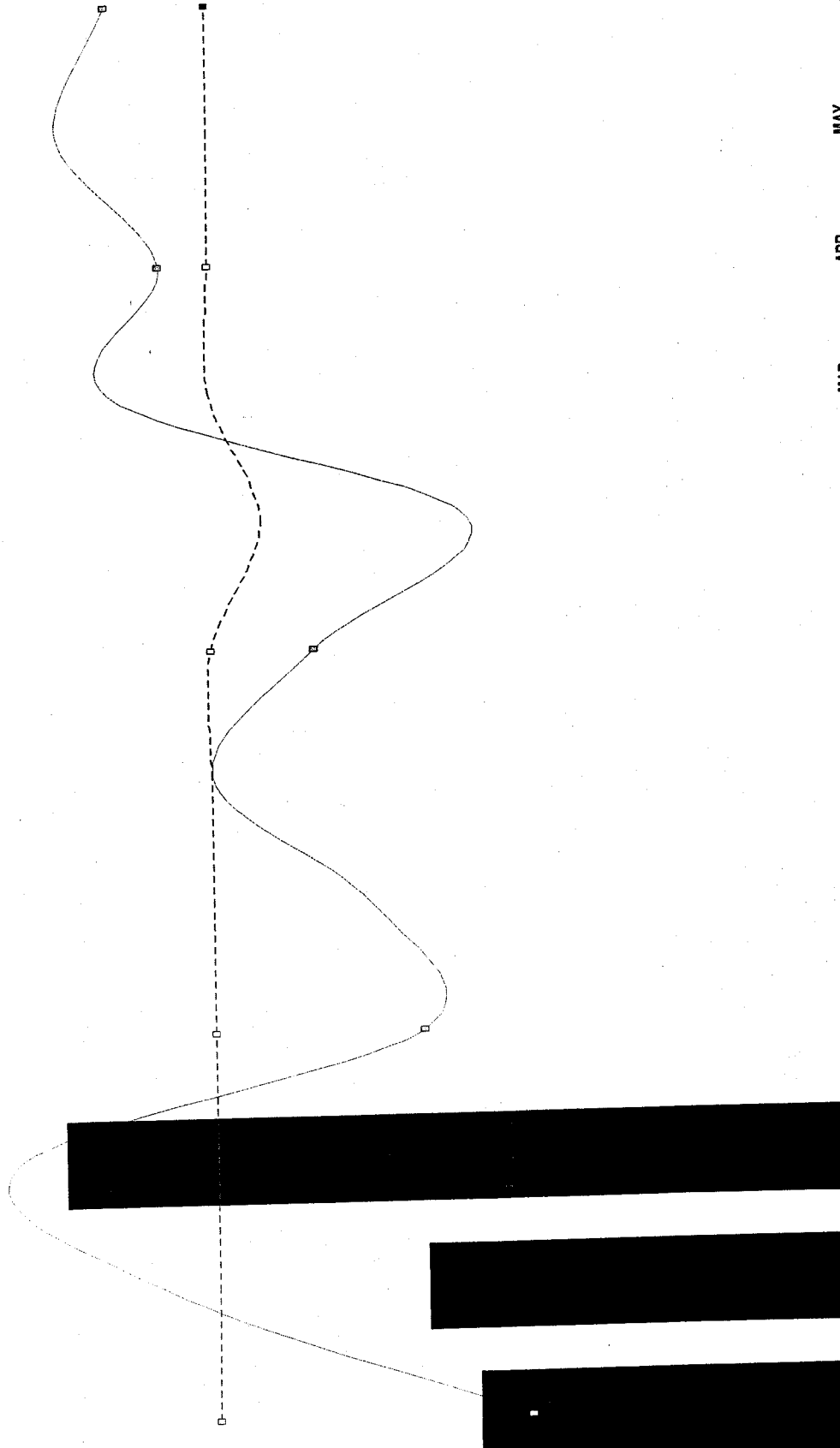
6

4

2

15

FISCAL YEAR 2008



	FY													
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUN	
PMC	7	8	15	-	-	-	-	-	-	-	-	-	30	36
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	7	8	15	-	-	-	-	-	-	-	-	-	30	36

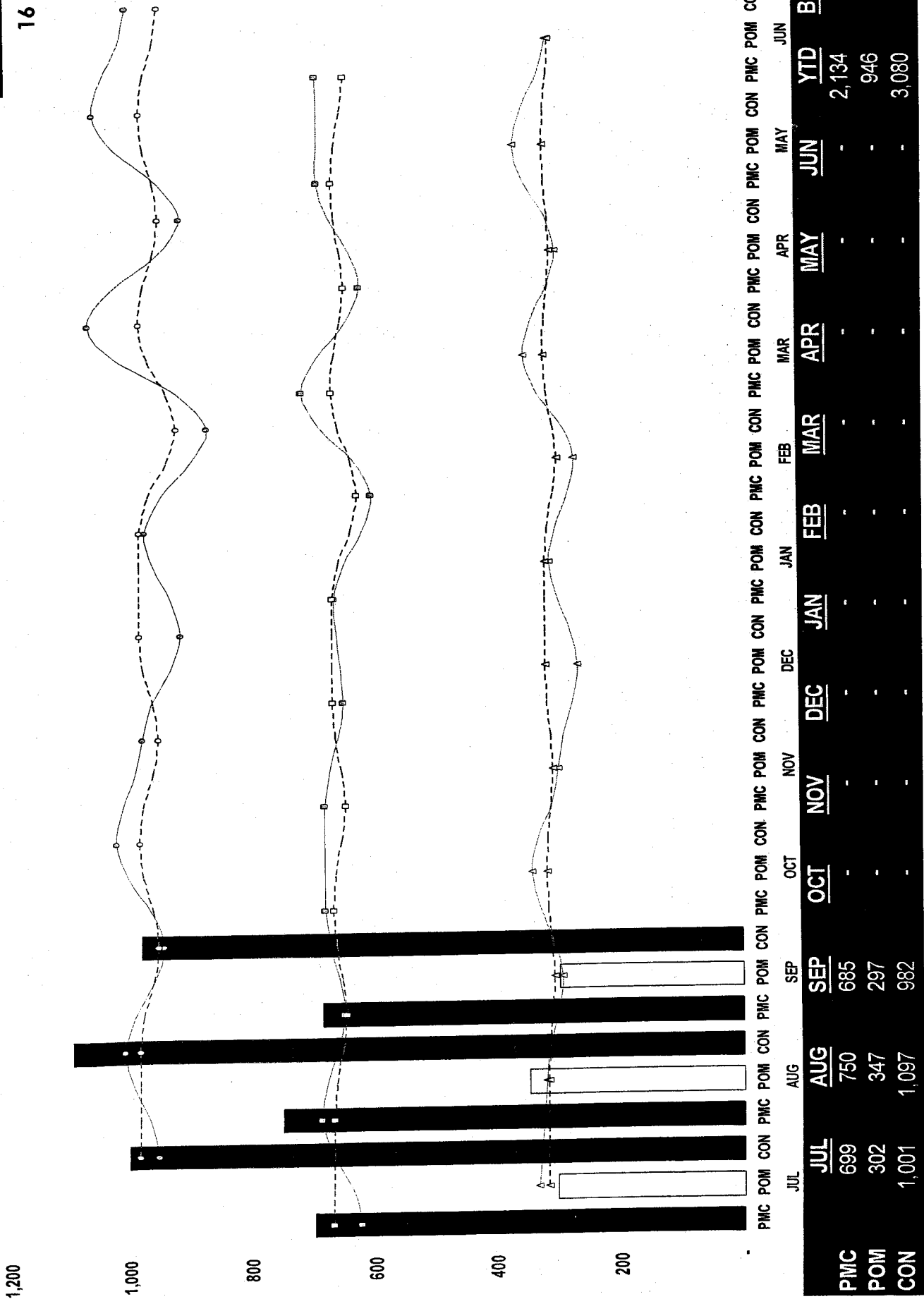
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Total Surgeries

PALOMAR
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HEALTH
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16

FISCAL YEAR 2008

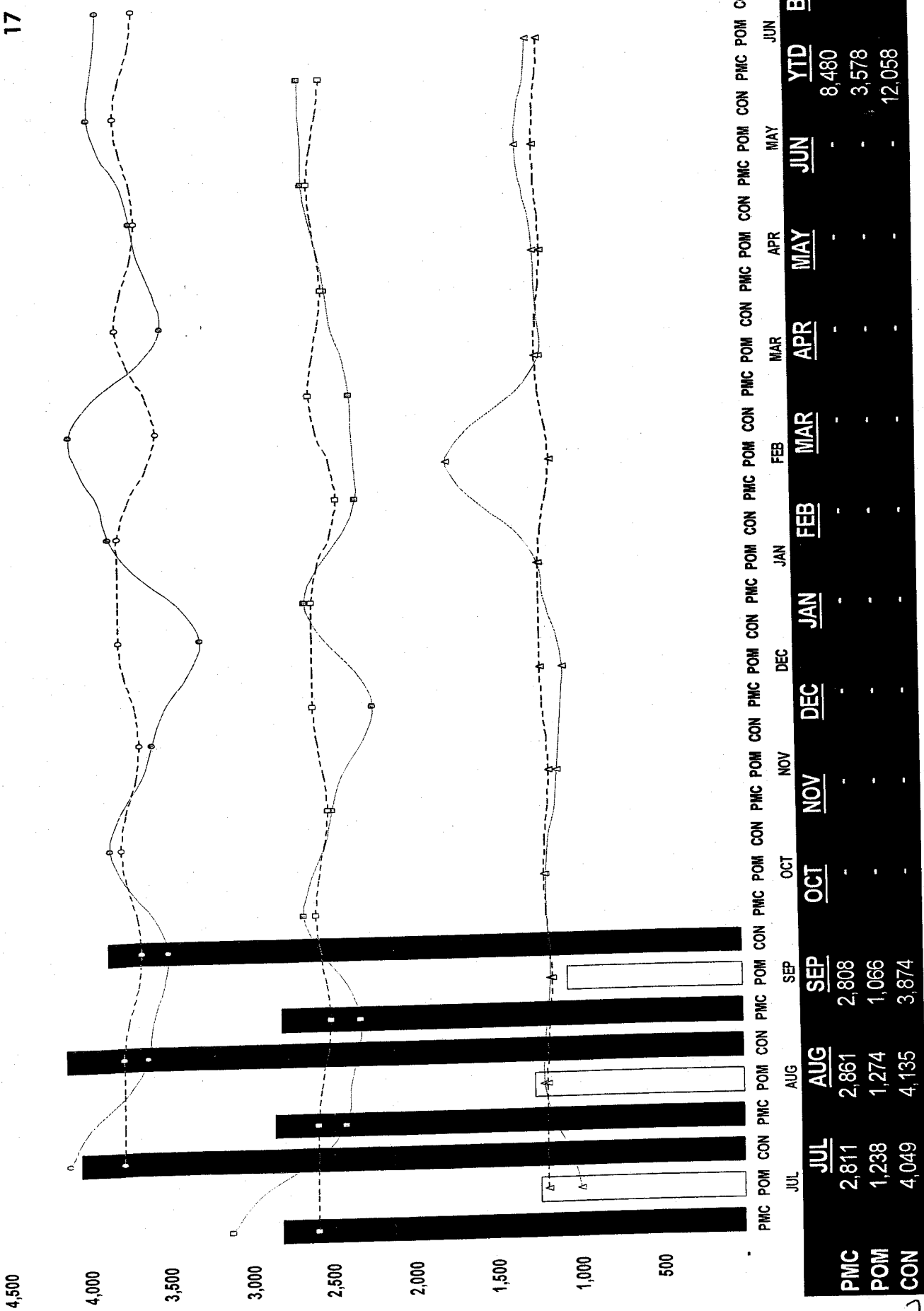


Outpatient Registration

PALOMAR
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17

FISCAL YEAR 2008



21

ER Visits includes Trauma

PALOMAR
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HEALTH
SPECIALIZING IN YOU

18

FISCAL YEAR 2008

7,000

6,000

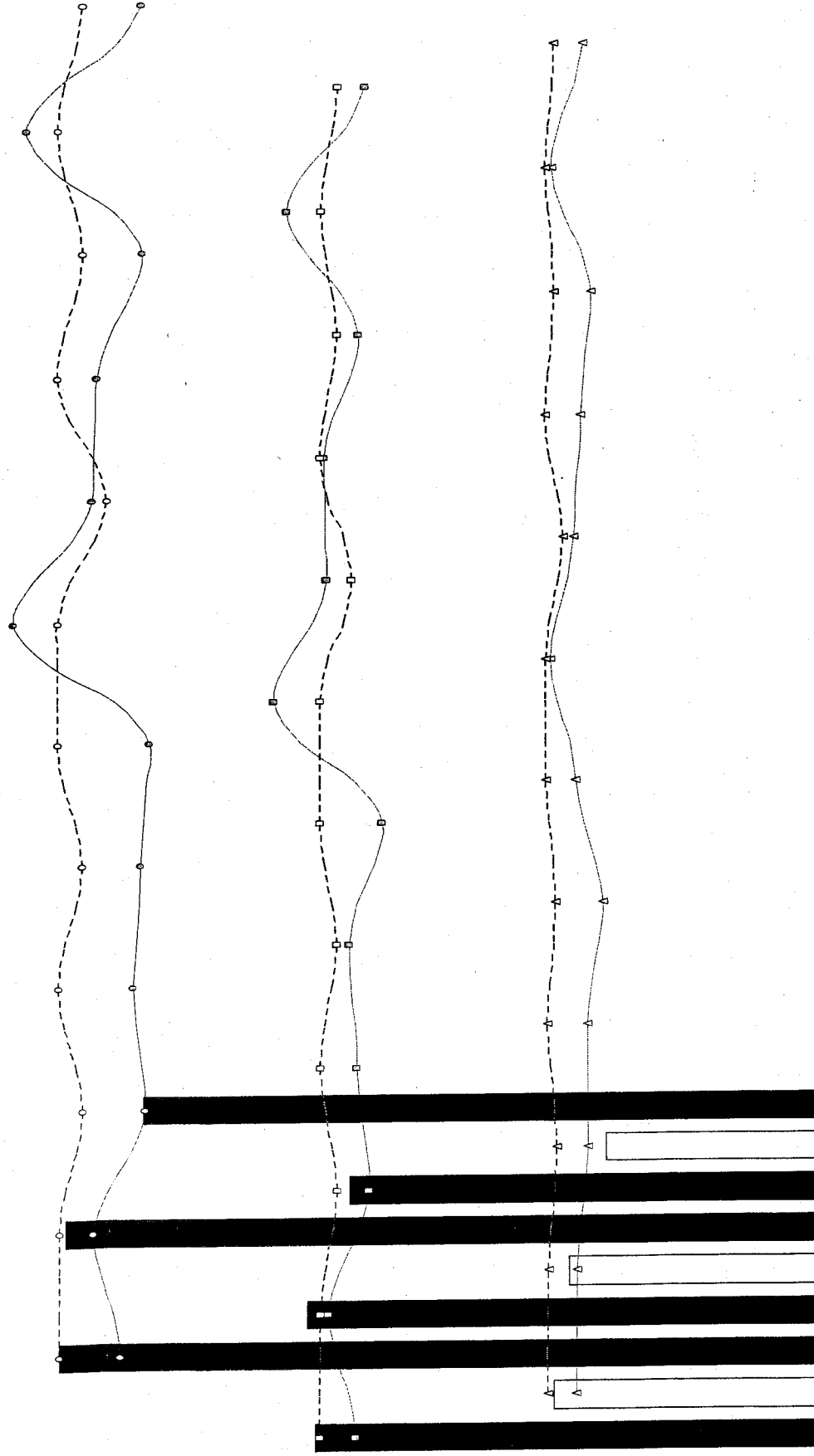
5,000

4,000

3,000

2,000

1,000



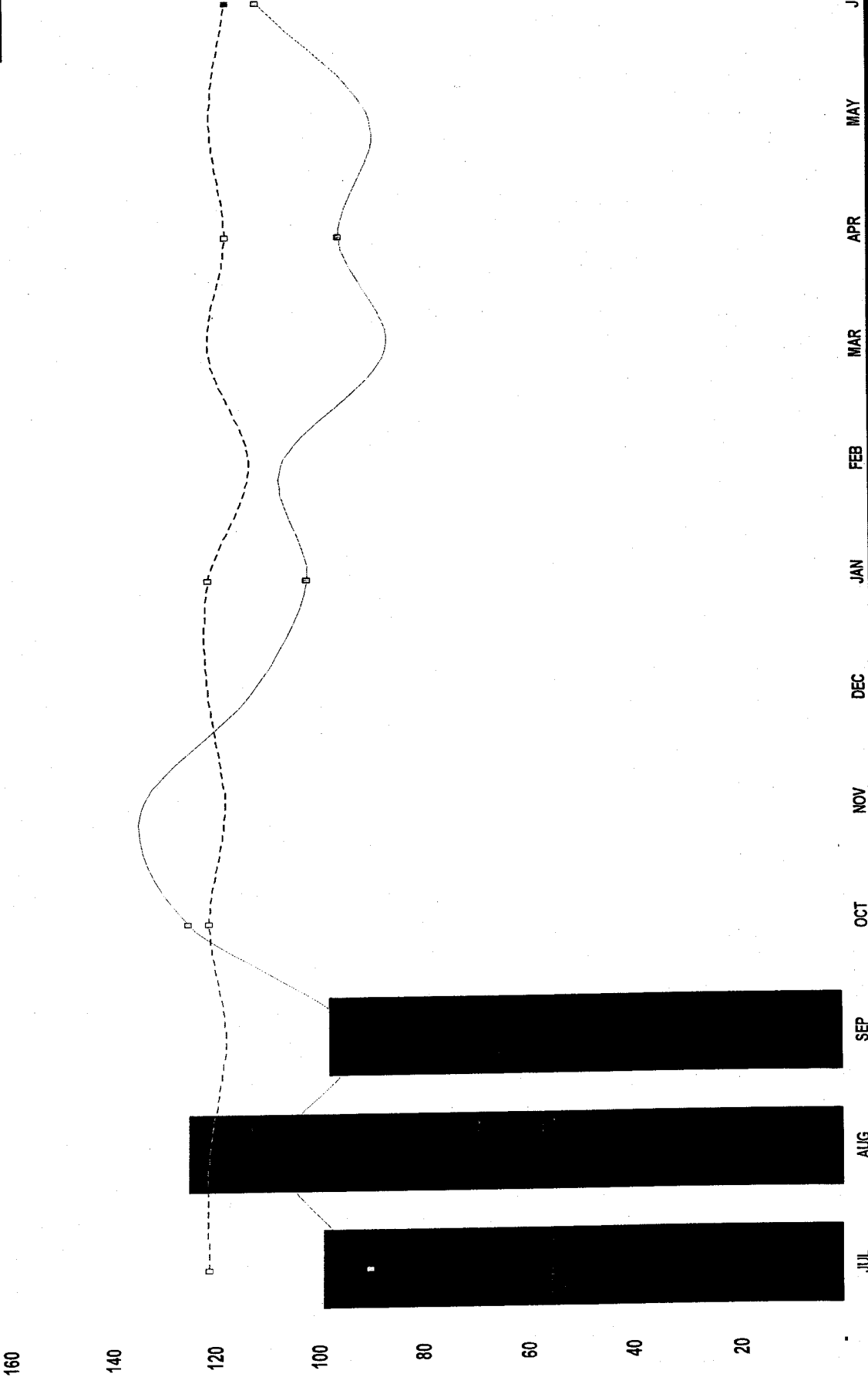
PY	FISCAL YEAR 2008												YTD	Bud YTD			
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN			JUN		
PMC	4,014	4,087	3,743	-	-	-	-	-	-	-	-	-	-	-	-	11,844	11,795
POM	2,110	1,990	1,688	-	-	-	-	-	-	-	-	-	-	-	-	5,788	6,384
CON	6,124	6,077	5,431	-	-	-	-	-	-	-	-	-	-	-	-	17,632	18,179

Trauma Cases (PMC)

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20

F I S C A L Y E A R 2 0 0 8



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	Bud YTD
PMC	99	125	98	-	-	-	-	-	-	-	-	-	322	360
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	99	125	98	-	-	-	-	-	-	-	-	-	322	360

Trauma Admissions (PMC)

PALOMAR
POMERADO
HEALTH
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21

F I S C A L Y E A R 2 0 0 8

120

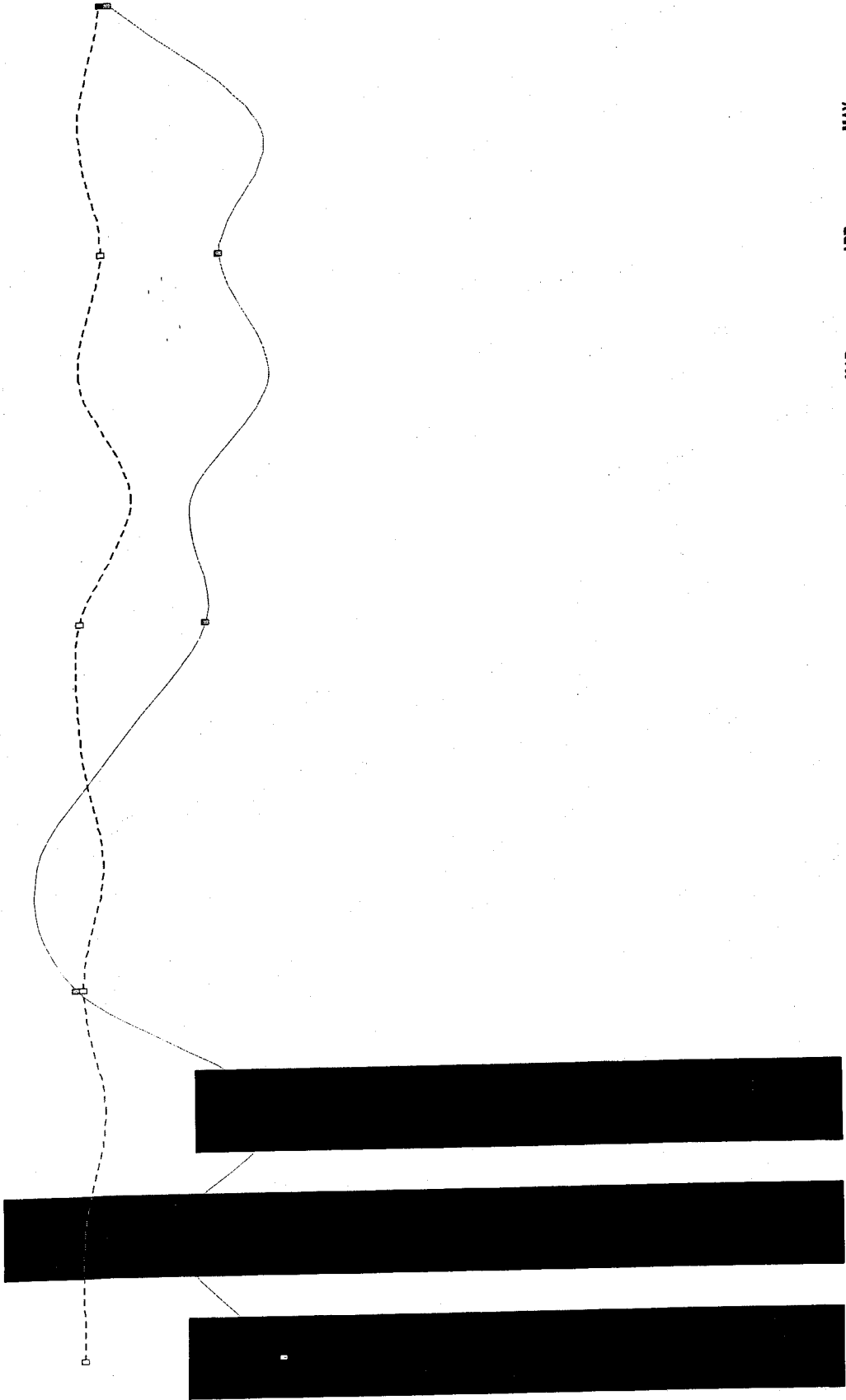
100

80

60

40

20



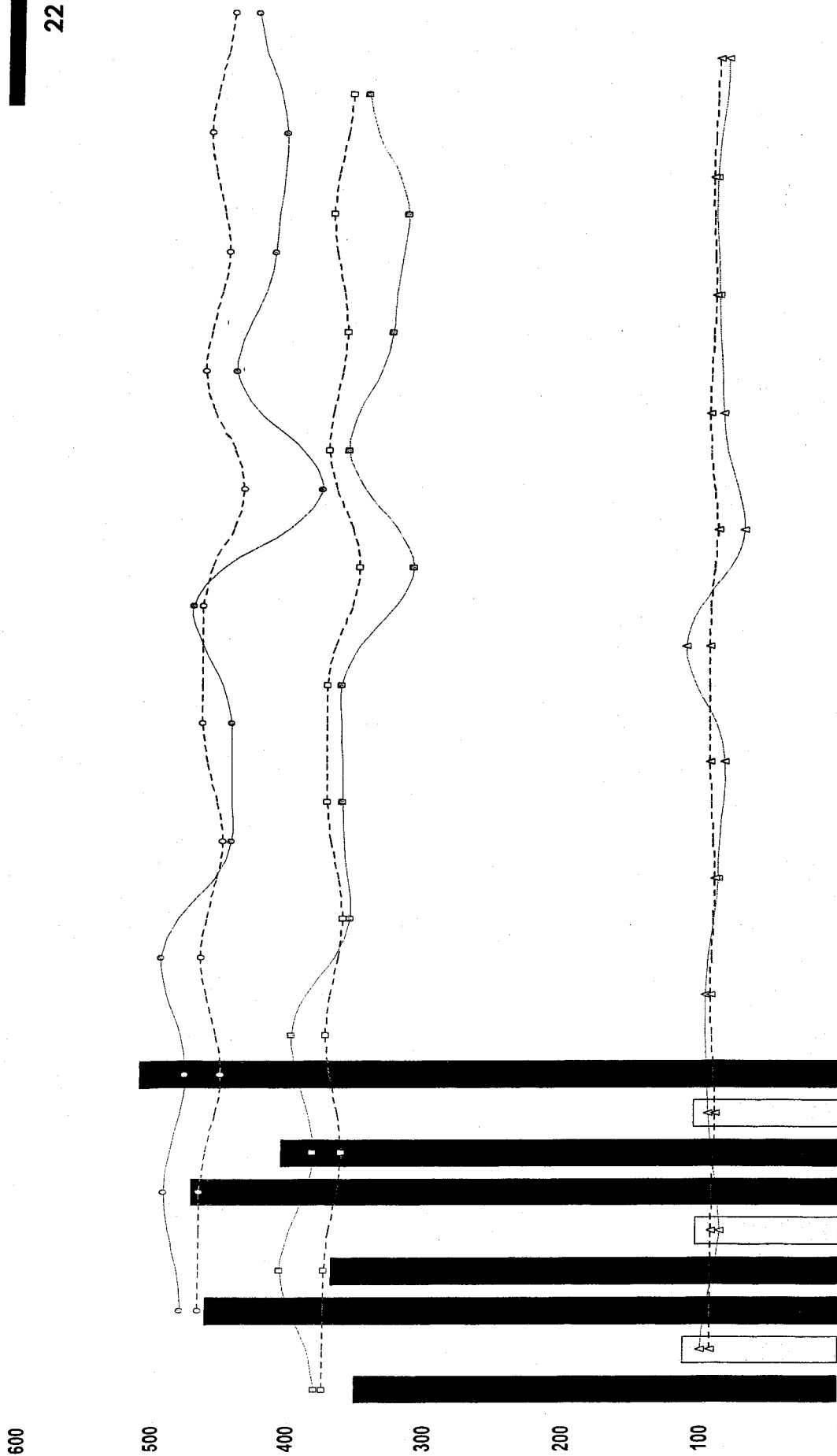
	FY												Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		JUN
PMC	88	113	87	-	-	-	-	-	-	-	-	-	288	303
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	88	113	87	-	-	-	-	-	-	-	-	-	288	303

Deliveries

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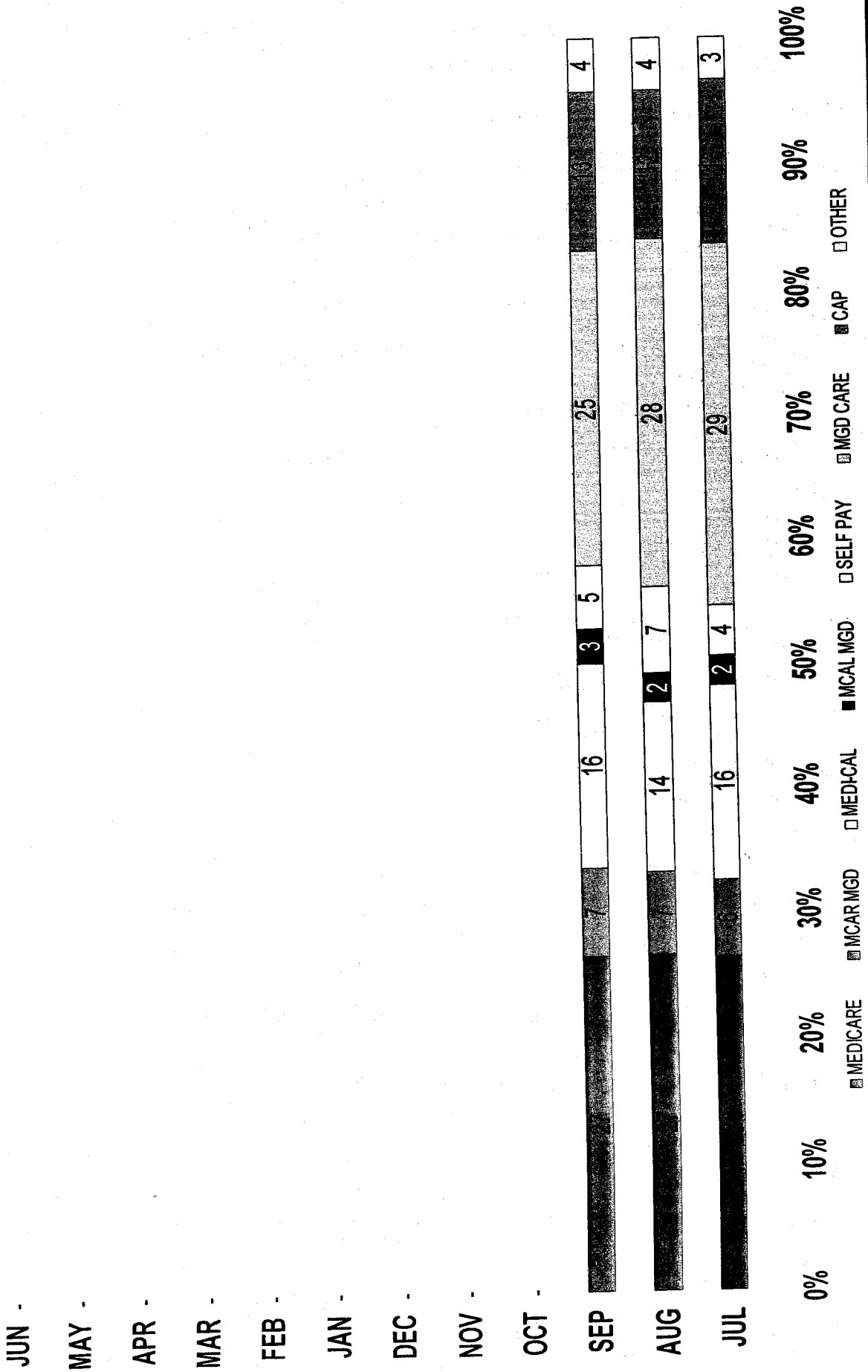
22

FISCAL YEAR 2008



	FY												Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		JUN
PMc	349	368	406	-	-	-	-	-	-	-	-	-	1,123	1,107
POM	112	104	105	-	-	-	-	-	-	-	-	-	321	276
CON	461	472	511	-	-	-	-	-	-	-	-	-	1,444	1,383

Payor Mix based on Gross Revenue



Case Mix Index

PALOMAR
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HEALTH
SPECIALIZING IN YOU

24

FISCAL YEAR 2008

1.25

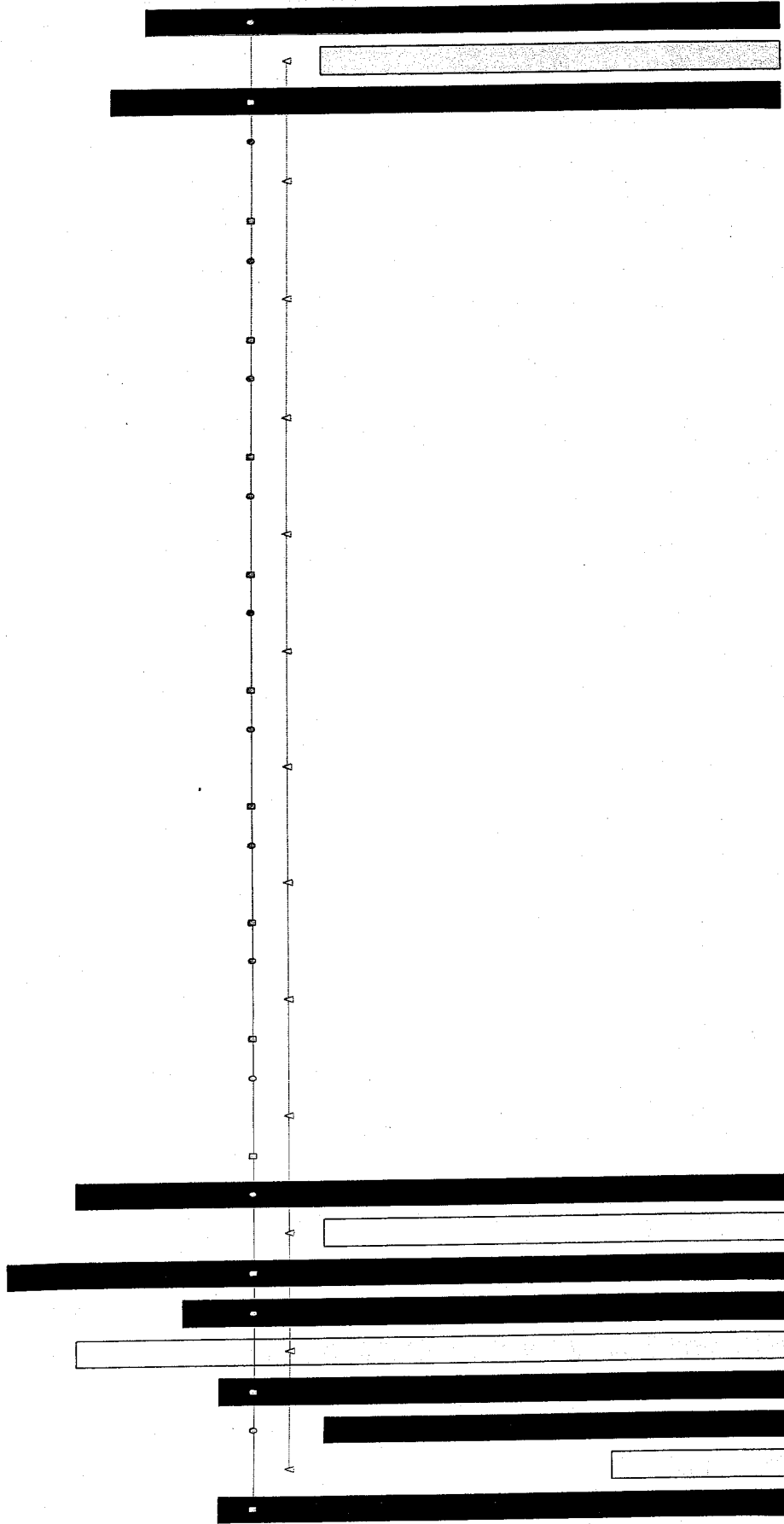
1.20

1.15

1.10

1.05

1.00



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PM	1.16	1.16	1.22	-	-	-	-	-	-	-	-	-	1.19
POM	1.05	1.20	1.13	-	-	-	-	-	-	-	-	-	1.13
CON	1.13	1.17	1.20	-	-	-	-	-	-	-	-	-	1.18

Case Mix Index by Region - Excludes Deliveries

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25

FISCAL YEAR 2008

1.50

1.45

1.40

1.35

1.30

1.25

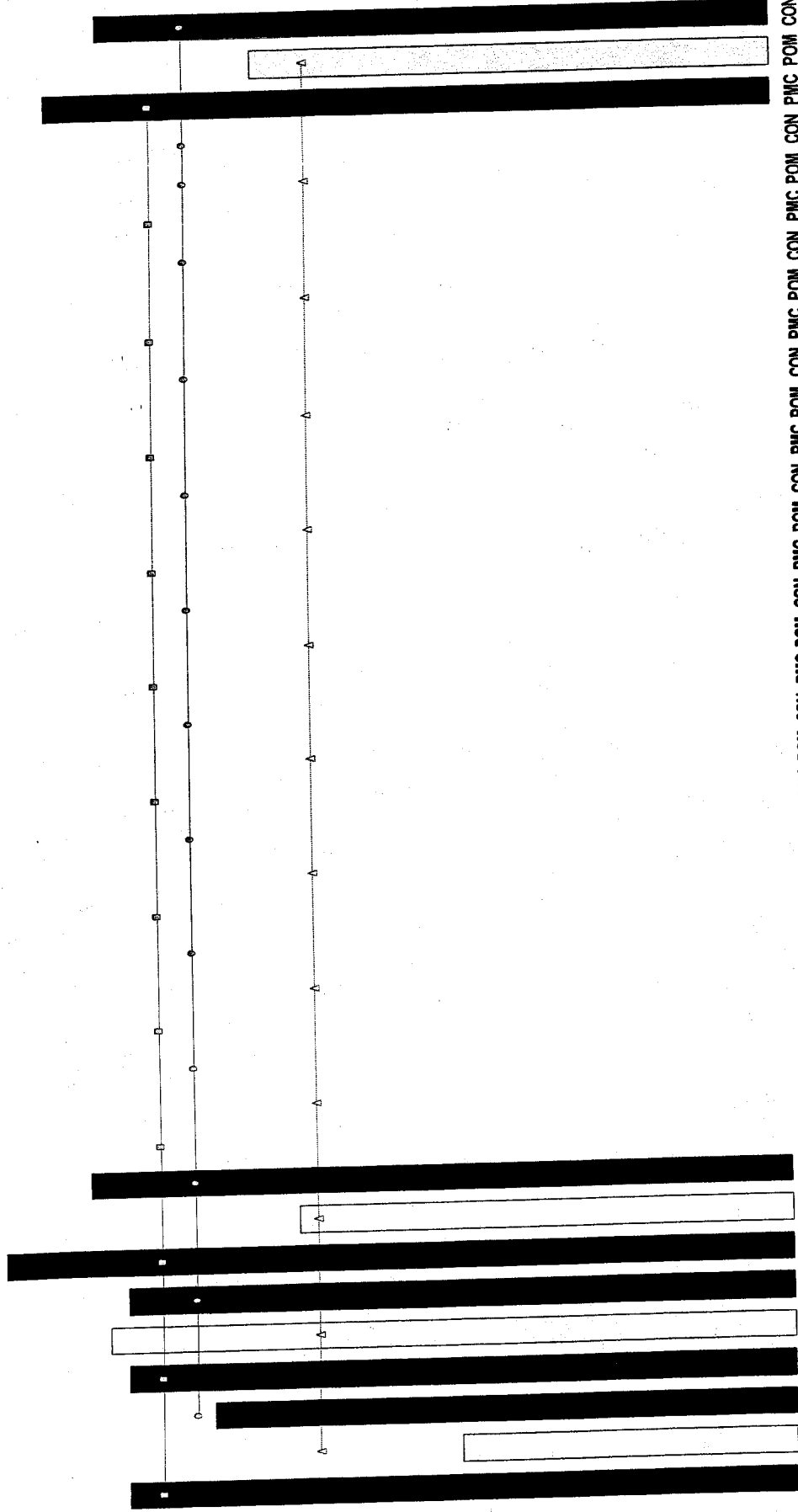
1.20

1.15

1.10

1.05

1.00



PY
BUD

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PMG	1.38	1.38	1.45	-	-	-	-	-	-	-	-	-	1.42
POM	1.19	1.39	1.28	-	-	-	-	-	-	-	-	-	1.30
CON	1.33	1.38	1.40	-	-	-	-	-	-	-	-	-	1.39

26

Summary of Key Indicators and Results FYTD September 2007

	ACTUAL	BUDGET	VARIANCE	FY 2007
ADMISSIONS - Acute:				
Palomar Medical Center	5,432	5,781	(349)	5,598
Pomerado Hospital	1,795	1,716	79	1,711
Total:	<u>7,227</u>	<u>7,497</u>	<u>(270)</u>	<u>7,309</u>
ADMISSIONS - SNF:				
Palomar Medical Center	134	148	(14)	160
Pomerado Hospital	142	140	2	133
Total:	<u>276</u>	<u>288</u>	<u>(12)</u>	<u>293</u>
PATIENT DAYS - Acute:				
Palomar Medical Center	20,976	21,657	(681)	20,843
Pomerado Hospital	7,551	7,027	524	7,023
Total:	<u>28,527</u>	<u>28,684</u>	<u>(157)</u>	<u>27,866</u>
PATIENT DAYS - SNF:				
Palomar Medical Center	8,088	8,072	16	8,065
Pomerado Hospital	11,330	11,355	(25)	11,395
Total:	<u>19,418</u>	<u>19,427</u>	<u>(9)</u>	<u>19,460</u>



Summary of Key Indicators and Results

FYTD September 2007 (cont'd)

<u>WEIGHTED PATIENT DAYS</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>	<u>FY 2007</u>
Palomar Medical Center	27,169	27,379	(210)	26,380
Pomerado Hospital	11,745	11,158	587	11,012
Other Activities	714	806	(92)	843
Total:	39,628	39,343	285	38,235

<u>ADJUSTED DISCHARGES</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>	<u>FY 2007</u>
Palomar Medical Center	6,985	7,312	(327)	7,160
Pomerado Hospital	2,675	2,574	101	2,543
Other Activities	229	267	(38)	270
Total:	9,889	10,153	(264)	9,973

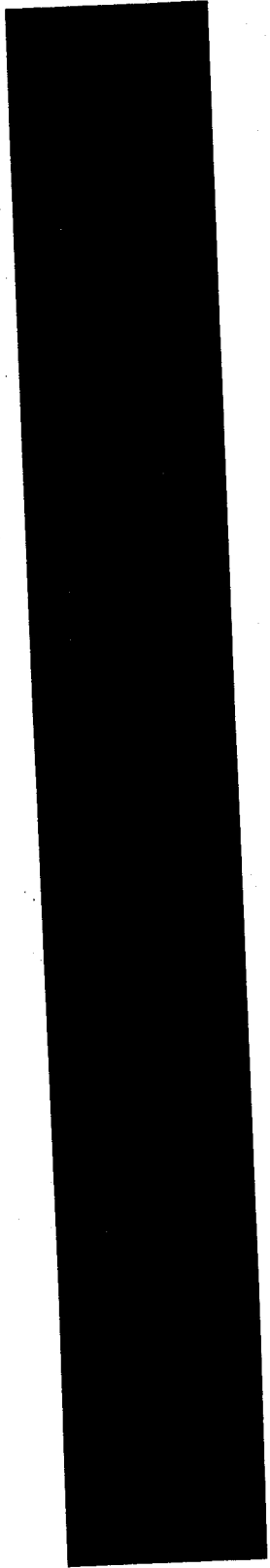
<u>AVERAGE LENGTH OF STAY - Acute:</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>	<u>FY 2007</u>
Palomar Medical Center	3.88	3.75	0.13	3.70
Pomerado Hospital	4.14	4.09	0.05	4.11
Total:	3.95	3.83	0.12	3.79

<u>AVERAGE LENGTH OF STAY - SNF:</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>	<u>FY 2007</u>
Palomar Medical Center	63.19	55.67	7.52	49.78
Pomerado Hospital	79.23	81.11	(1.88)	86.98
Total:	71.65	68.16	3.49	66.42

Summary of Key Indicators and Results FYTD September 2007 (cont'd)

	ACTUAL	BUDGET	VARIANCE	FY 2007
<u>EMERGENCY ROOM VISITS & TRAUMA CASES:</u>				
Palomar Medical Center	11,844	11,795	49	11,190
Pomerado Hospital	5,788	6,384	(596)	5,688
Total:	<u>17,632</u>	<u>18,179</u>	<u>(547)</u>	<u>16,878</u>
<u>EMERGENCY & TRAUMA ADMISSIONS:</u>				
Palomar Medical Center	2,734	2,876	(142)	2,718
Pomerado Hospital	992	953	39	972
Total:	<u>3,726</u>	<u>3,829</u>	<u>(103)</u>	<u>3,690</u>
<u>SURGERIES:</u>				
Palomar Medical Center	2,134	1,983	151	1,960
Pomerado Hospital	946	938	8	946
Total:	<u>3,080</u>	<u>2,921</u>	<u>159</u>	<u>2,906</u>
<u>BIRTHS:</u>				
Palomar Medical Center	1,123	1,107	16	1,167
Pomerado Hospital	321	276	45	282
Total:	<u>1,444</u>	<u>1,383</u>	<u>61</u>	<u>1,449</u>

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HEALTH**
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Gross Patient Revenue per Weighted Patient Days

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30

FISCAL YEAR 2008

9,925

8,925

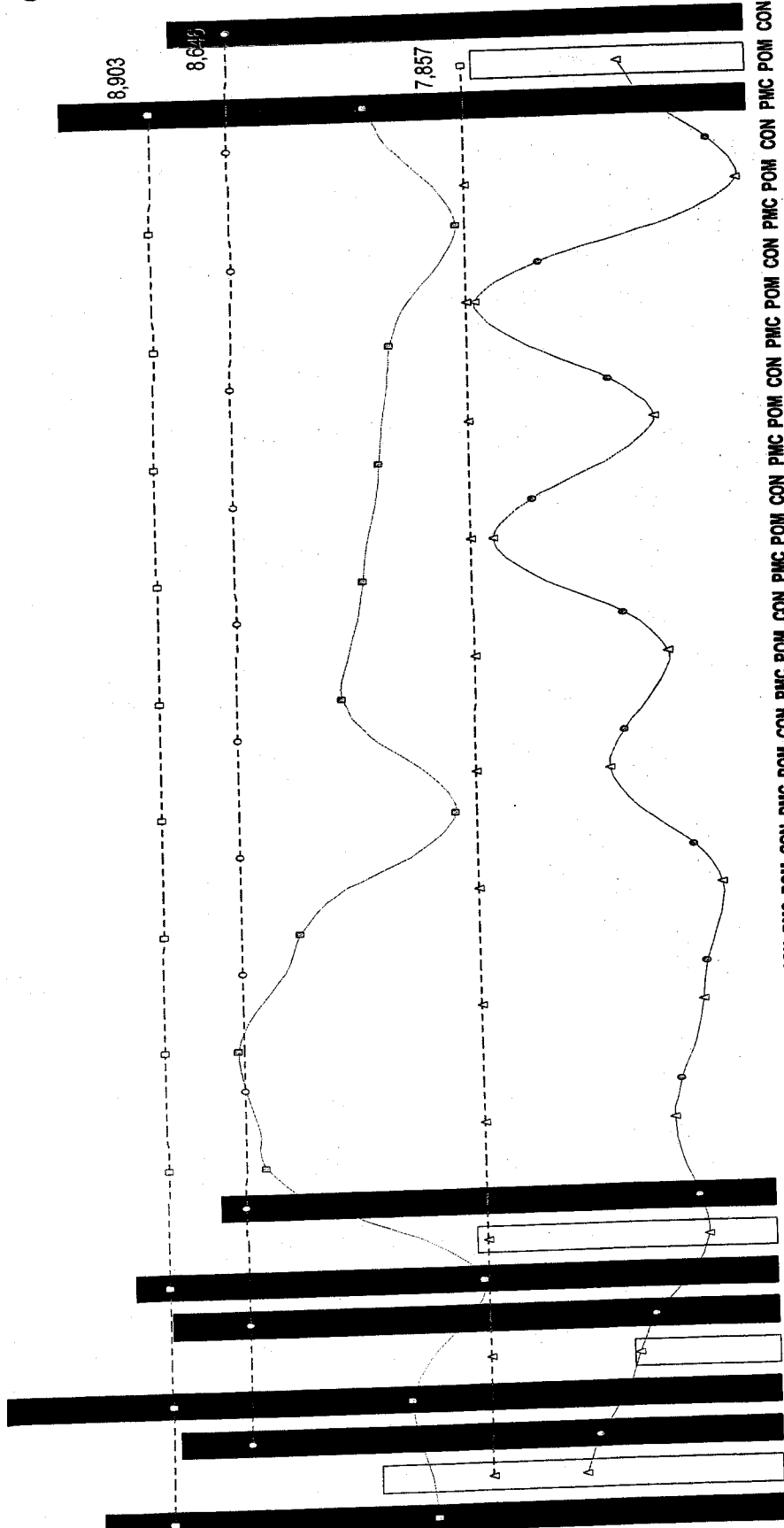
Dollars per Weighted Day

8,425

7,925

7,425

6,925



	FY												YTD	Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN			
PMC	9,130	9,449	9,017	-	-	-	-	-	-	-	-	-	-	9,202	8,901
POM	8,222	7,392	7,892	-	-	-	-	-	-	-	-	-	-	7,825	7,857
CON	8,880	8,898	8,735	-	-	-	-	-	-	-	-	-	-	8,837	8,645

20

Net Patient Revenue per Weighted Patient Days

PALOMAR
POMERADO
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31

FISCAL YEAR 2008

2,825

2,725

2,625

2,525

2,425

2,325

2,225

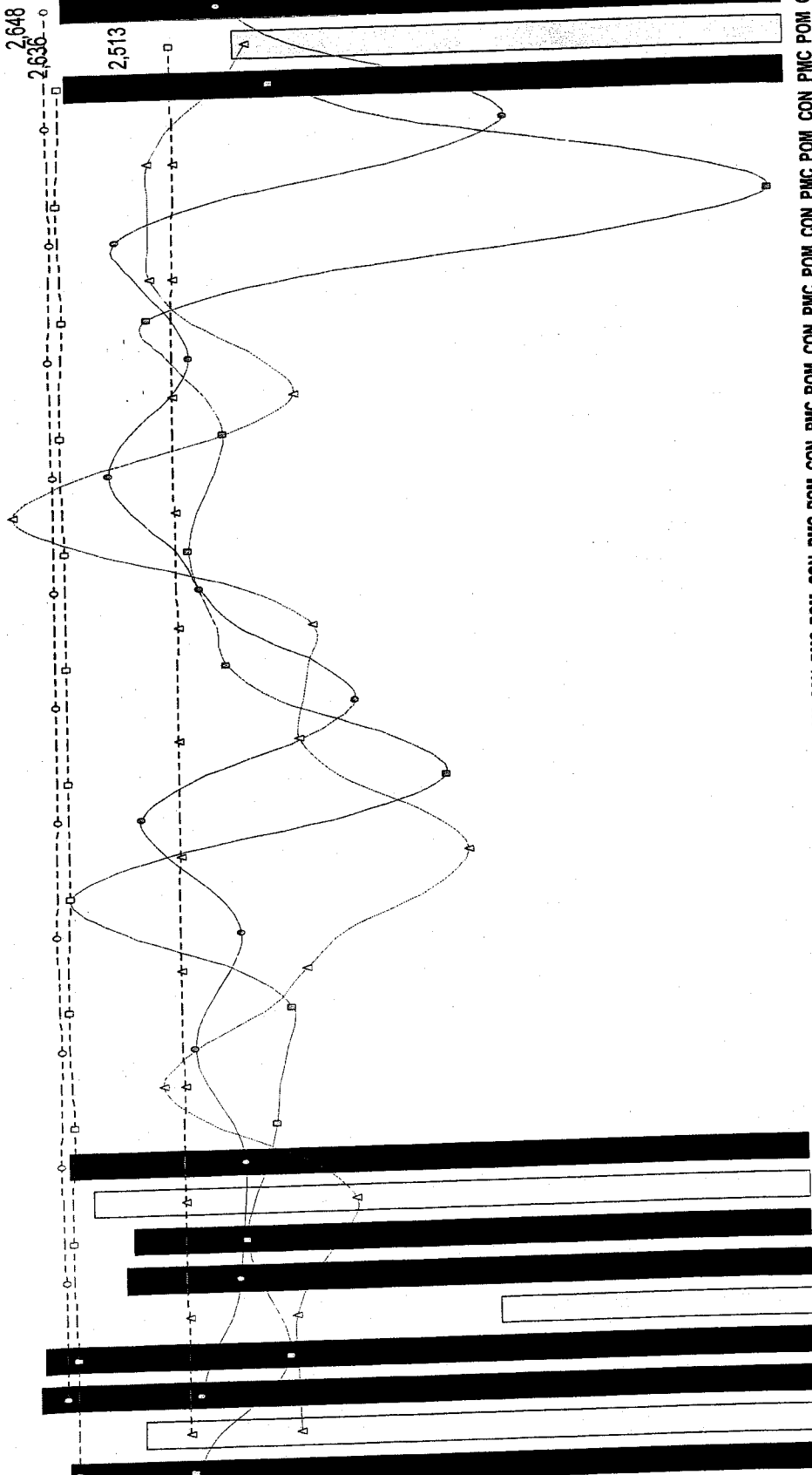
2,125

2,025

1,925

1,825

Dollars per Weighted Day



PY
BUD

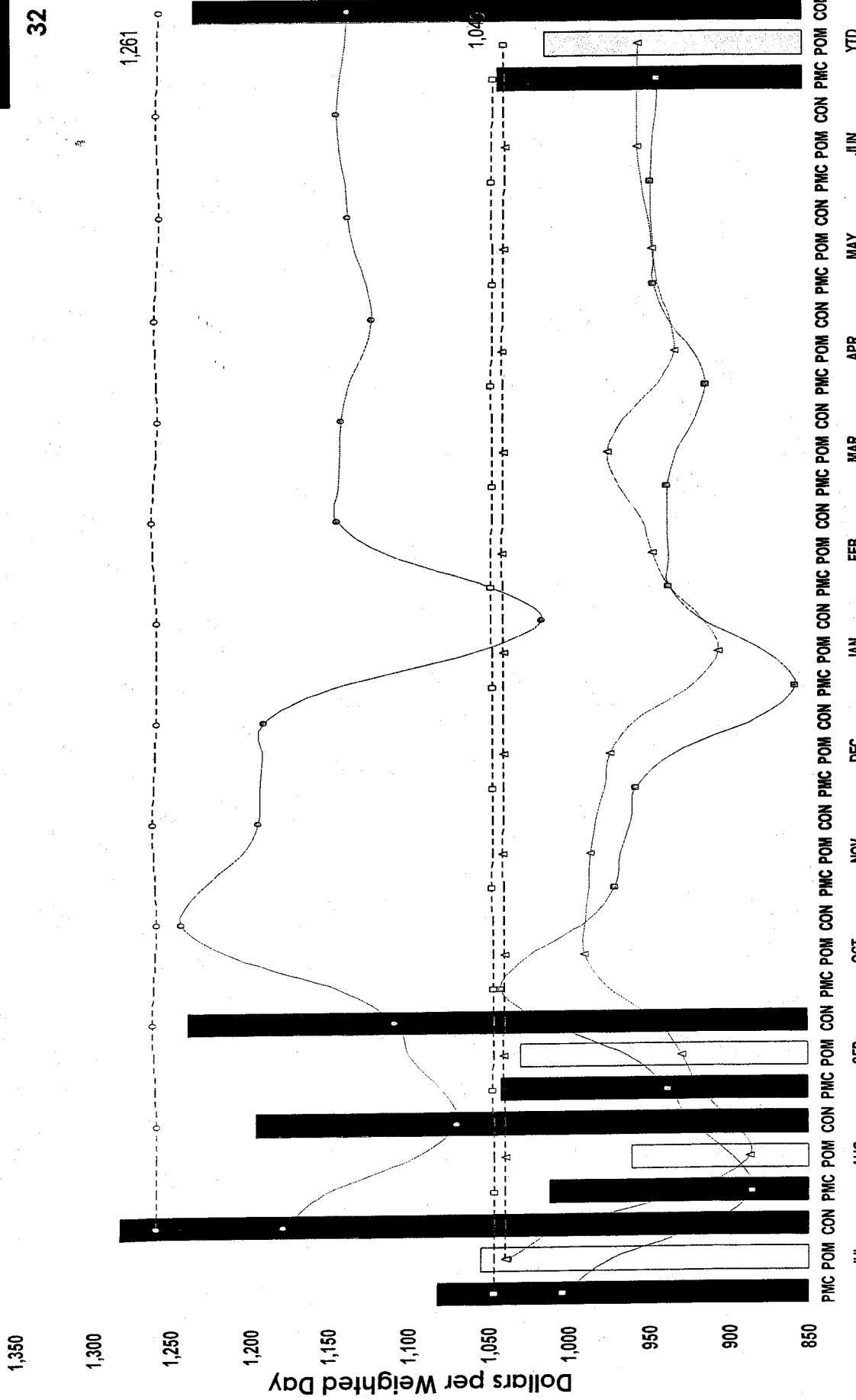
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	Bud YTD
PMC	2,644	2,671	2,573	-	-	-	-	-	-	-	-	-	2,629	2,635
POM	2,562	2,168	2,616	-	-	-	-	-	-	-	-	-	2,440	2,513
CON	2,678	2,580	2,641	-	-	-	-	-	-	-	-	-	2,631	2,647

Salaries per Weighted Patient Days

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FISCAL YEAR 2008



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	Bud YTD
PMC	1,082	1,012	1,042	-	-	-	-	-	-	-	-	-	1,044	1,046
POM	1,056	961	1,031	-	-	-	-	-	-	-	-	-	1,014	1,040
CON	1,284	1,197	1,240	-	-	-	-	-	-	-	-	-	1,239	1,260

Supplies per Weighted Patient Days

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33

FISCAL YEAR 2008

430

420

410

400

390

380

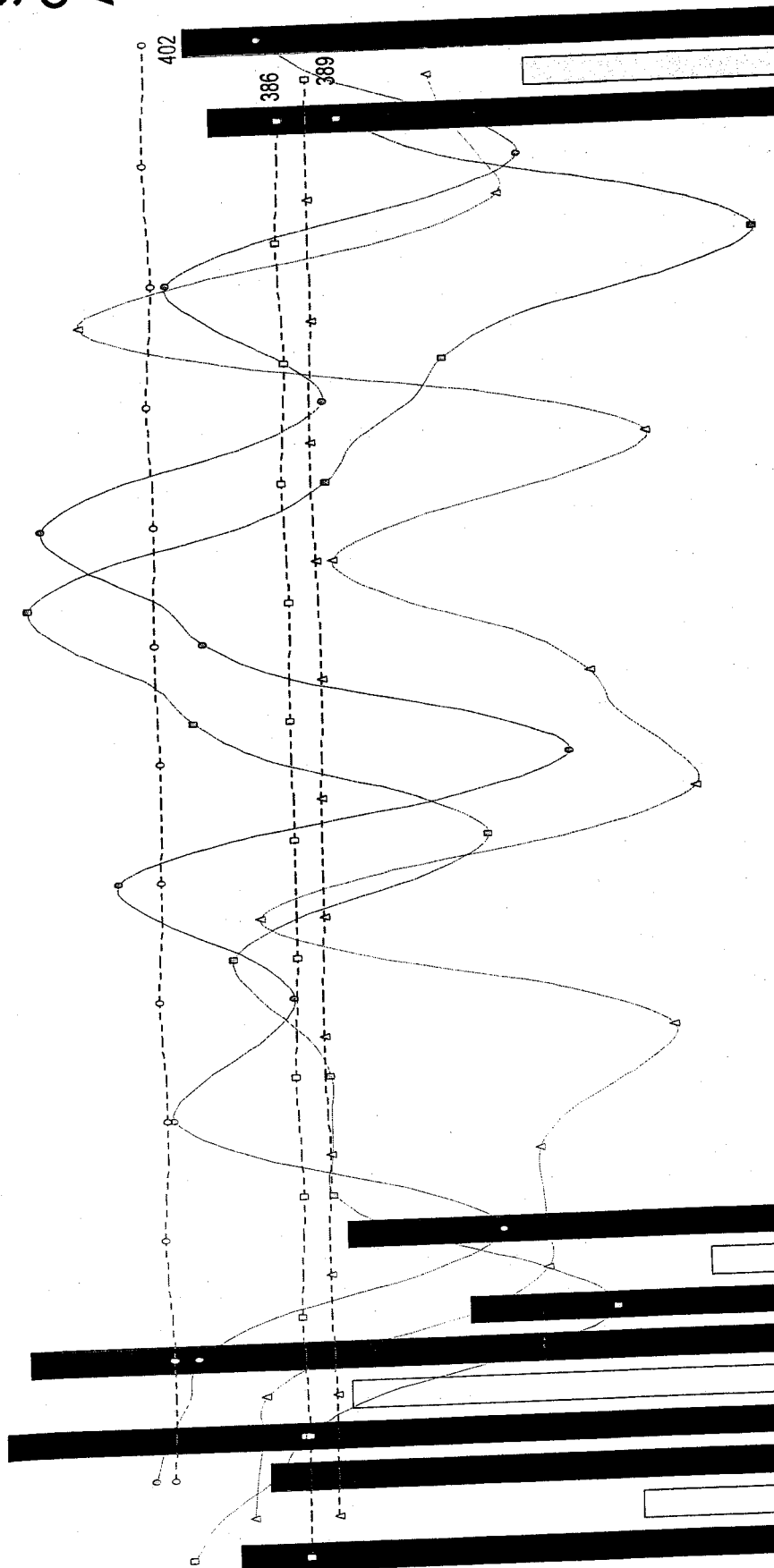
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360

350

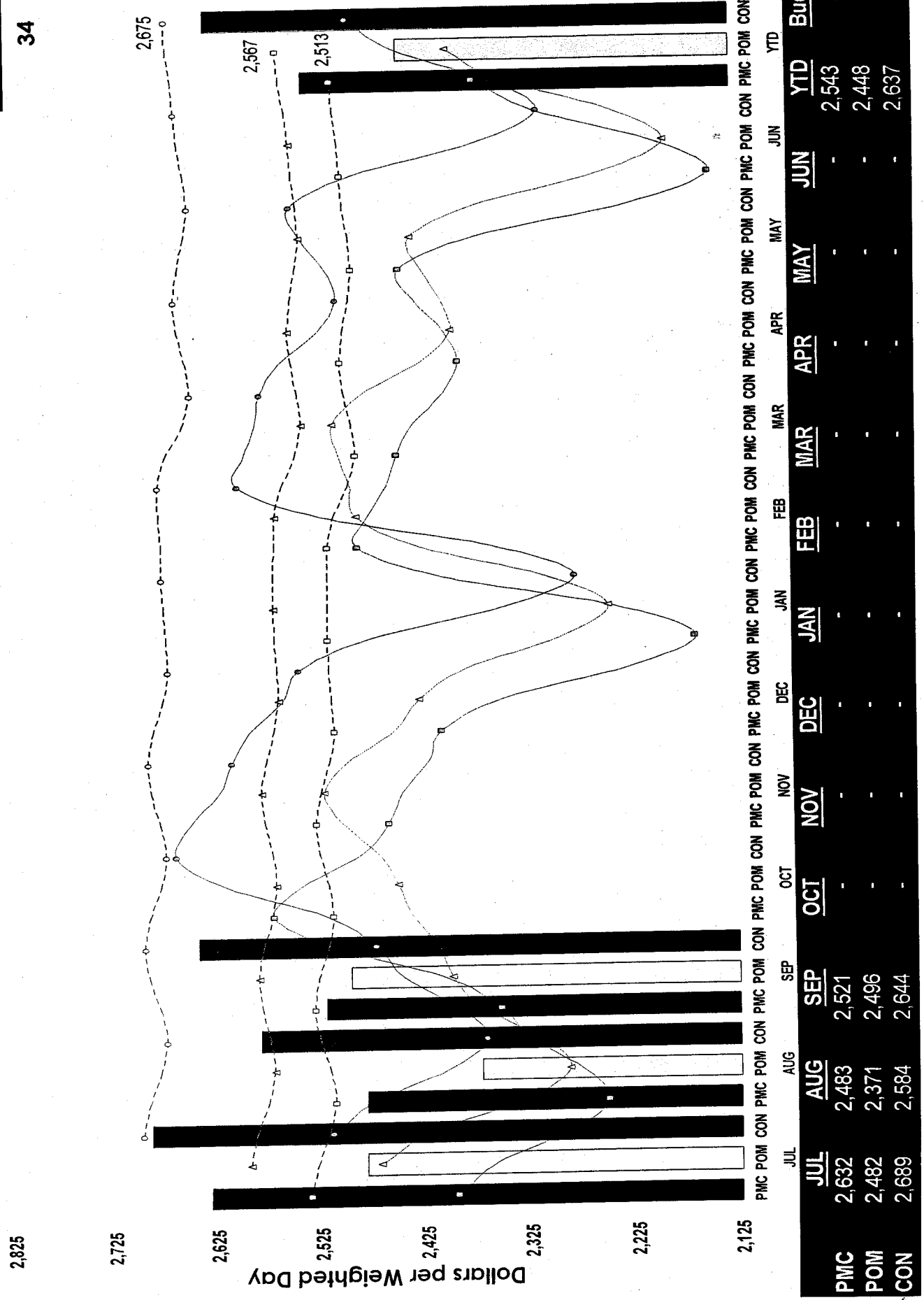
340

Dollars per Weighted Day



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	Bud YTD
PMC	396	418	373	-	-	-	-	-	-	-	-	-	396	389
POM	357	385	350	-	-	-	-	-	-	-	-	-	365	386
CON	393	416	385	-	-	-	-	-	-	-	-	-	398	402

Total Expenses per Weighted Patient Days

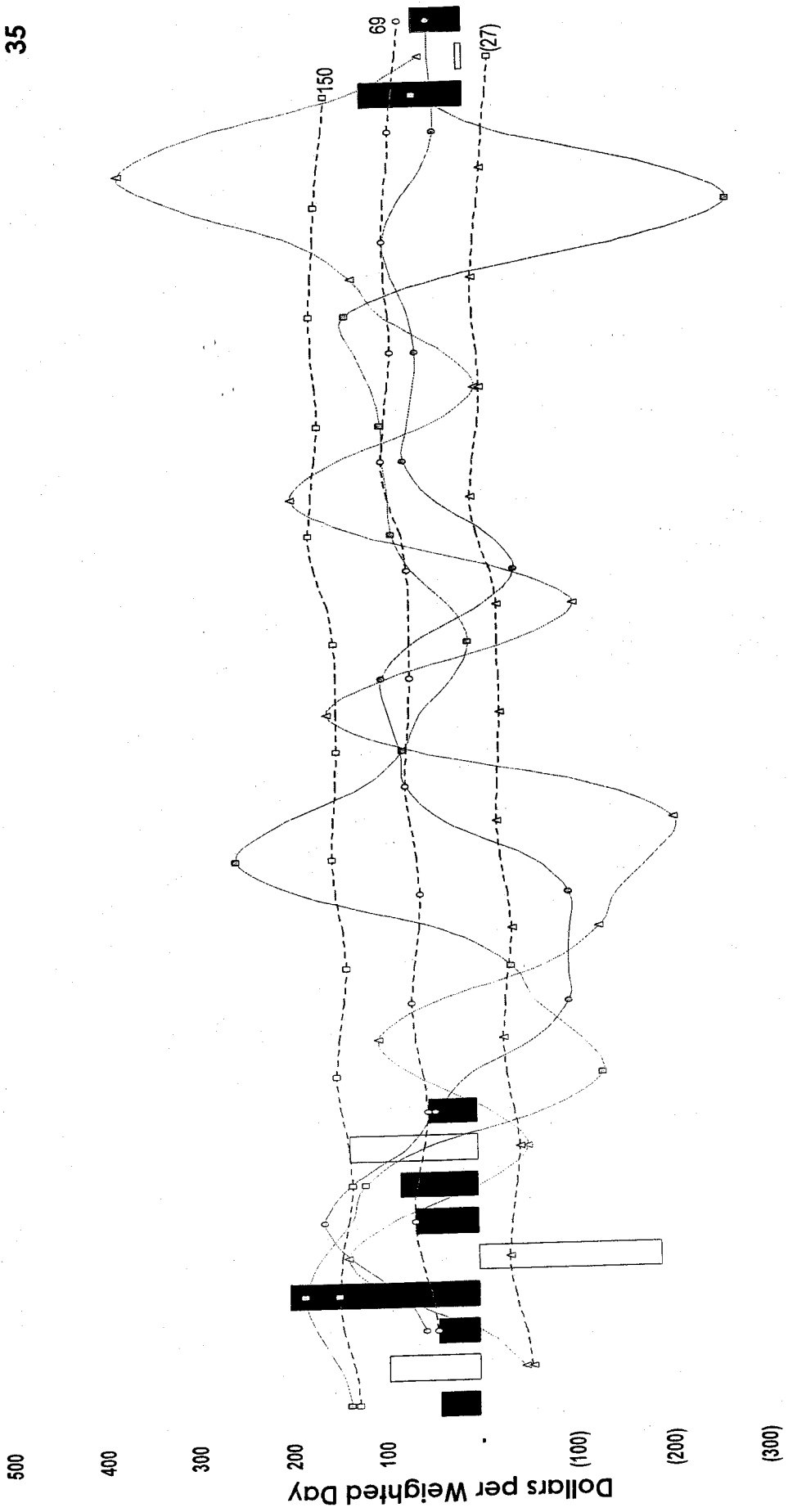


Net Operating Income per Weighted Patient Days

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35

FISCAL YEAR 2008



	FY												Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		YTD
(400) PMC POM CON	43	204	83	-	-	-	-	-	-	-	-	-	112	150
POM	96	(190)	136	-	-	-	-	-	-	-	-	-	7	(32)
CON	45	68	51	-	-	-	-	-	-	-	-	-	55	56

66

Gross Patient Revenue per Adjusted Discharges

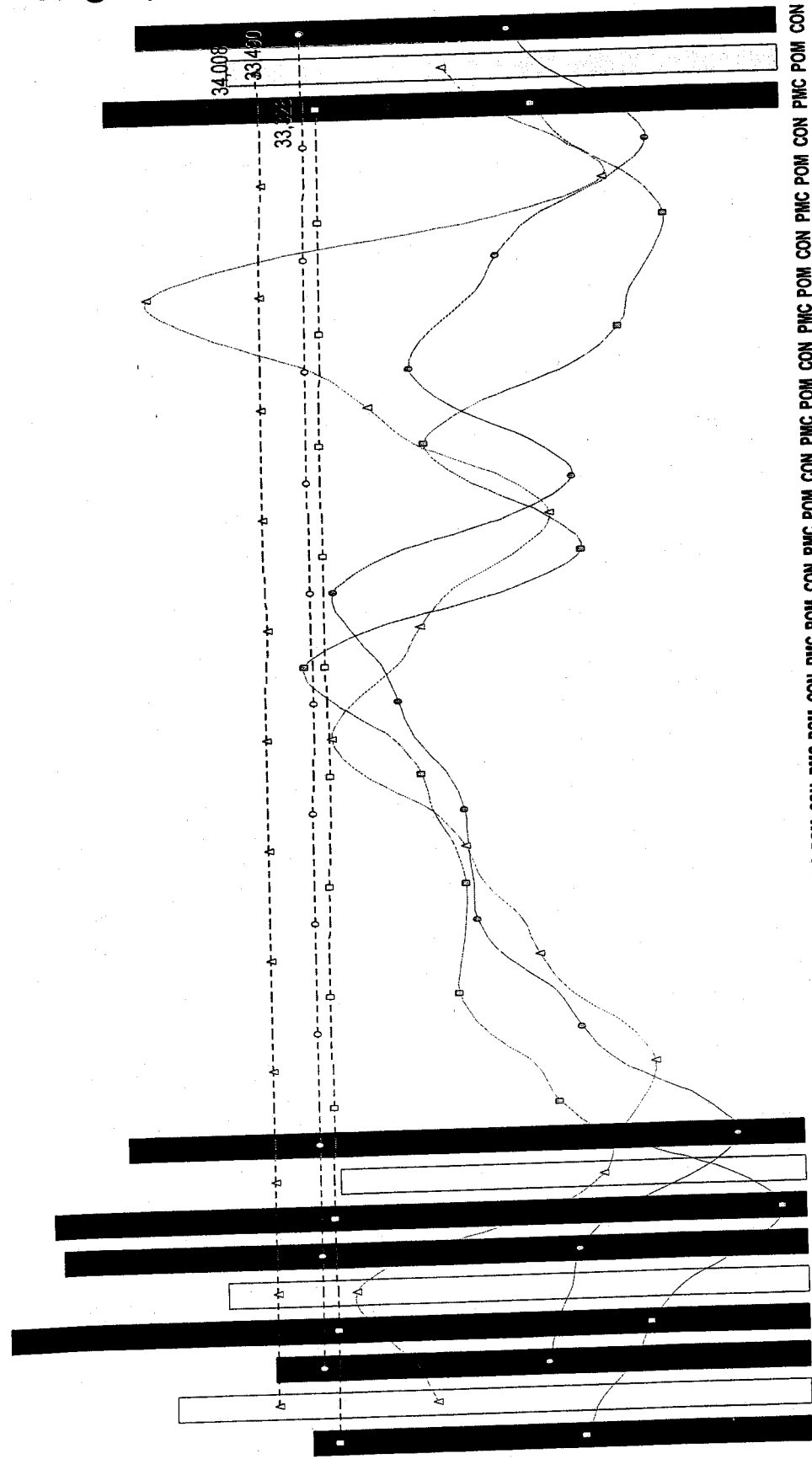
PALOMAR
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36

FISCAL YEAR 2008

38,000
37,000
36,000
35,000
34,000
33,000
32,000
31,000
30,000
29,000
28,000

Dollars per Adjusted Discharges



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUN	YTD	Bud YTD
PMC	33,628	37,115	36,573	-	-	-	-	-	-	-	-	-	35,792	33,235	33,235
POM	35,188	34,573	33,267	-	-	-	-	-	-	-	-	-	34,355	33,456	33,456
CON	34,046	36,462	35,702	-	-	-	-	-	-	-	-	-	35,414	33,490	33,490

23

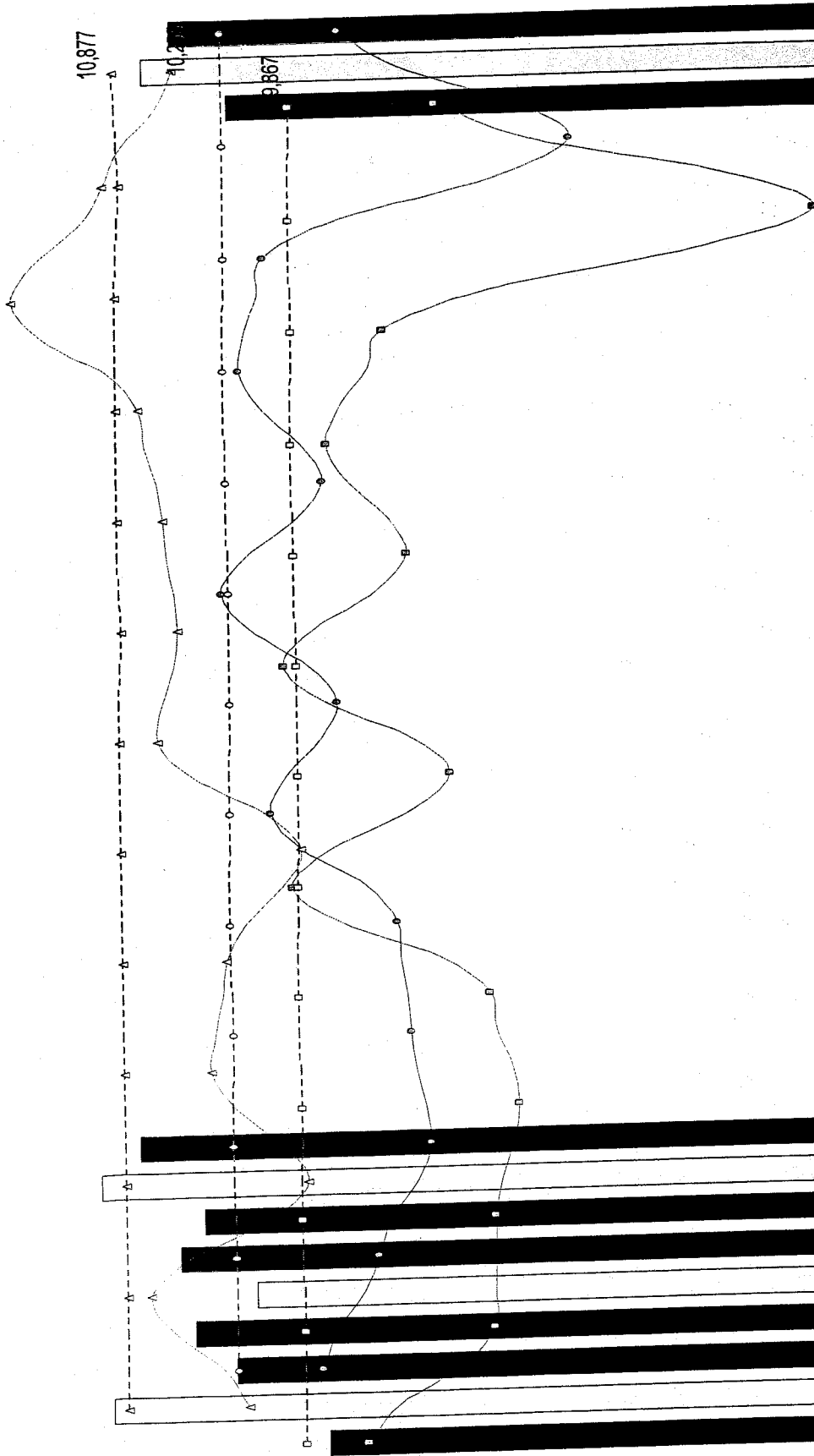
Net Patient Revenue per Adjusted Discharges

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37

FISCAL YEAR 2008

11,800
11,300
10,800
10,300
9,800
9,300
8,800
8,300
7,800
7,300
6,800



	FY												Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		YTD
PMC	9,737	10,493	10,437	-	-	-	-	-	-	-	-	-	10,227	9,838
POM	10,963	10,138	11,028	-	-	-	-	-	-	-	-	-	10,713	10,701
CON	10,266	10,573	10,793	-	-	-	-	-	-	-	-	-	10,545	10,257

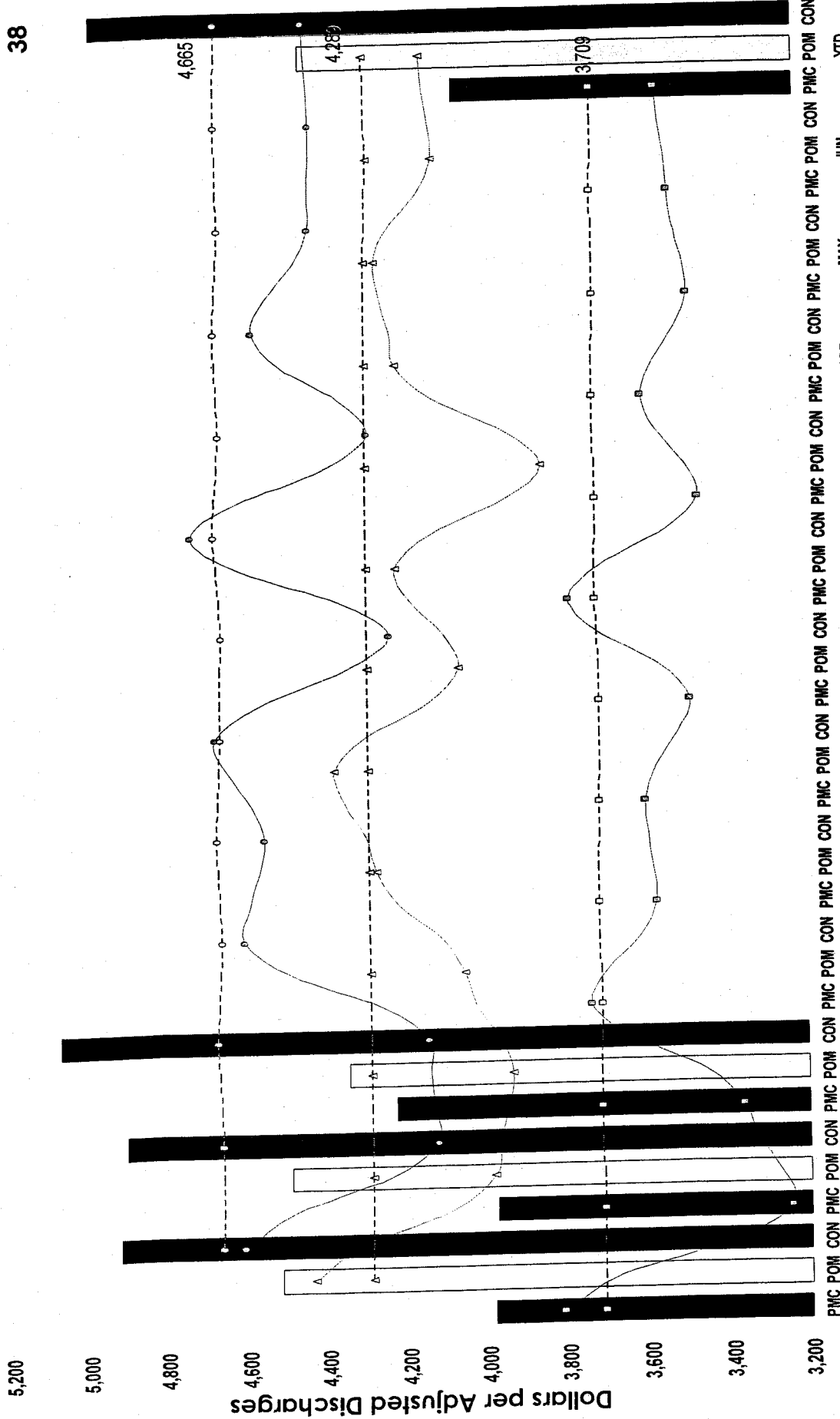
56

Salaries per Adjusted Discharges

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FISCAL YEAR 2008



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	Bud YTD
PMC	3,984	3,977	4,227	-	-	-	-	-	-	-	-	-	4,062	3,907
POM	4,518	4,494	4,344	-	-	-	-	-	-	-	-	-	4,454	4,427
CON	4,922	4,905	5,070	-	-	-	-	-	-	-	-	-	4,965	4,883

Supplies per Adjusted Discharges

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1,850

1,750

1,650

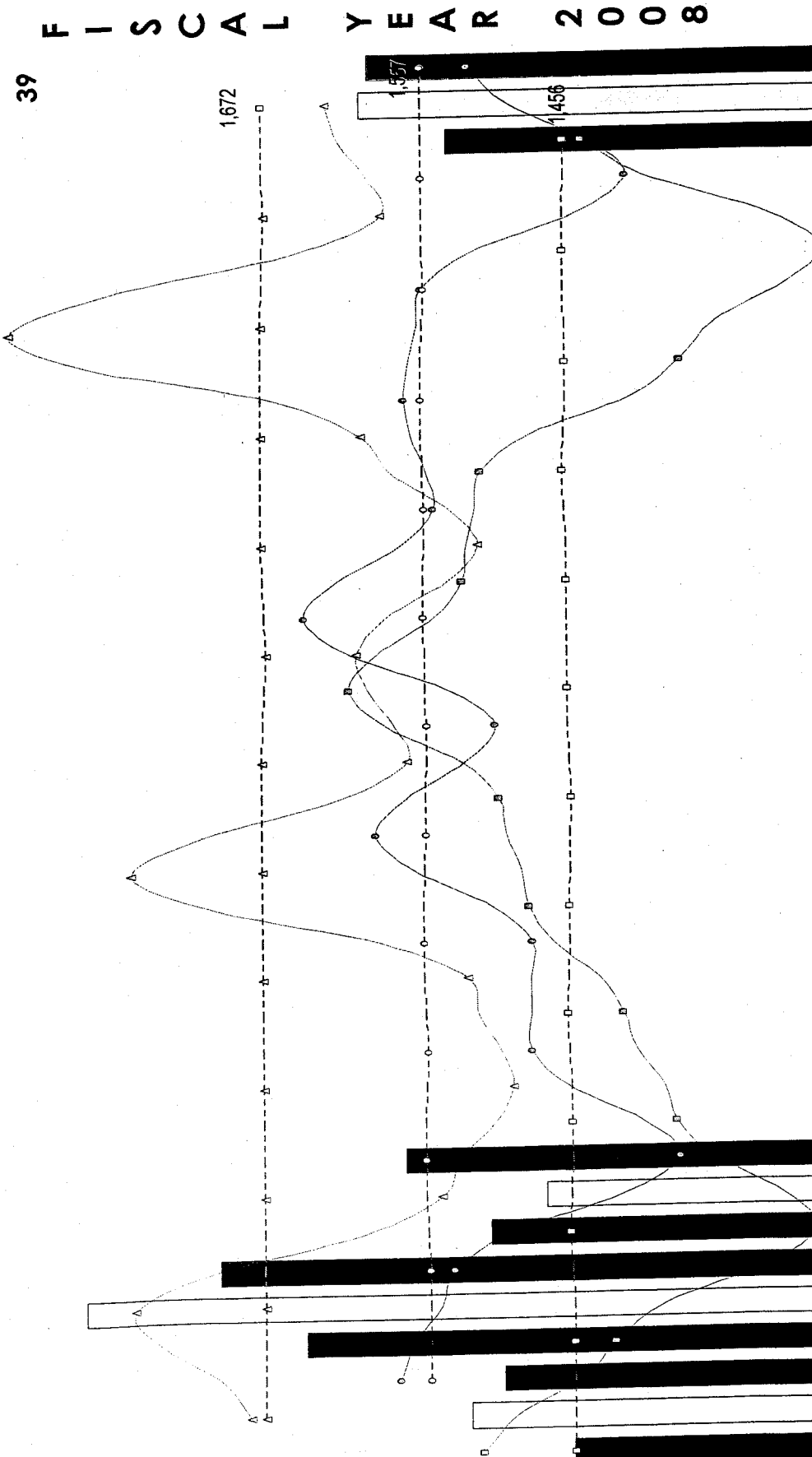
1,550

1,450

1,350

1,250

Dollars per Adjusted Discharges



39

FISCAL YEAR 2008

	FY												YTD	Bud YTD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN			JUN
PMC	1,457	1,643	1,514	-	-	-	-	-	-	-	-	-	-	1,540	1,452
POM	1,528	1,800	1,475	-	-	-	-	-	-	-	-	-	-	1,602	1,645
CON	1,506	1,704	1,573	-	-	-	-	-	-	-	-	-	-	1,595	1,557

SP

Total Expenses per Adjusted Discharges

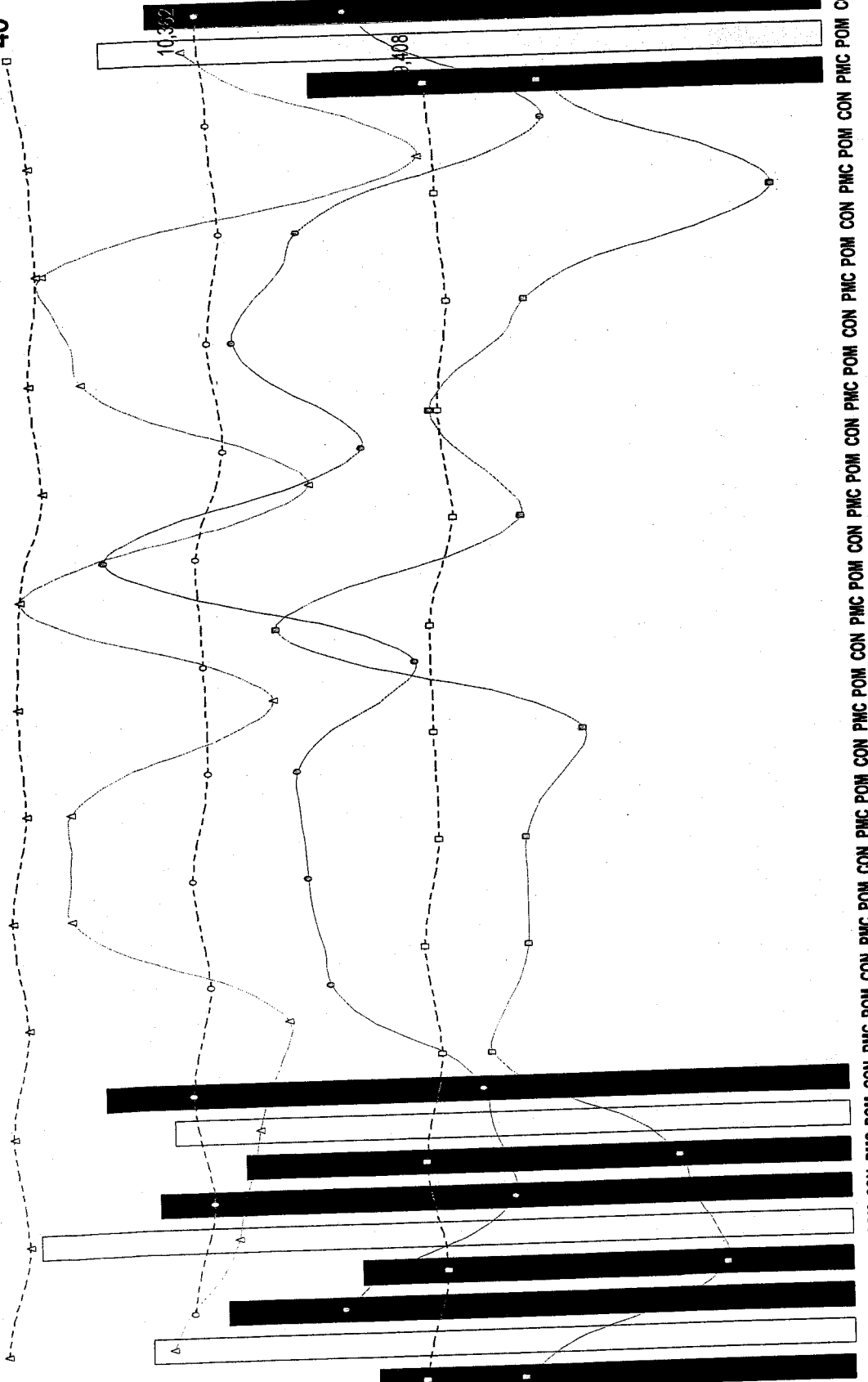
PALOMAR
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11,111
40

FISCAL YEAR 2008

11,250
10,750
10,250
9,750
9,250
8,750
8,250
7,750

Dollars per Adjusted Discharges

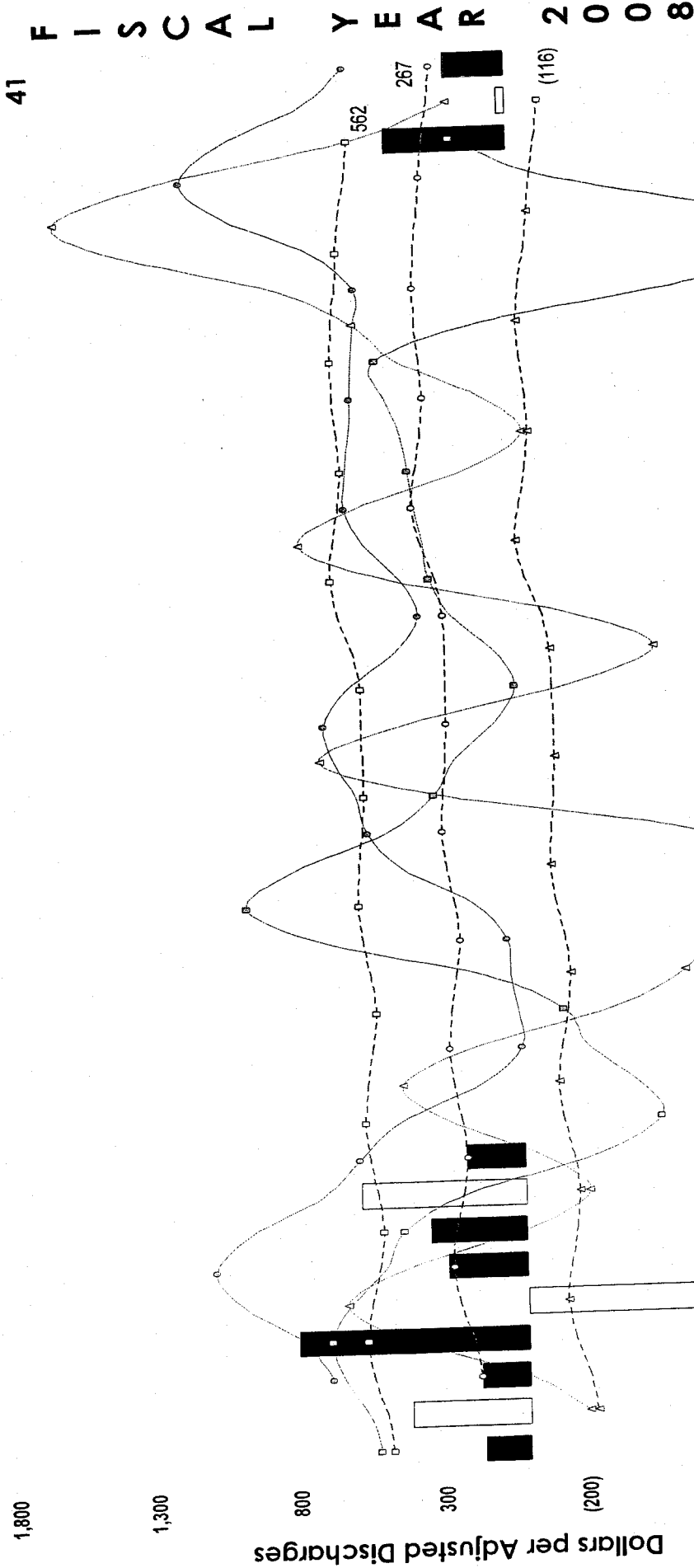


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	Bud YTD
PMC	9,693	9,752	10,226	-	-	-	-	-	-	-	-	-	9,890	9,423
POM	10,622	11,090	10,523	-	-	-	-	-	-	-	-	-	10,749	10,998
CON	10,309	10,589	10,807	-	-	-	-	-	-	-	-	-	10,569	10,409

60

Net Operating Income per Adjusted Discharges

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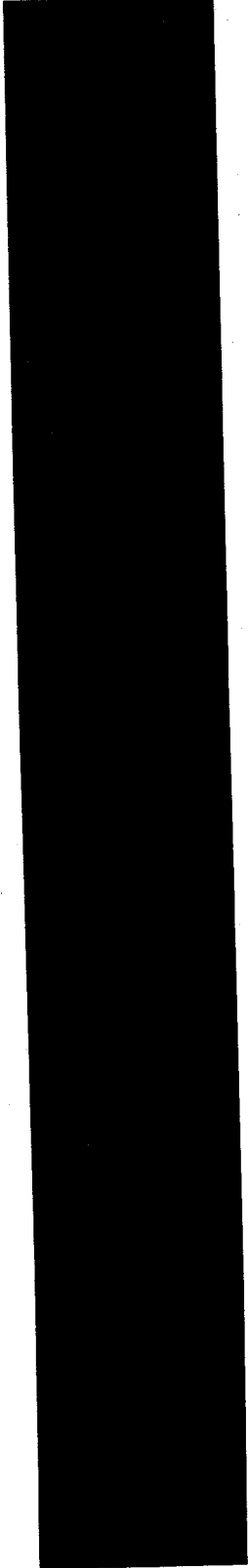
	FY												BUD	
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN		YTD
PMC	158	799	335	-	-	-	-	-	-	-	-	-	435	516
POM	411	(889)	575	-	-	-	-	-	-	-	-	-	31	(184)
CON	171	278	208	-	-	-	-	-	-	-	-	-	219	216

Key Variance Explanations September 2007

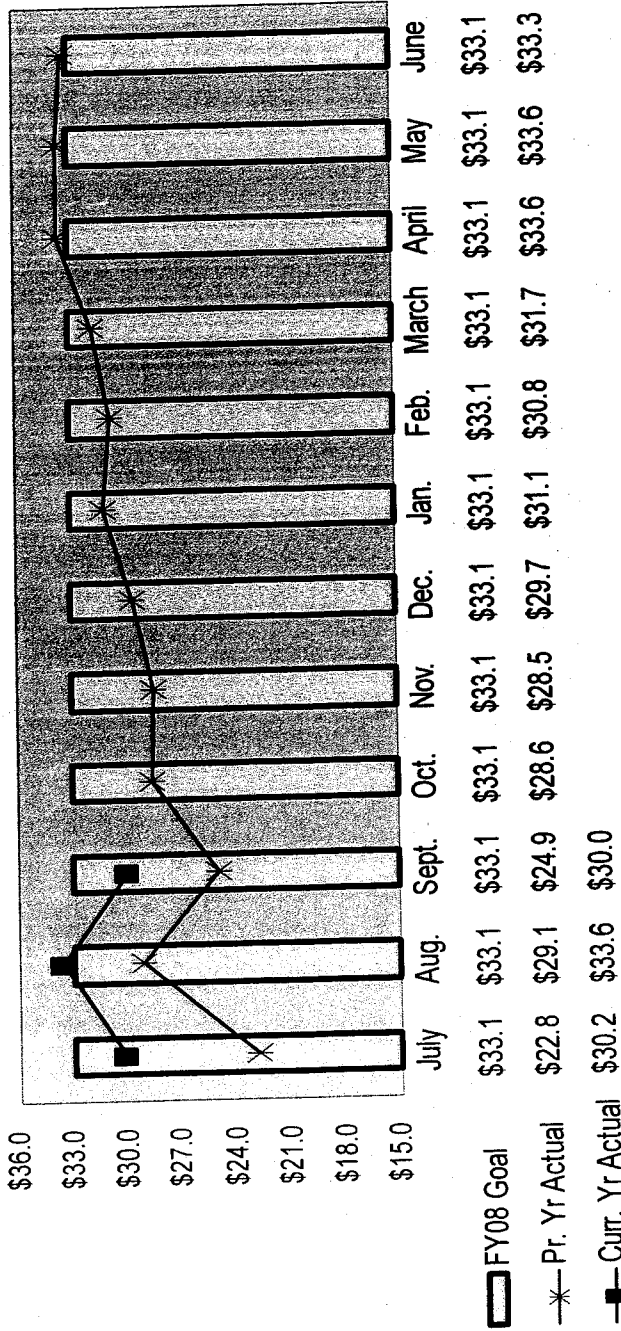
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Adjusted Discharges (Contractual %)	3,250 70.03%	3,311 69.46%	(61)
Gross Patient Revenue:	116,030,872	110,936,877	5,093,995
Contractuals:	81,256,464	77,061,317	(4,195,147)
Net Capitation:	303,544	103,679	199,865
Other Operating Revenue:	719,079	1,258,134	(539,055)
PPH Foundation			(294,835)
Home Health Outreach and Welcome Home Baby			(285,843)
PPNC Health Development			(86,326)
Salaries & Wages:	15,535,402	15,460,353	(75,049)
Benefits:	4,327,260	4,079,998	(247,262)
FICA			(140,177)
Health and Dental			(156,727)
Contract Labor:	942,119	726,802	(215,317)

Key Variance Explanations September 2007 (cont'd)

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Professional Fees:			
WHB Other Pro Fees (for First Five Commission Subcontractors)	2,598,802	2,627,201	28,399 67,599
Supplies:			
Rate variance			48,254 (46,814)
Volume variance	5,111,919	5,160,173	95,068
Purchased Services:			
Printing & Duplication-Settlement Healthcare Forms	2,864,324	2,558,138	(306,186) (147,000) (159,186)
Other			
Depreciation:	1,804,198	1,774,857	(29,341)
Other Direct Expenses:			
Foundation	1,937,162	2,181,667	244,505 128,066 116,439
Other			
Net Income From Operations	<u>675,845</u>	<u>668,182</u>	<u>7,663</u>



PBS Monthly Collections in Millions



**PALOMAR
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Palomar Pomerado Health
Consolidated Balance Sheet
As of September 30, 2007

	Current Month	Prior Month	Prior Fiscal Year End
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	Current Month	Prior Month	Prior Fiscal Year End
Assets			
Current Assets			
Cash on Hand	\$3,849,920	-\$3,350,638	\$1,365,825
Cash Marketable Securities	64,321,761	48,739,002	107,847,524
Total Cash & Cash Equivalents	68,171,681	45,388,364	109,213,349
Patient Accounts Receivable	193,757,737	184,914,403	160,767,031
Allowance on Accounts	-104,984,193	-100,572,597	-81,286,268
Net Accounts Receivable	88,773,544	84,341,806	79,480,763
Inventories	6,825,791	6,963,305	7,025,980
Prepaid Expenses	3,516,897	2,724,737	2,071,008
Other	19,186,023	19,147,544	5,094,523
Total Current Assets	188,473,936	158,565,756	202,885,623
Non-Current Assets			
Restricted Assets	165,164,481	163,638,797	173,111,797
Restricted by Donor	298,481	297,727	296,184
Board Designated	27,175,222	46,982,865	0
Total Restricted Assets	192,638,184	210,919,389	173,407,981
Property Plant & Equipment	370,519,849	372,862,682	373,271,092
Accumulated Depreciation	-224,998,805	-225,862,730	-222,304,232
Construction in Process	145,974,332	132,107,659	121,244,746
Net Property Plant & Equipment	291,495,376	279,107,611	272,211,606
Investment in Related Companies	278,906	274,339	265,204
Deferred Financing Costs	17,105,838	17,110,867	17,245,255
Other Non-Current Assets	5,442,877	5,715,558	5,715,558
Total Non-Current Assets	506,961,181	513,127,764	468,845,604
Total Assets	\$693,435,117	\$671,693,520	\$671,731,227

	Current Month	Prior Month	Prior Fiscal Year End
Liabilities			
Current Liabilities			
Accounts Payable	\$30,867,153	\$13,771,759	\$27,500,989
Accrued Payroll	16,932,929	14,715,542	14,778,493
Accrued PTO	12,532,665	12,376,610	12,638,138
Accrued Interest Payable	1,246,642	851,670	1,906,574
Current Portion of Bonds	8,640,000	8,640,000	13,220,000
Est Third Party Settlements	-181,791	-165,985	-2,579,788
Other Current Liabilities	22,270,645	23,892,988	12,085,069
Total Current Liabilities	92,308,243	74,082,584	79,549,475
Long Term Liabilities			
Bonds & Contracts Payable	293,905,576	293,886,222	294,723,824
General Fund Balance			
Unrestricted	279,747,599	256,444,136	297,161,750
Restricted for Other Purpose	298,481	297,727	296,184
Board Designated	27,175,222	46,982,865	0
Total Fund Balance	307,221,302	303,724,728	297,457,934
Total Liabilities / Fund Balance	\$693,435,117	\$671,693,520	\$671,731,227

PALOMAR POMERADO HEALTH
 CONSOLIDATED
 Year-to-Date as of September FY 2008

	Actual		Budget		Variance		Volume	Rate/Eff	Actual	\$Weighted Patient Days	
										Budget	Variance
Statistics:											
Admissions - Acute	7,227	7,497	(270)								
Admissions - SNF	276	288	(12)								
Patient Days - Acute	28,527	28,684	(157)								
Patient Days - SNF	19,418	19,427	(9)								
ALOS - Acute	3.95	3.83	0.12								
ALOS - SNF	71.65	68.16	3.49								
Weighted Patient Days	39,628	39,343	285								
Revenue:											
Gross Revenue	\$ 350,208,145	\$ 340,169,993	\$ 10,038,152	F	\$ 2,464,185	\$ 7,573,967	\$ 8,837.39	\$ 8,646.26	\$ 191.13		
Deductions from Rev	(245,933,197)	(236,003,384)	(9,929,813)	U	(1,709,604)	(8,220,209)	(6,206.05)	(5,998.61)	(207.43)		
Net Patient Revenue	104,274,948	104,166,609	108,339	F	754,581	(646,242)	2,631.35	2,647.65	(16.31)		
Other Oper Revenue	2,407,231	3,774,402	(1,367,171)	U	27,342	(1,394,513)	60.75	95.94	(35.19)		
Total Net Revenue	106,682,179	107,941,011	(1,258,832)	U	781,923	(2,040,755)	2,692.09	2,743.59	(51.50)		
Expenses:											
Salaries, Wages & Contr Labor	49,100,668	49,599,099	498,431	F	(359,295)	857,726	1,239.04	1,260.68	21.64		
Benefits	12,932,616	12,505,930	(426,686)	U	(90,593)	(336,093)	326.35	317.87	(8.48)		
Supplies	15,775,478	15,813,895	38,417	F	(114,556)	152,973	398.09	401.95	3.86		
Prof Fees & Purch Svc	14,989,976	15,935,648	945,672	F	(115,438)	1,061,110	378.27	405.04	26.78		
Depreciation	5,377,806	5,324,571	(53,235)	U	(38,571)	(14,664)	135.71	135.34	(0.37)		
Other	6,336,823	6,616,338	279,515	F	(47,929)	327,444	159.91	168.17	8.26		
Total Expenses	104,513,367	105,795,481	1,282,114	F	(766,381)	2,048,495	2,637.36	2,689.05	51.69		
Net Inc Before Non-Oper Income	2,168,812	2,145,530	23,282	F	15,542	7,740	54.73	54.53	0.20		
Property Tax Revenue	3,375,000	3,375,000	-		24,448	(24,448)	85.17	85.78	(0.62)		
Non-Operating Income	1,645,057	198,954	1,446,103	F	1,441	1,444,662	41.51	5.06	36.46		
Net Income (Loss)	\$ 7,188,869	\$ 5,719,484	\$ 1,469,385	F	\$ 41,432	\$ 1,427,953	\$ 181.41	\$ 145.37	\$ 36.03		
Net Income Margin	6.3%	5.1%	1.2%								
OEBITDA Margin w/o Prop Tax	6.6%	6.6%	0.0%								
OEBITDA Margin with Prop Tax	9.5%	9.6%	-0.1%								

F= Favorable variance
 U= Unfavorable variance

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**PALOMAR POMERADO HEALTH
CONSOLIDATED
Month-to-Date as of September FY 2008**

	Actual		Budget		Variance		Rate/Eff	Actual		Budget		Variance
					Volume					Volume		
Statistics:												
Admissions - Acute	2,369	2,445	(76)									
Admissions - SNF	95	94	1									
Patient Days - Acute	9,617	9,352	265									
Patient Days - SNF	6,262	6,335	(73)									
ALOS - Acute	4.03	3.83	0.20									
ALOS - SNF	63.90	68.12	(4.22)									
Weighted Patient Days	13,284	12,826	458									
Revenue:												
Gross Revenue	\$ 116,030,872	\$ 110,936,877	\$ 5,093,995	F	\$ 3,961,414	\$ 1,132,581	\$ 8,734.63	\$ 8,649.37	\$ 85.26			
Deductions from Rev	\$ (80,952,920)	\$ (76,957,638)	\$ (3,995,282)	U	(2,748,058)	(1,247,224)	(6,094.02)	(6,000.13)	(93.89)			
Net Patient Revenue	35,077,952	33,979,239	1,098,713	F	1,213,355	(114,642)	2,640.62	2,649.25	(8.63)			
Other Oper Revenue	719,079	1,258,134	(539,055)	U	44,926	(583,981)	54.13	98.09	(43.96)			
Total Net Revenue	35,797,031	35,237,373	559,658	F	1,258,281	(698,623)	2,694.75	2,747.34	(52.59)			
Expenses:												
Salaries, Wages & Contr Labor	16,477,521	16,187,155	(290,366)	U	(578,023)	287,657	1,240.40	1,262.06	21.65			
Benefits	4,327,260	4,079,998	(247,262)	U	(145,691)	(101,571)	325.75	318.10	(7.65)			
Supplies	5,111,919	5,160,173	48,254	F	(184,263)	232,517	384.82	402.32	17.50			
Prof Fees & Purch Svc	5,463,126	5,185,339	(277,786)	U	(185,162)	(92,825)	411.26	404.28	(6.97)			
Depreciation	1,804,198	1,774,857	(29,341)	U	(63,378)	34,037	135.82	138.38	2.56			
Other	1,937,162	2,181,669	244,507	F	(77,905)	322,412	145.83	170.10	24.27			
Total Expenses	35,121,186	34,569,191	(551,995)	U	(1,234,421)	682,426	2,643.87	2,695.24	51.37			
Net Inc Before Non-Oper Income	675,845	668,182	7,663	F	23,860	(16,197)	50.88	52.10	(1.22)			
Property Tax Revenue	1,125,000	1,125,000	-		40,172	(40,172)	84.69	87.71	(3.02)			
Non-Operating Income	795,729	66,318	729,411	F	2,368	727,043	59.90	5.17	54.73			
Net Income (Loss)	\$ 2,596,574	\$ 1,859,500	\$ 737,074	F	\$ 66,400	\$ 670,674	\$ 195.47	\$ 144.98	\$ 50.49			
Net Income Margin	7.3%	5.0%	2.3%									
OEBITDA Margin w/o Prop Tax	7.0%	6.6%	0.4%									
OEBITDA Margin with Prop Tax	10.1%	9.7%	0.4%									

F= Favorable variance
U= Unfavorable variance

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**PALOMAR POMERADO HEALTH
CONSOLIDATED
September 2007 YTD vs. September 2006 YTD**

	September 07 YTD		September 06 YTD		Variance		\$/Weighted Patient Days			
					Volume	Rate/Eff	Actual	Budget	Variance	
Statistics:										
Admissions - Acute	7,227	7,309	(82)							
Admissions - SNF	276	293	(17)							
Patient Days - Acute	28,527	27,866	661							
Patient Days - SNF	19,418	19,460	(42)							
ALOS - Acute	3.95	3.79	0.16							
ALOS - SNF	71.65	66.42	5.23							
Weighted Patient Days	39,628	38,235	1,393							
Revenue:										
Gross Revenue	\$ 350,208,145	\$ 300,094,099	\$ 50,114,046	F	\$ 10,933,205	\$ 39,180,841	\$ 8,837.39	\$ 7,848.68	\$ 988.72	
Deductions from Rev	(245,933,197)	(205,817,494)	(40,115,703)	U	(7,498,464)	(32,617,239)	(6,206.05)	(5,382.96)	(823.09)	
Net Patient Revenue	104,274,948	94,276,605	9,998,343	F	3,434,741	6,563,602	2,631.35	2,465.71	165.63	
Other Oper Revenue	2,407,231	2,814,581	(407,350)	U	102,542	(509,892)	60.75	73.61	(12.87)	
Total Net Revenue	106,682,179	97,091,186	9,590,993	F	3,537,283	6,053,710	2,692.09	2,539.33	152.76	
Expenses:										
Salaries, Wages & Contr Labor	49,100,668	44,956,909	(4,143,759)	U	(1,637,897)	(2,505,862)	1,239.04	1,175.81	(63.23)	
Benefits	12,932,616	11,068,952	(1,863,664)	U	(403,271)	(1,460,393)	326.35	289.50	(36.85)	
Supplies	15,775,478	14,951,315	(824,163)	U	(544,715)	(279,446)	398.09	391.04	(7.05)	
Prof Fees & Purch Svc	14,989,975	12,517,059	(2,472,916)	U	(456,029)	(2,016,887)	378.27	327.37	(50.90)	
Depreciation	5,377,807	4,970,148	(407,659)	U	(181,075)	(226,584)	135.71	129.99	(5.72)	
Other	6,336,823	5,208,128	(1,128,695)	U	(189,746)	(938,949)	159.91	136.21	(23.69)	
Total Expenses	104,513,367	93,672,511	(10,840,856)	U	(3,412,732)	(7,428,124)	2,637.36	2,449.92	(187.45)	
Net Inc Before Non-Oper Income	2,168,812	3,418,675	(1,249,863)	U	124,551	(1,374,414)	54.73	89.41	(34.68)	
Property Tax Revenue	3,375,000	3,162,498	212,502	F	115,218	97,284	85.17	82.71	2.45	
Non-Operating Income	1,645,057	1,271,488	373,569	F	46,324	327,245	41.51	33.25	8.26	
Net Income (Loss)	\$ 7,188,869	\$ 7,852,661	\$(663,792)	U	\$ 286,093	\$(949,885)	\$ 181.41	\$ 205.38	\$(23.97)	
Net Income Margin	6.3%	7.6%	-1.3%							
OEBITDA Margin w/o Prop Tax	6.6%	8.1%	-1.5%							
OEBITDA Margin with Prop Tax	9.5%	11.2%	-1.7%							

F= Favorable variance
U= Unfavorable variance

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**PALOMAR POMERADO HEALTH
CONSOLIDATED
MONTHLY TREND**

	Jul	Aug	Sep	YTD
Statistics:				
Admissions - Acute	2,378	2,480	2,369	7,227
Admissions - SNF	98	83	95	276
Patient Days - Acute	9,000	9,910	9,617	28,527
Patient Days - SNF	6,453	6,703	6,262	19,418
LOS - Acute	3.77	4.03	4.03	3.95
LOS - SNF	74.17	77.94	63.90	71.65
Weighted Patient Days	12,587	13,756	13,284	39,628
Adjusted Discharges	3,283	3,357	3,250	9,889

Revenue:				
Gross Revenue	\$ 111,773,221	\$ 122,404,049	\$ 116,030,872	\$ 350,208,145
Deductions from Rev	(78,069,250)	(86,911,029)	(80,952,920)	(245,933,197)
Net Patient Revenue	33,703,971	35,493,020	35,077,952	104,274,948
Other Oper Revenue	701,388	986,768	719,079	2,407,231
Total Net Revenue	34,405,359	36,479,788	35,797,031	106,682,179

Expenses:				
Salaries, Wages & Contr Labor	16,158,669	16,464,478	16,477,521	49,100,668
Benefits	4,208,437	4,396,919	4,327,260	12,932,616
Supplies	4,942,769	5,720,791	5,111,919	15,775,478
Prof Fees & Purch Svc	4,291,556	5,235,293	5,463,126	14,989,975
Depreciation	1,787,630	1,785,978	1,804,198	5,377,807
Other	2,455,357	1,944,304	1,937,162	6,336,823
Total Expenses	33,844,418	35,547,763	35,121,186	104,513,367

Net Inc Before Non-Oper Income	560,941	932,026	675,845	2,168,812
Property Tax Revenue	1,125,000	1,125,000	1,125,000	3,375,000
Non-Operating Income	331,466	517,863	795,729	1,645,057
Net Income (Loss)	\$ 2,017,407	\$ 2,574,888	\$ 2,596,574	7,188,869

Net Income Margin	5.8%	5.8%	7.3%	6.3%
OEBITDA Margin w/o Prop Tax	6.8%	6.1%	7.0%	6.6%
OEBITDA Margin with Prop Tax	10.1%	8.6%	10.1%	9.5%

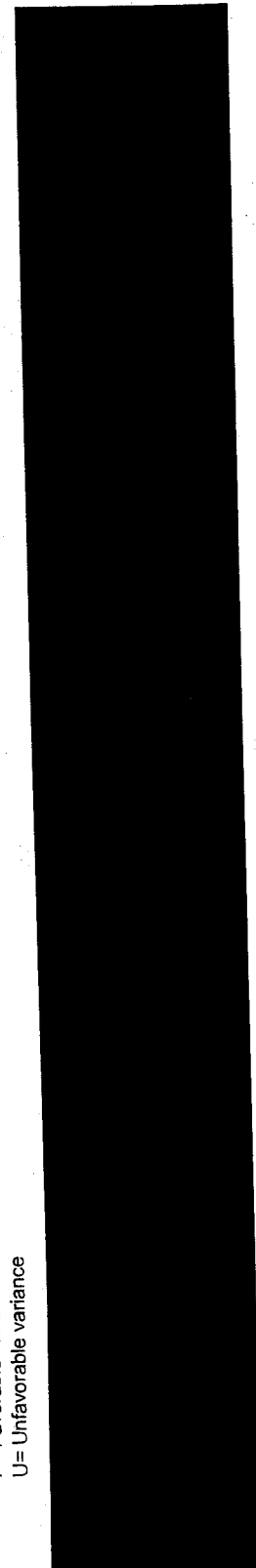
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**PALOMAR POMERADO HEALTH
CONSOLIDATED
Year-to-Date as of September FY 2008**

	Actual		Budget		Variance		Rate/Eff		Actual		Budget		Variance	
Statistics:														
Admissions - Acute	7,227	7,497	(270)											
Admissions - SNF	276	288	(12)											
Patient Days - Acute	28,527	28,684	(157)											
Patient Days - SNF	19,418	19,427	(9)											
ALOS - Acute	3.95	3.83	0.12											
ALOS - SNF	71.65	68.16	3.49											
Adjusted Discharges	9,889	10,153	(264)											
Revenue:														
Gross Revenue	\$ 350,208,145	\$ 340,169,993	\$ 10,038,152	F	\$ 18,883,309	\$ 35,413.91	\$ 33,504.38	\$ 1,909.53						
Deductions from Rev	(245,933,197)	(236,003,384)	(9,929,813)	U	6,136,599	(24,869.37)	(23,244.69)	(1,624.68)						
Net Patient Revenue	104,274,948	104,166,609	108,339	F	2,816,897	10,544.54	10,259.69	284.85						
Other Revenue	2,407,231	3,774,402	(1,367,171)	U	(98,143)	(1,269.028)	371.75	(128.33)						
Total Net Revenue	106,682,179	107,941,011	(1,258,832)	U	(2,806,700)	10,787.96	10,631.44	156.52						
Expenses:														
Salaries, Wages & Contr Labor	49,100,668	49,599,099	498,431	F	1,289,684	4,965.18	4,885.17	(80.01)						
Benefits	12,932,616	12,505,930	(426,686)	U	325,181	1,307.78	1,231.75	(76.03)						
Supplies	15,775,478	15,813,895	38,417	F	411,196	1,595.26	1,557.56	(37.70)						
Prof Fees & Purch Svc	14,989,975	15,935,648	945,673	F	531,312	1,515.82	1,569.55	53.73						
Depreciation	5,377,807	5,324,571	(53,236)	U	138,450	543.82	524.43	(19.38)						
Other	6,336,823	6,616,338	279,515	F	172,039	640.80	651.66	10.87						
Total Expenses	104,513,367	105,795,481	1,282,114	F	2,750,912	10,568.65	10,420.12	(148.53)						
Net Inc Before Non-Oper Income	2,168,812	2,145,530	23,282	F	(55,788)	219.32	211.32	8.00						
Property Tax Revenue	3,375,000	3,375,000	-	F	(87,757)	341.29	332.41	8.87						
Non-Operating Income	1,645,057	198,954	1,446,103	F	(5,173)	166.35	19.60	146.76						
Net Income (Loss)	\$ 7,188,869	\$ 5,719,484	\$ 1,469,385	F	\$ (148,719)	\$ 1,618,104	\$ 563.33	\$ 163.63						
Net Income Margin	6.3%	5.1%	1.2%											
OEBITDA Margin w/o Prop Tax	6.6%	6.6%	0.0%											
OEBITDA Margin with Prop Tax	9.5%	9.6%	-0.1%											

F = Favorable variance
U = Unfavorable variance



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**PALOMAR POMERADO HEALTH
CONSOLIDATED
Month-to-Date as of September FY 2008**

	Actual		Budget		Variance		Volume		Rate/Eff		Actual		Budget		Variance	
Statistics:																
Admissions - Acute	2,369		2,445		(76)											
Admissions - SNF	95		94		1											
Patient Days - Acute	9,617		9,352		265											
Patient Days - SNF	6,262		6,335		(73)											
ALOS - Acute	4.03		3.83		0.20											
ALOS - SNF	63.90		68.12		(4.22)											
Adjusted Discharges	3,250		3,311		(61)											
Revenue:																
Gross Revenue	\$ 116,030,872	\$	110,936,877	\$	5,093,995	F	\$ 7,137,834	\$	35,701.81	\$	33,505.55	\$	2,196.26			
Deductions from Rev	\$ (80,952,920)	\$	(76,957,638)	\$	(3,995,282)	U	(5,413,106)	(23,243.02)								
Net Patient Revenue	35,077,952		33,979,239		1,098,713	F	1,724,727	10,262.53								
Other Oper Revenue	719,079		1,258,134		(539,055)	U	(515,876)	221.26								
Total Net Revenue	35,797,031		35,237,373		559,658	F	1,208,852	11,014.47								
Expenses:																
Salaries, Wages & Contr Labor	16,477,521		16,187,157		(290,364)	U	(588,587)	5,070.01								
Benefits	4,327,260		4,079,998		(247,262)	U	(322,430)	1,331.46								
Supplies	5,111,919		5,160,173		(48,254)	F	(46,814)	1,572.90								
Prof Fees & Purch Svc	5,463,126		5,185,339		(277,786)	U	(373,319)	1,680.96								
Depreciation	1,804,198		1,774,857		(29,341)	U	(62,040)	555.14								
Other	1,937,162		2,181,667		(244,505)	F	204,311	596.05								
Total Expenses	35,121,186		34,569,191		(551,995)	U	(1,188,878)	10,806.52								
Net Inc Before Non-Oper Income	675,845		668,182		7,663	F	19,973	207.95								
Property Tax Revenue	1,125,000		1,125,000		-		20,726	346.15								
Non-Operating Income	795,729		66,318		729,411	F	(1,222)	244.84								
Net Income (Loss)	\$ 2,596,574	\$	1,859,500	\$	737,074	F	771,332	\$ 798.95	\$	561.61	\$	237.33				
Net Income Margin	7.3%		5.0%		2.3%											
OEBITDA Margin w/o Prop Tax	7.0%		6.6%		0.4%											
OEBITDA Margin with Prop Tax	10.1%		9.7%		0.4%											

F= Favorable variance
U= Unfavorable variance

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**PALOMAR POMERADO HEALTH
CONSOLIDATED
September 2007 YTD vs. September 2006 YTD**

	September 07 YTD		September 06 YTD		Variance		\$/Adjusted Discharges					
					Volume	Rate/Eff	Actual	Budget	Variance			
Revenue:												
Gross Revenue	7,227	7,309	50,114,046	52,641,661	\$ (2,527,615)	\$	\$35,413.91	\$ 30,090.65	\$	5,323.25		
Deductions from Rev	(245,933,197)	(205,817,494)	(40,115,703)	(41,849,251)	1,733,548	(24,869.37)	(20,637.47)			(4,231.90)		
Net Patient Revenue	104,274,948	94,276,605	9,998,343	10,792,410	(794,067)	10,544.54	9,453.18			1,091.36		
Other Oper Revenue	2,407,231	2,814,581	(407,350)	(383,644)	(23,706)	243.43	282.22			(38.79)		
Total Net Revenue	106,682,179	97,091,186	9,590,993	10,408,767	(817,774)	10,787.96	9,735.40			1,052.56		
Expenses:												
Salaries, Wages & Contr Labor	49,100,668	44,956,909	(4,143,759)	(4,522,419)	378,660	(4,522.419)	4,507.86			(457.32)		
Benefits	12,932,616	11,068,952	(1,863,664)	(1,956,895)	93,231	(1,956.895)	1,307.78			(197.89)		
Supplies	15,775,478	14,951,315	(824,163)	(950,094)	125,931	(950.094)	1,595.26			(96.08)		
Prof Fees & Purch Svc	14,989,975	12,517,059	(2,472,916)	(2,578,344)	105,428	(2,578.344)	1,515.82			(260.73)		
Depreciation	5,377,807	4,970,148	(407,659)	(449,521)	41,862	(449.521)	543.82			(45.46)		
Other	6,336,823	5,208,128	(1,128,695)	(1,172,562)	43,867	(1,172.562)	640.80			(118.57)		
Total Expenses	104,513,367	93,672,511	(10,840,856)	(11,629,835)	788,979	(11,629.835)	10,568.65	9,392.61		(1,176.04)		
Net Inc Before Non-Oper Income	2,168,812	3,418,675	(1,249,863)	(1,221,068)	(28,795)	(1,221,068)	219.32	342.79		(123.48)		
Property Tax Revenue	3,375,000	3,162,498	212,502	239,139	(26,637)	239.139	341.29			24.18		
Non-Operating Income	1,645,057	1,271,488	373,569	384,278	(10,709)	384.278	166.35			38.86		
Net Income (Loss)	\$ 7,188,869	\$ 7,852,661	\$ (663,792)	\$ (597,651)	\$ (66,141)	\$ (597,651)	\$ 726.96	\$ 787.39		\$ (60.44)		
Net Income Margin	6.3%	7.6%	-1.3%									
OEBITDA Margin w/o Prop Tax	6.6%	8.1%	-1.5%									
OEBITDA Margin with Prop Tax	9.5%	11.2%	-1.7%									

F= Favorable variance
U= Unfavorable variance

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Statement of Cash Flows

Fiscal Year 2008

	September	YTD
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (Loss from operations)	932,026	1,492,467
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation Expense	1,785,978	3,573,608
Provision for bad debts	9,187,293	10,024,683
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,404,654)	(14,885,725)
Property Tax and other receivables	442,648	(14,820,384)
Inventories	117,754	62,675
Prepaid expenses and Other Non-Current assets	394,564	(662,864)
Accounts payable	(12,383,698)	(13,770,680)
Accrued comp	448,649	(324,478)
Estimated settlement amounts due third-party payors	776,145	2,413,803
Other current liabilities	471,020	14,057,920
Net cash provided by operating activities	(9,232,275)	(12,838,975)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales on investments	11,802,783	21,597,114
Interest (Loss) received on investments	875,819	1,497,422
Investment in affiliates	102,641	370,990
Net cash used in investing activities	12,781,243	23,465,526
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:		
Receipt of G.O. Bond Taxes	137,791	245,739
Receipt of District Taxes	242,717	389,892
Net cash used in activities	380,508	635,631
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property plant and equipment	(4,002,309)	(8,912,321)
Proceeds from sale of asset	0	0
G.O. Bond Interest paid	(1,745,713)	(1,745,713)
Revenue Bond Interest paid	0	0
Proceeds from issuance of debt	0	0
Payments of LT Debt	(5,455,000)	(5,455,000)
Net cash used in activities	(11,203,021)	(16,113,033)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,273,545)	(4,850,851)
CASH AND CASH EQUIVALENTS - Beginning of period	7,884,043	5,261,349
CASH AND CASH EQUIVALENTS - End of period	410,498	410,498

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**PALOMAR POMERADO HEALTH
BOND COVENANT RATIOS**

CUSHION RATIO

	Jun-06	Jun-07	Sep-07
Cash and Cash Equivalents	112,036,430	131,107,931	64,276,157
Board Designated Reserves	9,267,526	(17,999,058)	27,175,222
Trustee-held Funds	12,170,183	151,337,563	156,830,762
Total	133,474,139	264,446,436	248,282,141
Divided by: Max Annual Debt Service (Bond Year 2008)	10,697,594	16,972,692	16,972,692

**CUSHION RATIO
REQUIREMENT**

	12.5	15.6	14.6
	1.5	1.5	1.5
	Achieved	Achieved	Achieved

DAYS CASH ON HAND

	Jun-06	Jun-07	Sep-07
Cash and Cash Equivalents	112,036,430	131,107,931	64,276,157
Board Designated Reserves	9,267,526	(17,999,058)	27,175,222
Total	121,303,956	113,108,873	91,451,379

Divide Total by Average Adjusted Expenses per Day

Total Expenses	364,120,335	388,181,714	104,513,367
Less: Depreciation	18,737,467	19,482,444	5,377,807
Adjusted Expenses	345,382,868	368,699,270	99,135,560
Number of days in period	365	365	92
Average Adjusted Expenses per Day	946,254	1,010,135	1,077,560

**DAYS CASH ON HAND
REQUIREMENT**

	128	112	85
	80	80	80
	Achieved	Achieved	Achieved

Net Income Available for Debt Service

	Jun-06	Jun-07	Sep-07
Excess of revenue over expenses Cur Mo.	1,315,850	3,795,437	2,596,574
Excess of revenues over expenses YTD (General Funds)	11,558,633	22,806,500	7,188,869
ADD:			
Depreciation and Amortization	18,737,467	19,482,444	5,377,807
Interest Expense	4,405,929	3,441,118	1,086,255
Net Income Available for Debt Service	34,702,029	45,730,062	13,652,941

Aggregate Debt Service

1993 Insured Refunding Revenue Bonds	3,639,772	0	0
1999 Insured Refunding Revenue Bonds	6,950,508	8,249,916	2,062,721
2006 Certificates of Participation	10,590,280	12,623,258	1,874,289
Aggregate Debt Service	3,28	3.62	3.47
	1.15	1.15	1.15
	Achieved	Achieved	Achieved

**Net Income Available for Debt Service
Required Coverage**

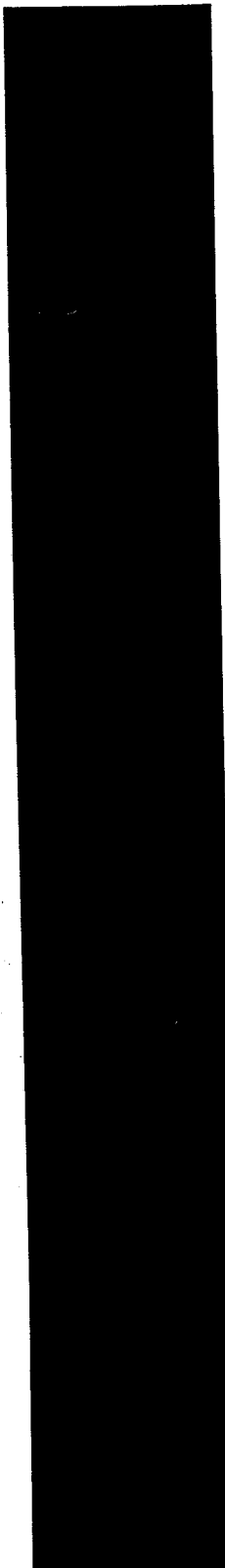
	3.28	3.62	3.47
	1.15	1.15	1.15
	Achieved	Achieved	Achieved

PALOMAR POMERADO HEALTH
 A California Health Care District
 Investment Fund Balances
 Quarterly Report

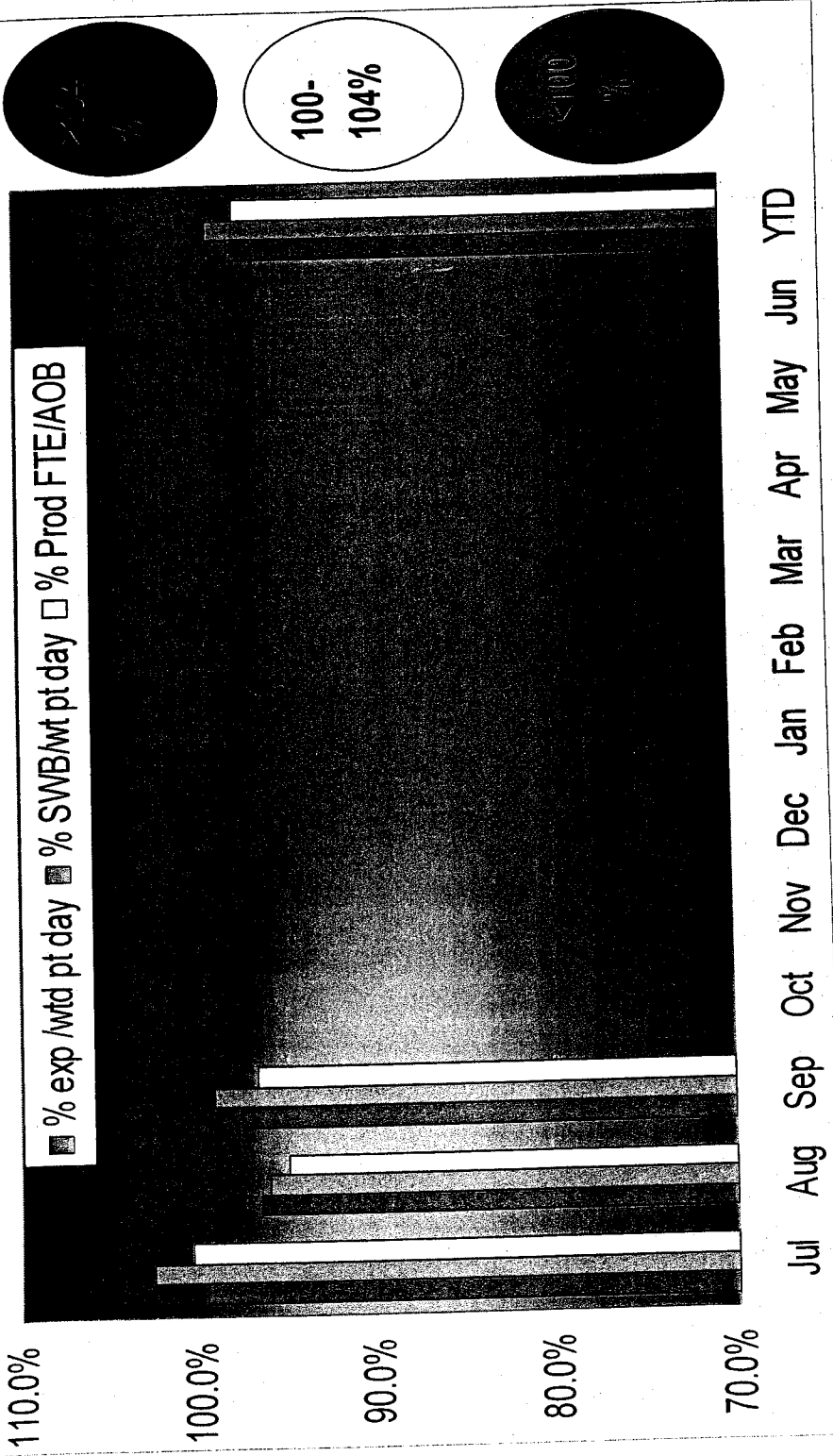
Investment Account:	Interest Payable	Interest Rate	Maturity Date	Sept. 30, 2007	June 30, 2007	IN/(DE)CREASE
Fidelity-Institutional Portfolio Treasury Fund	Monthly	4.60%	Demand	\$ 977,693	\$ 966,020	\$ 11,673
State Treasurer Local Agency Investment Fund	Quarterly	4.74%	Demand	584,203	576,618	7,585
Salomon Brothers	Various	Various	Various	33,689,491	32,760,777	928,714
Pacific Income Advisors, Inc.	Various	Various	Various	32,409,784	31,625,526	784,258
Morgan Stanley & Co.	Various	Various	Various	24,418,751	42,336,671	(17,917,920)
TOTAL INVESTMENTS AT CURRENT FAIR MARKET VALUE				\$ 92,079,922	\$ 108,265,612	\$ (16,185,690)
ACCRUED INTEREST INCOME RECEIVABLE				693,234	844,209	(150,975)
Bank of America - Cash in Checking/COR Acct.				148,355	146,712	1,643
TOTAL VALUE OF INVESTMENT PORTFOLIO				\$ 92,921,511	\$ 109,256,533	\$ (16,335,022)
INVESTMENTS COMPARATIVE						
09/07	\$ 92,079,922			\$ 92,623,030	\$ 108,960,349	\$ (16,337,319)
09/06	\$ 110,451,444			298,481	296,184	2,297
09/05	\$ 115,909,800			\$ 92,921,511	\$ 109,256,533	\$ (16,335,022)
09/04	\$ 152,031,392					
09/03	\$ 154,990,312					

SUMMARY OF INVESTMENT PORTFOLIO BY FUND
 Palomar Pomerado Unrestricted Fund
 Palomar Pomerado Restricted Fund

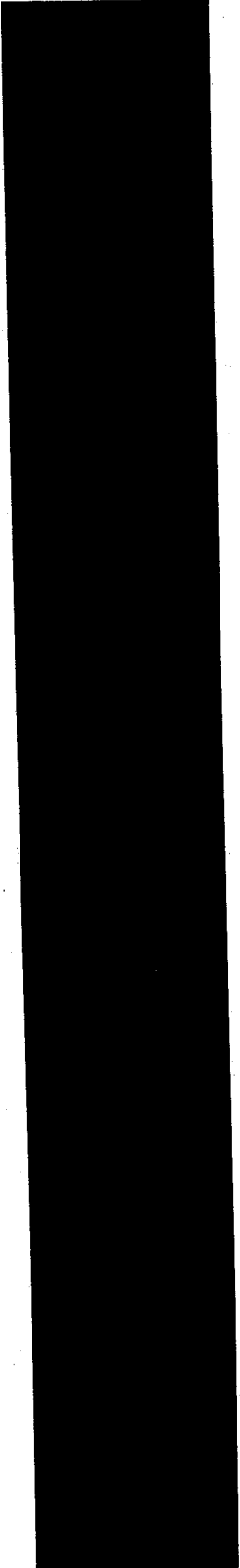
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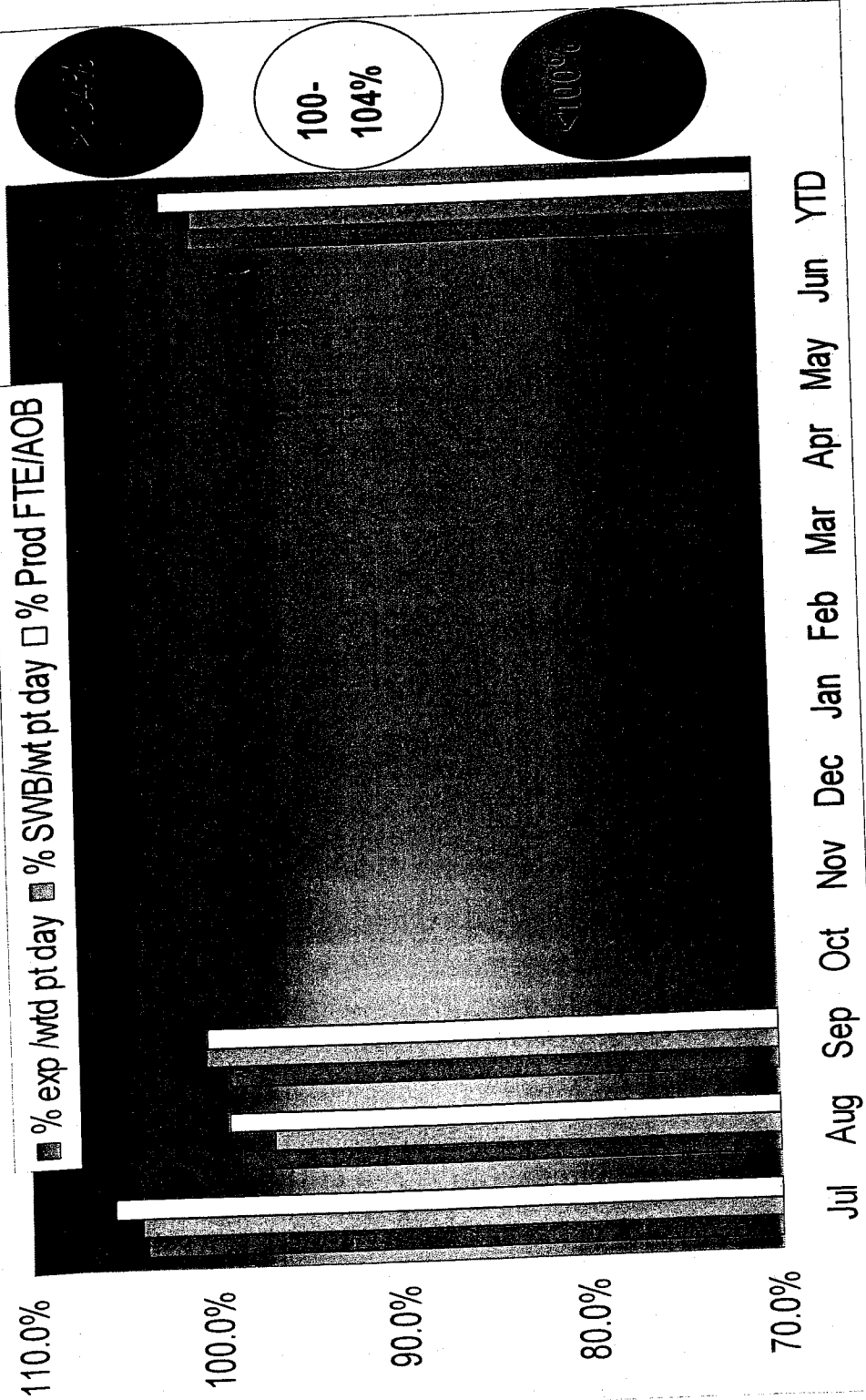
Total Consolidated Financial Indicators BSC-FY08



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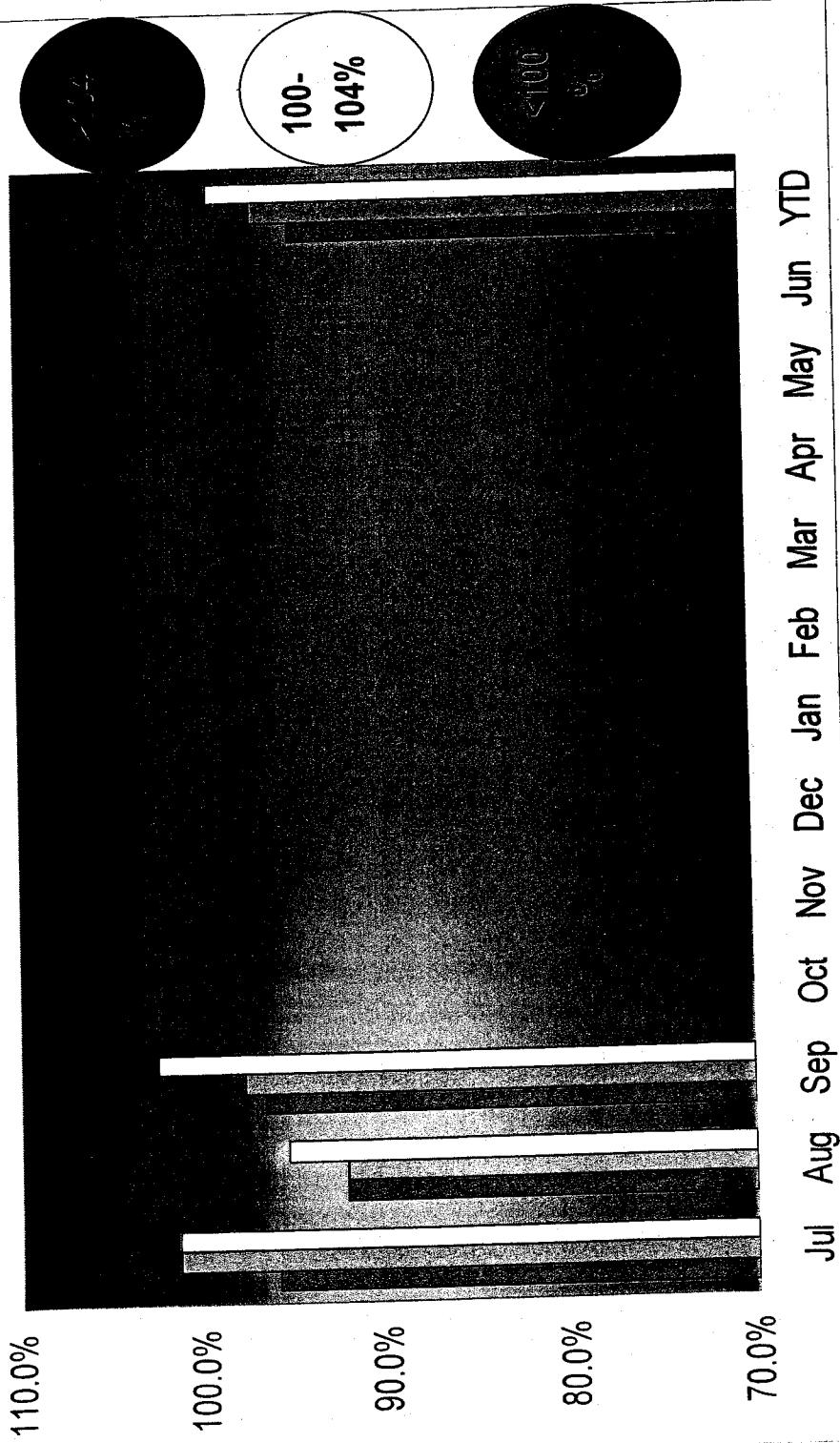
North Consolidated Financial Indicators BSC-FY08



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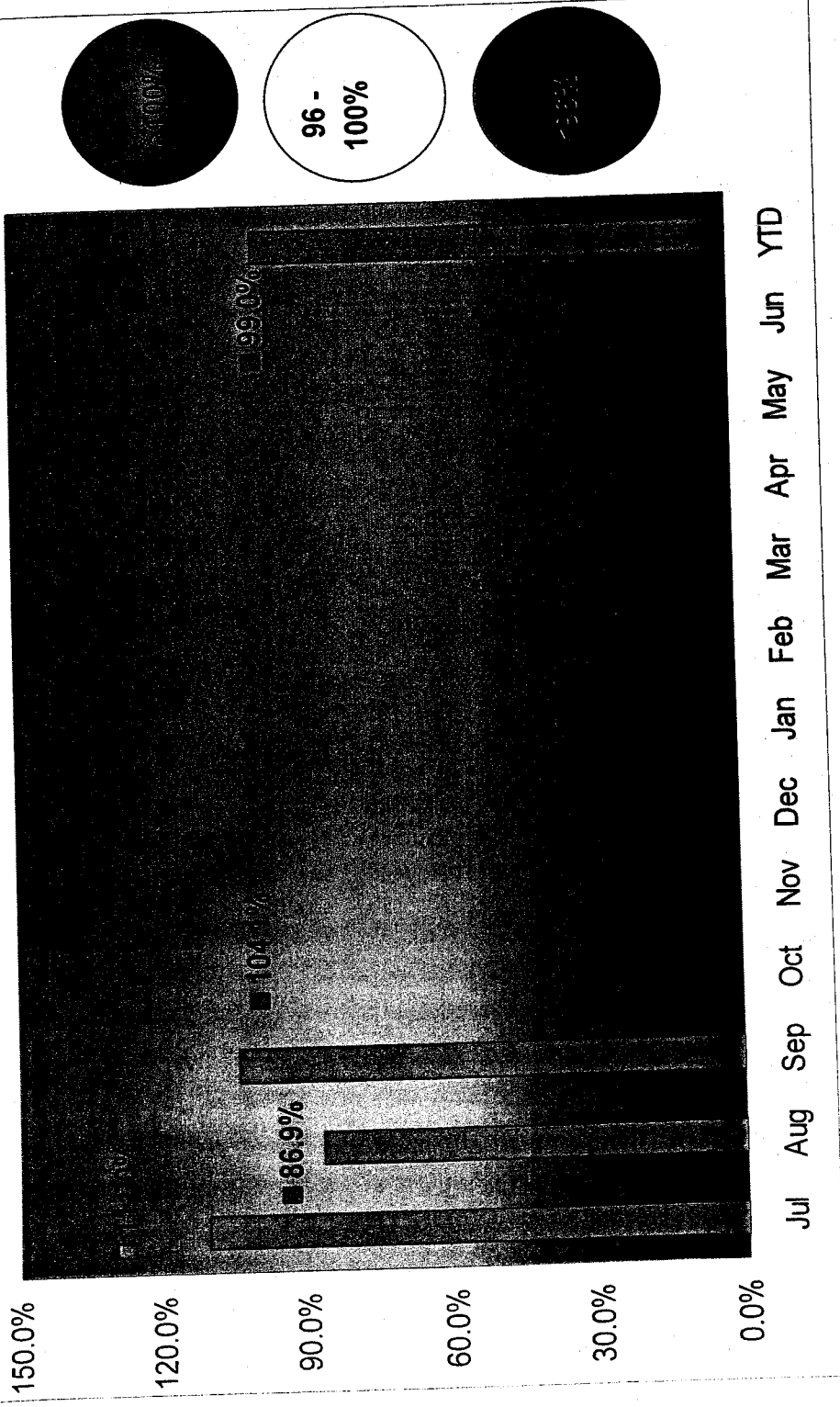
South Consolidated Financial Indicators BSC-FY08

■ % exp /wtd pt day ■ % SWB/wt pt day □ % Prod FTE/AOB



Total Consolidated OEBITDA w/ Prop Taxes -FY08

■ % of Actual to Budget

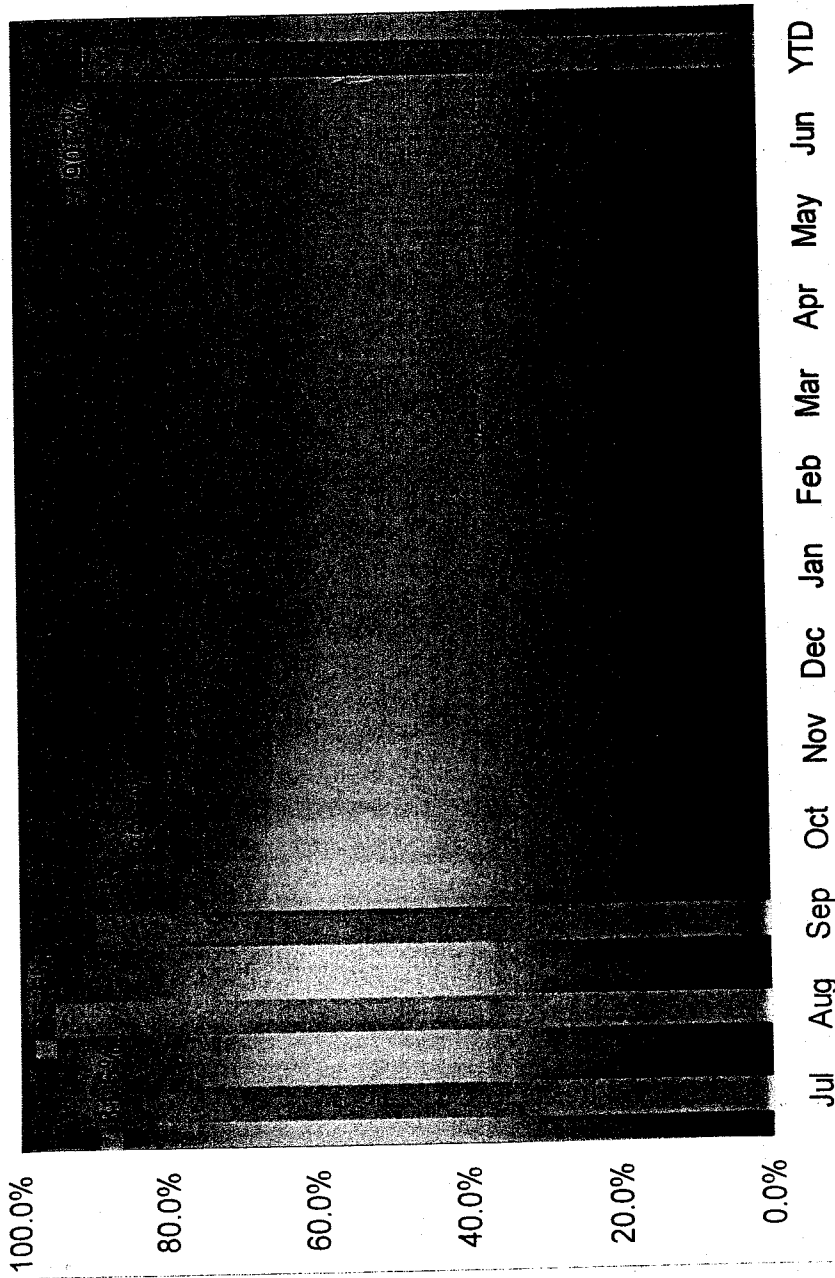


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North Consolidated OEBITDA w/ Prop Taxes - FY08

% of Actual to Budget



96 - 100%

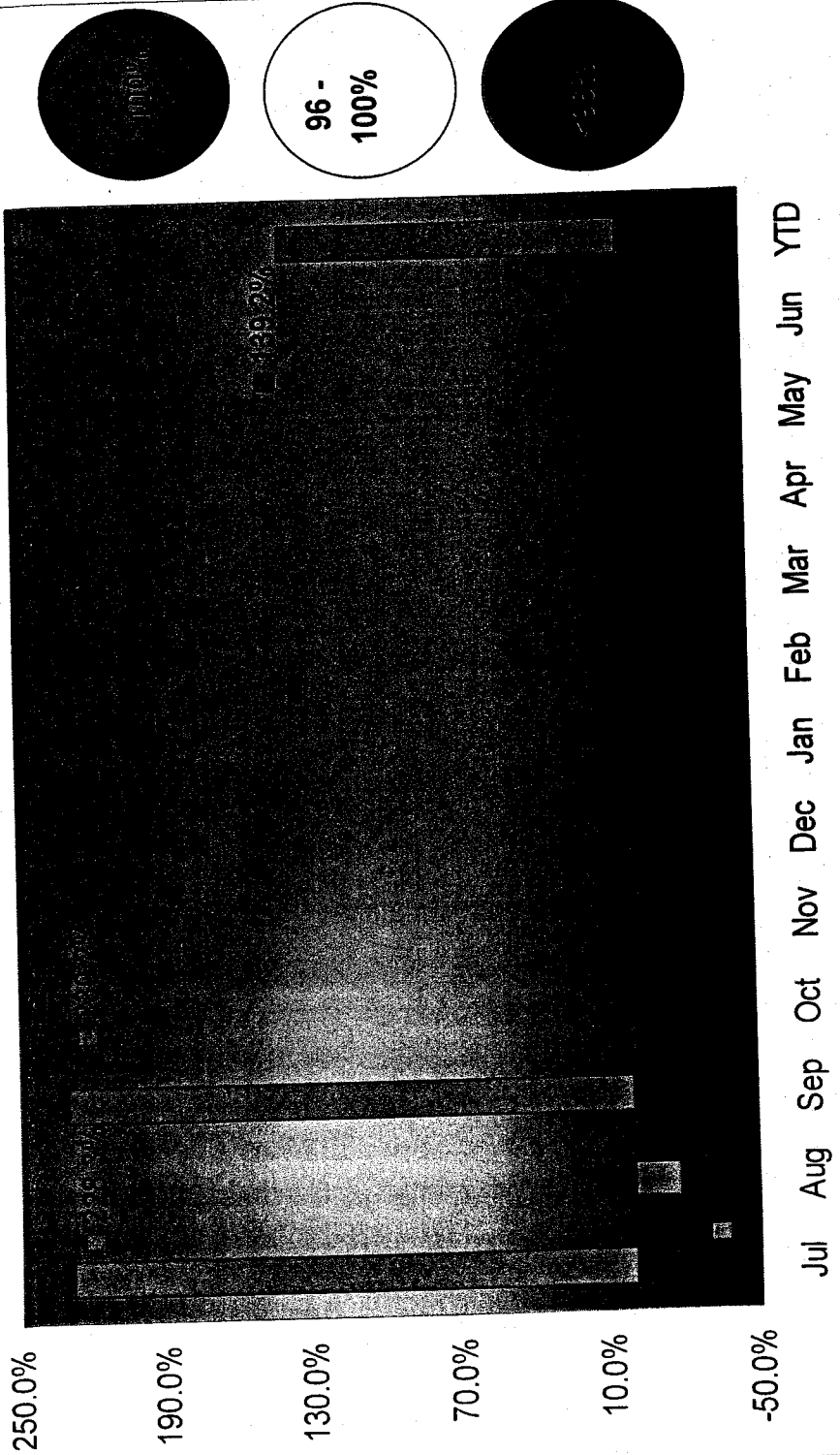
96 - 100%

83%

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South Consolidated OEBITDA w/ Prop Taxes - FY08

■ % of Actual to Budget



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Source	Current Month End	Most Recent Month End	Prior Month	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior Year Y-T-D	Change from Prior Month
	9/30/2007	8/31/2007	7/31/2007	9/30/2007	6/30/2007	9/30/2006	
Period Ending Days in Period	30	31	31	92	365	92	
Revenue							
Gross for Month (Month to Date)	113,132,629	119,574,558	109,075,942	341,783,129	1,205,732,433	282,437,451	\$ (6,441,929)
Net Revenue	34,166,054	34,328,490	32,632,655	101,127,199	371,016,682	90,710,448	\$ (162,436)
Net:Gross %	30.2%	28.7%	29.9%	29.6%	30.8%	31.0%	1.5%
Last 3 Month Daily Average (Gross)	3,715,034	3,535,333	3,383,997	3,715,034	3,303,377	3,178,668	\$ 179,701
Last 3 Month Daily Average (Net)	1,099,209	1,015,071	1,009,726	1,099,209	1,016,484	985,983	\$ 84,138
Cash Collections							
Month to Date	29,998,440	33,603,517	30,206,037	93,807,994	357,733,249	79,207,374	\$ (3,605,077)
Month to Date Goal	34,331,679	31,374,144	30,916,783	96,622,607	358,561,284	89,640,321	\$ 2,957,535
Over (under) Goal	(4,333,239)	2,229,373	(710,746)	(2,814,613)	(828,035)	(10,432,947)	\$ (6,562,612)
% of Goal	87%	107%	97.7%	97.1%	99.8%	88.4%	-19.7%
Point of Service Collections							
Month to Date	268,468	322,273	259,551	850,292	3,244,728	771,920	\$ (53,805)
Month to Date Goal	297,000	297,000	297,000	4,725,000	3,265,740	816,435	\$ -
Over (under) Goal	(28,532)	25,273	(37,449)	(3,874,708)	(21,012)	(44,515)	\$ (53,805)
% of Goal	90.4%	108.5%	87.4%	18.0%	99.4%	94.5%	-18.1%
Accounts Receivable							
0-30	92,326,129	110,082,206	82,051,803	281,460,124	73,718,929	75,391,181	\$ (17,756,077)
31-60	23,662,650	18,201,606	28,187,224	70,051,480	19,857,146	14,837,572	\$ 5,461,044
61-90	15,517,444	10,752,921	16,736,720	42,007,081	13,499,609	20,078,235	\$ 4,764,523
91-180	27,989,145	21,262,246	26,960,335	76,219,516	26,694,468	42,629,976	\$ 6,726,899
Over 180	27,971,945	18,795,543	21,357,921	77,155,009	21,653,269	20,727,628	\$ 9,176,402
Total	\$ 187,467,313	\$ 179,094,522	\$ 175,293,903	\$ 287,783,169	\$ 155,423,421	\$ 173,664,592	\$ 8,372,791
Calc	50.46	50.66	51.80	51.80	47.05	54.63	-0.20
AR Days (Gross)	14.9%	10.5%	12.2%	12.2%	14%	11.9%	1.5%
% of AR aged over 180 days	61.972	60.396	61.890	61.890	NA	NA	1,576
Number of Accounts							

Credit Balance Accounts:	Dollars ATB	\$ (2,818,162)	\$ (2,546,487)	\$ (5,082,562)	\$ (3,955,501)	\$ (271,675)
	Number of Accounts ATB	1,776	1,843	2,114	1,642	(67)

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Revenue Cycle Key Indicators Trending Report

Source	Current Month End	Most Recent Month End	Prior Month	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior Year Y-T-D	Change from Prior Month
	9/30/2007	8/31/2007	7/31/2007	9/30/2007	6/30/2007	9/30/2006	
Accounts Receivable by Major Payer							
Medicare	38,414,328	37,807,359	\$ 32,376,461	\$	\$ 31,212,504	\$ 35,287,676	\$ 606,969
Last 3 months daily average revenue	980,879	954,009	956,013		965,874	874,451	\$ 26,870
Gross Days revenue outstanding	39.16	39.63	33.87		32.32	40.35	-0.47
MediCal (Includes M-Cal HMO)	27,941,164	25,218,261	31,440,704		23,655,071	25,709,929	2,722,903
Last 3 months daily average revenue	665,283	590,817	553,913		522,046	455,152	74,466
Gross Days revenue outstanding	42.00	42.68	56.76		45.31	56.49	-0.68
Comm/Managed Care (Incl Mcare HMO)	84,177,118	81,589,051	80,947,010		72,445,182	77,336,346	2,588,067
Last 3 months daily average revenue	1,868,008	1,784,240	1,706,627		1,679,046	2,084,072	83,768
Gross Days revenue outstanding	45.06	45.73	47.43		43.15	37.11	-0.67
Self-Pay	36,934,703	34,479,851	30,529,728		28,110,665	35,330,640	2,454,852
Last 3 months daily average revenue	202,223	179,365	139,183		165,713	215,197	22,858
Gross Days revenue outstanding	182.64	192.23	219.35		169.63	164.18	-9.59
Bad Debt Write-offs	(635)	2,941,465	939,542	3,880,373		\$ 2,972,917	\$ (2,942,100)
M-T-D Amount net of Recovery	0.0%	2.5%	0.9%	1.1%		1.0%	-2.5%
% of Gross Revenue (Target < 2%)							
Charity & Undocumented Write-offs	3,140,492	1,273,118	953,499	4,413,610		\$ 1,307,344	\$ 1,867,373
M-T-D Amount	2.8%	1.1%	0.9%	1.3%		0.4%	1.7%
% of Gross Revenue (Target < 2%)							
Denial & Other Admin Adjustments	506,285	643,626	467,382	1,149,911		\$ 224,415	\$ (137,341)
M-T-D Amount	0.4%	0.5%	0.4%	0.3%		0.1%	-0.1%
% of Gross Revenue (Target < 1%)							

Source	Current Month End	Most Recent Month End	Prior Month	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior Year Y-T-D	Change from Prior Month
	9/30/2007	8/31/2007	7/31/2007	9/30/2007	6/30/2007	9/30/2006	
Discharged Not Final Billed (DNFB)							
DNFB Action Required							
HIM (Waiting for Coding)	8,126,127	5,195,217	4,285,067	8,126,127			\$ 2,930,910
PBS (Correction required)	340,901	161,705	920,196	340,901			\$ 179,196
Other holds requiring correction							\$ -
Total Action Required	8,467,028	5,356,922	5,205,263	8,467,028			\$ 3,110,106
# of AR Days action Required	2.28	1.52	1.54	2.28			0.76
DNFB No Action Required							
4 Day Standard Delay	23,613,635	24,448,655	22,693,400	23,613,635			\$ (835,020)
Other	4,008,534	1,053,805	518,698	4,008,534			\$ 2,954,729
Total No Action Required	27,622,169	25,502,460	23,212,098	27,622,169			\$ 2,119,709
Total DNFB	\$ 36,089,197	\$ 30,859,382	\$ 28,417,361	\$ 36,089,197			\$ 5,229,815
Total Days in DNFB	9.71	8.73	8.40	9.71			0.99
Late Charges							
Late Charges from Date of Service 5 to 20 Days							
Number of line items	25,759	16,201	8,244	50,204			9,558
Dollar amount of Charges	715,422	1,620,077	675,398	3,010,897			\$ (904,655)
Dollar amount of Credits	(268,183)	(958,292)	(361,624)	(1,588,099)			\$ 690,109
Net Dollar Amount	447,239	661,785	313,774	1,422,798			\$ (214,546)
Absolute Dollar Amount	\$ 983,604	\$ 2,578,369	\$ 1,037,023	\$ 4,598,996			\$ (1,594,765)
Late Charges from Date of Service > 21 Days							
Number of line items	70,743	55,471	28,876	155,090			15,272
Dollar amount of Charges	1,157,895	966,133	402,554	2,526,582			191,762
Dollar amount of Credits	(1,157,359)	(2,743,784)	(1,546,665)	(5,447,807)			1,586,425
Net Dollar Amount	536	(1,777,651)	(1,144,111)	(2,921,226)			1,778,186
Absolute Dollar Amount	\$ 2,315,253	\$ 3,709,916	\$ 1,949,219	\$ 7,974,389			\$ (1,394,663)

Denials:	Inventory of OPEN denials - # encounters	Inventory of OPEN denials - (\$ at risk)
	2,884	\$ 28,869,347
	1,219	\$ 21,403,453
	586	\$ 1,116,647

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Weekly Flash Report

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Oct-07	Sep28-Oct4	Oct 5-11	Oct 12-18	MTD Total	MTD Budget	% Variance
ADC (Acute)	312	294	308	305	312	(2.24)
PMC	240	223	231	231	235	(1.78)
POM	72	71	78	74	76	(3.69)
PCCC	87	85	84	85	88	(2.64)
VP	122	124	120	122	123	(1.11)
Patient Days (Acute)	2183	2060	2158	6,401	6,548	(2.24)
PMC	1681	1561	1614	4,856	4,944	(1.78)
POM	502	499	544	1,545	1,604	(3.69)
PCCC	611	594	589	1,794	1,843	(2.64)
VP	854	867	842	2,563	2,592	(1.11)
Discharges	565	540	572	1,677	1,711	(2.00)
PMC	421	413	436	1,270	1,320	(3.76)
POM	144	127	136	407	392	3.95
Number of Surgeries	226	211	256	693	667	3.96
PMC	147	146	170	463	453	2.32
POM	79	65	86	230	214	7.44
Number of Births	124	90	116	330	316	4.54
PMC	98	70	91	259	253	2.50
POM	26	20	25	71	63	12.70

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Weekly Flash Report (cont'd)

	Oct-07	Sep-28-Oct4	Oct 5-11	Oct 12-18	MTD Total	MTD Budget	% Variance
Outpatient Visits (inc. Lab)							
PMC	2701	1994	1965	0	6,660	5,822	14.40
POM	1793	1267	1282		4,342	3,844	12.96
	908	727	683		2,318	1,978	17.19
ER Visits							
PMC	1725	1732	1724	0	5,181	5,023	3.14
POM	1177	1194	1192		3,563	3,348	6.41
	548	538	532		1,618	1,675	(3.38)
Trauma Visits							
IP	21	22	32	0	75	82	(8.50)
OP	19	20	28		67	69	(3.03)
	2	2	4		8	13	(37.84)
Gross IP Revenue	19,898,429	17,932,815	16,231,113		54,062,357	59,507,597	(9.15)
Gross OP Revenue	6,159,934	4,848,277	5,349,442		16,357,653	18,135,878	(9.81)
Cash Collection	6,824,468	6,425,037	5,943,281		19,192,786	20,120,311	(4.61)
Days cash on hand	101	97	104		104	80	
Prod Hrs (PP 7)	223,423		220,965		444,388	438,204	(1.41)
PMC - North	129,845		126,860		256,705	253,628	(1.21)
POM - South	56,091		55,828		111,919	109,281	(2.41)
Others	37,487		38,277		75,764	75,295	(0.62)
Prod \$ (PP 7)	6,894,833		6,777,414		13,672,247	13,649,674	(0.17)
PMC - North	4,062,822		3,916,154		7,978,976	7,970,630	(0.10)
POM - South	1,639,629		1,619,674		3,259,303	3,206,898	(1.63)
Others	1,192,382		1,241,586		2,433,968	2,472,146	1.54

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**PALOMAR POMERADO HEALTH
OUTPATIENT RADIOLOGY SERVICES
PARKWAY, GATEWAY AND POMERADO IMAGING**

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: William Kail, Service Line Administrator, Imaging & Cardiology

BACKGROUND: Parkway and Gateway ("P&G") are outpatient imaging centers owned by Palomar Pomerado Health ("PPH"). They are operated as Physician Practices with Valley Radiology Consultants, Inc. ("VRC").

Pomerado Imaging ("PI") is an outpatient imaging center consisting of "high-end" technology (MRI & CT). PI is a Joint Venture ("JV, LLC") between VRC and PPH, with VRC holding 60% ownership and PPH holding a 40% limited partner ownership. PI also operates as a Physician Group Practice ("PGP") business with VRC.

Professional interpretation agreements, management agreements, and operation agreements between PPH and VRC allow VRC to operate as a PGP. The PGP also allows VRC to "global bill", meaning collect all fees for services from payers. VRC then distributes funds to reimburse for professional management, operational, billing and marketing fees. The remaining collections are then distributed to the JV, LLC.

- P&G have both operated with large losses for PPH for a number of years
- VRC receives market rate compensation for professional fees and reimbursement for all costs of operations without risk, resulting in technical services losses for PPH
- PI has had marginal profitability, with little or no distribution to PPH for its ownership

BUDGET IMPACT: Elimination of the deficit from P&G, PI and VRC of approximately \$1.3 million per year by selling the outpatient assets.

STAFF RECOMMENDATION: Staff recommended that PPH:

- 1) Sell Parkway, Gateway & Pomerado Imaging to VRC
- 2) Implement Women's Imaging Services in the POP, under the ownership and management of PPH
- 3) Focus on Imaging Strategic Plan, including opportunities for PET/CT

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends:
1) Approval of the sale of Parkway, Gateway and Pomerado Imaging to Valley Radiology Consultants, Inc.; and, 2) Implementation of Women's Imaging Services in the POP, under the ownership and management of the District.

Motion: X

Individual Action:

Information:

Required Time:

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15255 Innovation Drive
San Diego, CA 92128

Palomar Pomerado Health
Outpatient Imaging Services
October 15, 2007

Submitted by:
William Kail, Service Line Administrator
Palomar Pomerado Health
Imaging Services
555 East Valley Parkway
Escondido, CA 92025

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Imaging..... Page 6

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Recommendation for Women's Services.....Page 8

Outpatient Imaging Action Plan..... Page 9

PARKWAY/GATEWAY/POMERADO IMAGING SUMMARY BACKGROUND

Parkway and Gateway (P&G) are outpatient imaging centers owned by PPH. They are operated as Physician Practices with Valley Radiology Consultants, Inc. (VRC).

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Professional interpretation agreements, management agreements, and operation agreements between PPH and VRC allow VRC to operate as a PGP. The PGP also allows VRC to "global bill", meaning collect all fees for services from payers. VRC then distributes funds to reimburse for professional management, operational, billing and marketing fees. The remaining collections are then distributed to the JV, LLC.

KEY BUSINESS ISSUES AND CONCLUSIONS

- Parkway & Gateway have both operated with large losses for PPH for a number of years
- VRC receives market rate compensation for professional fees and reimbursement for all costs of operations without risk, resulting in technical services losses for PPH
- Pomerado Imaging has had marginal profitability, with little or no distributions to PPH for its ownership
- Without a combination of the following steps it is unlikely that PPH and VRC would operate profitable joint venture imaging centers
 - Reductions in professional fees to the lower end market rates
 - Improvements in operational efficiency not represented in prior operations or current forecasts
 - Increases in volume and improvements in service and payer mix
 - Increase in managed care rates

KEY BUSINESS ISSUES AND CONCLUSIONS

- Given the expectation of VRC for professional fee reimbursement, the expected operating costs structure, volumes, payer mix and reimbursement rates, as well as the need for new space and equipment, etc., it is unlikely that a joint venture will result in a profit distribution. (See Exhibit "A" Financial Projects under the above conditions).
- Based upon these circumstances, PPH should consider allowing VRC to own and operate imaging services at their full financial risk with assurances for service, quality, technology, etc.
- If this direction is not supported by VRC, PPH should consider bringing in a third party management company that could better provide both operational expertise and capital investment with both lower risk and financial upside to PPH

RECOMMENDATION

Based upon the professional and management contract expectations of

VRC:

- Negotiate the sale of Parkway, Gateway and PPH's interest in Pomerado Imaging to VRC
- Require the provision of information and the inclusion of PPH in key business meetings regarding the operation of the imaging centers
- Retain the right for PPH to establish and manage outpatient imaging services at other sites, providing the option for VRC to provide professional services at new sites as mutually agreeable
- If unable to attain agreement with VRC under this scenario, recruit a third party to provide capital management under contract with PPH

WOMEN'S SERVICES BACKGROUND

PPH has committed to serving its community with Women's health Services. Specific Women's Services Imaging is necessary to support a comprehensive program. Digital Mammography, breast ultrasound, and bone density are core modalities for a state of the art service line.

The Women's Health Services/Women's Center will be located in the Pomerado Outpatient Pavilion located on the campus of Pomerado Hospital. The building is under construction and scheduled for opening November 2007.

RECOMMENDATIONS

<p>1. Design, implement and maintain imaging modalities to support women's services.</p>	<p>In Progress</p>
<p>2. Develop service under existing Pomerado Hospital Radiology Services Department license.</p>	<p>In Progress</p>
<p>3. Purchase and install imaging equipment:</p> <ul style="list-style-type: none"> • Mammography (Digital) • Ultrasound • (CAD) Computerized diagnostic system • Bone Density (DEXA) equipment • Refer to Exhibit "B" for Capital Costs 	<p>Purchase completed</p>
<p>4. Develop 5-year Cash Flow Summary – refer to exhibit "C"</p>	<p>Complete</p>

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OUTPATIENT IMAGING SERVICES ACTION PLAN

- Finalize sale of Parkway gateway Pomerado Imaging to VRC
- Explore recruitment of third party to provide capital management under control with PPH
- Implement Women's Imaging Services in the POP
- Focus on new outpatient imaging opportunities PET/CT

Exhibit "A" Financial Projections Summary

Details	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Profit & Loss						
Revenue	\$ 8,012,836	\$ 10,436,622	\$ 11,372,397	\$ 11,958,320	\$ 12,442,600	
Operating Profit/(Loss)	(881,253)	(921,258)	(663,412)	(773,829)	(619,818)	
Profit/(Loss) Before Tax	(1,560,952)	(1,762,286)	(1,363,866)	(1,340,073)	(1,042,568)	
%	-19%	-17%	-12%	-11%	-8%	
Cash Requirements						
Working Capital Requirement	\$ 2,052,500	\$ 2,429,380	\$ 1,675,897	\$ 1,464,018	\$ 1,327,938	\$ 8,949,732
CAPEX Requirement						
OSP	\$ 6,723,137					\$ 6,723,137
Parkway	\$ 1,358,538	\$ 3,745,325				\$ 5,103,863
Total	\$ 8,081,674	\$ 3,745,325	\$ -	\$ -	\$ -	\$ 11,826,999
Total Funding Requirement	\$ 10,134,174	\$ 6,174,705	\$ 1,675,897	\$ 1,464,018	\$ 1,327,938	\$ 20,776,732
Lease on CAPEX	\$ 6,701,178	\$ 2,868,625				\$ 9,569,803
Net Cash Requirement	\$ 3,432,996	\$ 3,306,080	\$ 1,675,897	\$ 1,464,018	\$ 1,327,938	\$ 11,206,929

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Exhibit "B" Capital Costs Summary

Equipment Description	Total
Operating Equipment	
General CAPEX	2,100,000
Computer Equipment	3,500
Contingency	25,000
Sub-Total	\$2,128,500
Tenant Improvement Construction Costs	
Construction Costs	667,498
Less: Landlord TI Allowance	190 (385,890)
Sub-Total	\$281,608
Donation	(1,569,867)
GRAND TOTAL	\$840,241

Exhibit "C" - Breast Center: 5 Year Profit & Loss and Cash Flow Summary

DETAILS	Start-Up	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Profit and Loss						
Number of FFS Procedures		10,546	11,214	11,907	12,600	13,293
Number of CAP Procedures		3,251	3,251	3,251	3,251	3,251
Revenue						
FFS		1,492,533	1,578,939	1,664,075	1,745,173	1,822,362
CAP		344,742	344,742	344,742	344,742	344,742
Direct Expenses		(810,740)	(950,320)	(889,380)	(926,645)	(962,173)
Gross Profit		\$ 1,026,536	\$ 1,073,361	\$ 1,119,437	\$ 1,163,270	\$ 1,204,932
Operating Expenses		(738,750)	(763,184)	(740,072)	(716,979)	(735,509)
Operating Profit/(Loss)		\$ 287,785	\$ 310,177	\$ 379,365	\$ 446,292	\$ 469,423
%		15.7%	16.1%	18.9%	21.4%	21.7%
Cash Flow						
Net Operating Cash Flow		\$ 20,893	\$ 335,096	\$ 404,496	\$ 472,095	\$ 495,878
Capex:		** (840,241)	-	-	-	-
Movement in Cash (pre-tax)		\$ (840,241)	\$ 335,096	\$ 404,496	\$ 472,095	\$ 495,878
Closing Cash Balance (pre-tax)		\$ (840,241)	\$ (484,252)	\$ (79,756)	\$ 392,339	\$ 888,218

** Net Capex costs are \$2.4m less \$1.6m from donation

DR

ADDENDUM TO THE RADIOLOGY DEPARTMENT PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT BETWEEN PALOMAR POMERADO HEALTH AND VALLEY RADIOLOGY CONSULTANTS MEDICAL GROUP, INC., FOR THE ADDITION OF ENDOVASCULAR NEUROINTERVENTIONAL RADIOLOGY SERVICES

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: William Kail, Service Line Administrator, Imaging & Cardiology

BACKGROUND: Valley Radiology Consultants Medical Group, Inc. (VRC), provides exclusive radiology professional and medical director services to Palomar Medical Center. VRC provided services to PPH for a number of years and has been responsive to the medical staff and health care district in meeting their clinical needs and those of patients. The physicians of VRC are well trained, bringing expertise to PPH in both traditional and contemporary methods of Radiology services.

The current Professional and Medical Director Services Agreement for Radiology Services with VRC—which expires in 2009—does not include coverage for endovascular neurointerventional radiology services. VRC is requesting an Addendum to the current Agreement which would allow VRC to begin providing coverage for endovascular neurointerventional radiology services by granting Scott Olson, M.D., access to the radiology department. This is a limited waiver of the exclusive rights in the Agreement (Section 1 of the Addendum).

The addendum does not change any other terms of the existing Professional and Medical Director Services Agreement with VRC.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Approval

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the Addendum to the Radiology Department Professional and Medical Director Services Agreement between Palomar Pomerado Health and Valley Radiology Consultants Medical Group, Inc., for the addition of Endovascular Neurointerventional Radiology Services by granting Scott Olson, M.D., access to the Interventional Radiology Suite at Palomar Medical Center.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Addendum to Professional and Medical Director Services Agreement for Radiology Services to add Endovascular Neurointerventional Radiology Services
	AGREEMENT DATE	October 2007
	PARTIES	PPH and Valley Radiology Consultants Medical Group, Inc. – for the services of Scott Olson, MD
Recitals D	PURPOSE	To provide addition of professional endovascular neurointerventional radiology services at Palomar Medical Center for the entire district.
1.3, 1.4, Exhibit 1.3	SCOPE OF SERVICES	Professional medical coverage available on call 24 hours per day 7 days per week including holidays and department staffed Monday through Friday, 8:30 a.m. to 4:30 p.m.
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
7.1	TERM	July 1, 2006 through June 30, 2009 (three years)
	RENEWAL	None
7.4 7.2	TERMINATION	a. Without cause with 90 days written notice by either party following the first 12 months of the agreement. b. Immediately for cause with written notice.
4.4	COMPENSATION METHODOLOGY	N/A
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT: None
1.14	EXCLUSIVITY	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES – EXPLAIN: Hospital based physician for Radiology Department services.
	JUSTIFICATION	Required for the continued operation of the radiology department.
	POSITION NOTICED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO Methodology & Response: Medical staff was solicited for comment regarding the provision of services.
	ALTERNATIVES/IMPACT	N/A
Exhibit 1.5(a)	Duties	All included <input checked="" type="checkbox"/> Provision for Staff Education <input checked="" type="checkbox"/> Provision for Medical Staff Education <input checked="" type="checkbox"/> Provision for participation in Quality Improvement
	COMMENTS	none
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee on October 30, 2007 <input checked="" type="checkbox"/> BOD

**ADDENDUM TO
RADIOLOGY DEPARTMENT
PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT**

THIS ADDENDUM TO RADIOLOGY DEPARTMENT PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT ("Addendum"), is made and entered into effective October __, 2007, by and among Palomar Pomerado Health (formerly known as Palomar Pomerado Health System), a local health care district organized under Division 23 of the California Health and Safety Code ("PPH"), Valley Radiology Consultants Medical Group, Inc., a California professional corporation ("GROUP"), and Scott Olson, M.D., ("Dr. Olson"), with reference to the following facts:

RECITALS

A. WHEREAS, GROUP and PPH entered into that certain Radiology Department Professional And Medical Director Services Agreement dated July 1, 2006 (the "Radiology Department Agreement");

B. WHEREAS, pursuant to the Radiology Department Agreement, GROUP has an exclusive contract to provide professional Radiology services, including interventional radiology services, in the Radiology Department at PPH;

C. WHEREAS, GROUP does not currently employ a physician who is qualified to provide endovascular neurointerventional radiology services at Palomar Medical Center;

D. WHEREAS, Scott Olson, M.D., is a physician who has recently applied for medical staff privileges at Palomar Medical Center, and Dr. Olson has been trained to provide endovascular neurointerventional radiology services; and

E. WHEREAS, in order to further the best interests of the community and patients served by PPH, and in order to support PPH in its efforts to provide endovascular neurointerventional radiology services at Palomar Medical Center, GROUP will agree to a limited waiver of its exclusive rights to provide all services in the Radiology Department, and if Dr. Olson is granted medical staff privileges, GROUP will allow Dr. Olson access to the Interventional Radiology suite ("IR Suite") at Palomar Medical Center, upon the terms and conditions set forth below, which are mutually acceptable to PPH and Dr. Olson;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of are hereby acknowledged, the parties mutually agree as follows:

1. Limited Waiver of Exclusivity. During the term of this Addendum, GROUP hereby grants Dr. Olson and PPH a limited waiver of the GROUP's exclusive right to provide all services in the Radiology Department, and specifically limits such waiver to the performance by Dr. Olson of endovascular neurointerventional radiology services in the Interventional Radiology suite in the Radiology Department at PPH.

1.1 Waiver Limited To IR Suite. Dr. Olson and PPH agree and acknowledge that Dr. Olson's neurointerventional radiology privileges are limited to the IR Suite and not the Radiology Department in general.

1.2 No Other Waiver. PPH and Dr. Olson agree that this Addendum does not constitute a waiver of any of GROUP's other exclusivity rights and privileges with respect to the Radiology Department at PPH.

2. Scheduling of Cases. Dr. Olson, PPH, and GROUP agree that all cases to be scheduled by GROUP or by Dr. Olson in the IR Suite shall be subject to normal Radiology Department scheduling policies and priorities, and that use of the IR Suite shall be scheduled in the manner which best serves the interests of the patients, taking into account the acuity or emergent nature of the services to be performed, and not the convenience of physicians performing the services.

3. Revocation or Termination of Waiver. Dr. Olson and PPH agree that GROUP at such time as GROUP employs or contracts with another physician who has neurointerventional radiology capabilities, the neurointerventional radiology privileges of Dr. Olson for the IR Suite in the Department will be subject to automatic termination by GROUP by giving PPH and Dr. Olson one hundred twenty (120) days written notice to Dr. Olson, PPH, and to the PPH Medical Staff office.

4. Effective Date. This Addendum shall become effective on October __, 2007.

5. Termination of Addendum. This Addendum may be terminated by any party upon one hundred eighty (180) days prior written notice to the other parties. Upon termination of this Addendum, all provisions of the Radiology Department Agreement shall continue in effect.

6. No Other Changes. Except as otherwise provided in this Addendum, there are no other changes to the Radiology Department Agreement.

7. Written Amendment. This Addendum is intended to comply with the provisions of Section 8.11 of the Radiology Department Agreement which provides that the Agreement may only be changed by a written document signed by PPH and GROUP.

This ADDENDUM TO RADIOLOGY DEPARTMENT PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT has been executed by the parties in Escondido, California, on the dates set forth below:

"PPH"

PALOMAR POMERADO HEALTH, a local health care district organized under Division 23 of the California Health and Safety Code

By: _____

Its: _____

Date: September __, 2007

"GROUP"

VALLEY RADIOLOGY CONSULTANTS MEDICAL GROUP, INC., a California professional corporation

By: _____

Gary Spoto, M.D. President

Date: September __, 2007

AGREED AND ACKNOWLEDGED:

"DR. OLSON"

By: _____

Scott Olson, M.D.

Date: September __, 2007

**PALOMAR MEDICAL CENTER
RADIOLOGY DEPARTMENT
PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT
RADIATION ONCOLOGY SERVICES**

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: William Kail, Service Line Administrator, Imaging & Cardiology

BACKGROUND: X-Ray Medical Group Radiation Oncology, Inc. (XRO), provides exclusive radiation oncology professional and medical director services to Palomar Medical Center. XRO has provided services to PPH for a number of years and has been responsive to the medical staff and health care district in meeting their clinical needs and those of patients. The physicians of XRO are well trained, bringing expertise to PPH in both traditional and contemporary methods of oncological treatment, including the use of IMRT.

The agreement calls for professional services provided by XRO to be billed and collected by XRO as complete compensation for their services. No additional compensation is provided by PPH.

Both the medical director and the group in general have been supportive of operational efforts to maintain staff competency through training, involvement in the operating and capital budgeting process, and assisting administration in the expansion of services and growth of business.

This agreement represents a renewal of the exclusive agreement for an additional three-year term.

BUDGET IMPACT: None

STAFF RECOMMENDATION: Staff recommended approval of the three-year [November 1, 2007 to October 31, 2010] Professional and Medical Director Services Agreement with X-Ray Medical Group Radiation Oncology, Inc., to provide coverage for Radiation Oncology Services.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the three-year [November 1, 2007 to October 31, 2010] Professional and Medical Director Services Agreement with X-Ray Medical Group Radiation Oncology, Inc., to provide coverage for Radiation Oncology Services.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Professional and Medical Director Services Agreement Radiation Oncology
	AGREEMENT DATE	July 1, 2004
	PARTIES	X-Ray Medical Group Radiation Oncology, Inc. and PPH
Recitals D	PURPOSE	To provide professional radiation oncology services and certain administrative services at Palomar Medical Center for the entire district.
1.3, 1.4, Exhibit 1.3	SCOPE OF SERVICES	Professional medical coverage available on call 24 hours per day 7 days per week including holidays and department staffed Monday through Friday, 8:30 a.m. to 4:30 p.m.
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
7.1	TERM	July 1, 2004 through June 30, 2007 (three years)
	RENEWAL	November 1, 2007 through October 31, 2010 (three years)
7.4 7.2	TERMINATION	a. Without cause with 90 days written notice by either party following the first 12 months of the agreement. b. Immediately for cause with written notice.
4.4	COMPENSATION METHODOLOGY	N/A
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT: None
1.14	EXCLUSIVITY	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES – EXPLAIN: Hospital based physician for Radiology Department services.
	JUSTIFICATION	Required for the continued operation of the radiation oncology department.
	POSITION NOTICED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO Methodology & Response: Medical staff was solicited for comment regarding the provision of services.
	ALTERNATIVES/IMPACT	N/A
Exhibit 1.5(a)	Duties	All included <input checked="" type="checkbox"/> Provision for Staff Education <input checked="" type="checkbox"/> Provision for Medical Staff Education <input checked="" type="checkbox"/> Provision for participation in Quality Improvement
	COMMENTS	This is a renewal of the previous agreement in order to conform to legal counsel template for professional and medical director services. Legal review was completed.
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee on October 30, 2007 <input checked="" type="checkbox"/> BOD

**RADIOLOGY DEPARTMENT
PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT**

RADIATION ONCOLOGY SERVICES

by and between

PALOMAR POMERADO HEALTH (“Hospital”)

a local health care district

and

X-RAY MEDICAL GROUP RADIATION ONCOLOGY, INC. (“Group”)

November 1, 2007

RADIOLOGY DEPARTMENT

PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT

THIS PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT (this "Agreement") is made and entered into as of November 1, 2007, by and between PALOMAR POMERADO HEALTH, a local health care district organized pursuant to Division 23 of California Health and Safety Code ("Hospital"), and X-Ray MEDICAL GROUP RADIATION ONCOLOGY, INC., a California professional corporation ("Group"). Hospital and Group are sometimes referred to herein as a "Party" or, collectively, as the "Parties."

RECITALS

A. Hospital owns and operates Palomar Medical Center, a general acute care hospital located at 555 East Valley Parkway, Escondido, California, in which it operates a radiation oncology department (the "Hospital Department") that provides radiation oncology services in order to serve its patients. Hospital Department consists of facilities and equipment owned by Hospital and staffed by Hospital employees.

B. Group employs and contracts with physicians who are duly licensed and qualified to practice medicine in the State of California, and experienced in the specialized field of radiation oncology (the "Specialty") and are members of the medical staff of Hospital (the "Medical Staff").

C. Hospital desires to retain Group on an exclusive basis to provide professional services and certain administrative services related to the development and operation of the Department, through qualified physician employees and independent contractors of Group (collectively, the "Group Practitioners" and each, a "Group Practitioner").

D. Hospital has determined that an exclusive arrangement with Group for the provision of such services will:

1. Facilitate the administration of the Department, the supervision and training of Department personnel, the interrelationship between the Department and the rest of Hospital, and the efficient operation of other Hospital departments and services.
2. Ensure that Specialty professional services are available seven (7) days per week, twenty-four (24) hours per day to the Department and other departments of Hospital and that coverage of such departments is provided at night and on weekends, thereby reducing unnecessary delays in providing such services to Hospital patients.
3. Reduce disruptions in Hospital operations and relations between Hospital administration and Hospital's medical staff and among members of the Medical Staff.

4. Promote participation in Hospital's educational programs.
5. Reduce inefficiencies resulting from having multiple practitioners and groups providing Specialty professional services in the Department.

AGREEMENT

THE PARTIES AGREE AS FOLLOWS:

ARTICLE I. GROUP'S OBLIGATIONS

1.1 Professional Services. Group shall provide the radiation oncology services described in Exhibit 1.1 (the "Radiation Oncology Services") to patients of the Department, upon the terms and subject to the conditions set forth in this Agreement.

1.2 Group Practitioners.

(a) Group shall ensure that Radiation Oncology Services are performed only by Group Practitioners who have been approved and accepted by Hospital, and have not been removed pursuant to Section 7.8 or 7.9 of this Agreement. Prior to providing any services under this Agreement, each Group Practitioner shall execute, and Group shall deliver to Hospital, a letter acknowledging such Group Practitioner's agreement to be bound by the terms of this Agreement, which letter shall be in the form attached as Exhibit 1.2(a).

(b) Group has initially engaged those Group Practitioners listed on Exhibit 1.2(b) to provide Radiation Oncology Services, which Group Practitioners are hereby approved and accepted by Hospital. Group may from time to time engage additional Group Practitioners to furnish Radiation Oncology Services under this Agreement; provided, however, that each additional Group Practitioner satisfies the professional standards and qualifications set forth in Article II of this Agreement and is approved by Hospital in writing prior to furnishing Radiation Oncology Services. Hospital shall have the right to withhold its approval of any Group Practitioner in its sole discretion and without the need for compliance with any provision set forth in the bylaws, rules, regulations, protocols, guidelines and policies of Hospital and the Medical Staff (collectively, the "**Hospital Rules**") or with any other term of this Agreement, except to the extent Hospital reasonably determines that such withholding of approval is reportable to the Medical Board of California pursuant to the reporting requirements of the State of California (the "**Reporting Requirements**").

(c) Group shall ensure that any and all Group Practitioners furnishing Radiation Oncology Services continuously satisfy the professional standards and qualifications set forth in Article II of this Agreement.

(d) Group shall ensure that all Radiation Oncology Services are performed on Hospital premises.

**PALOMAR POMERADO HEALTH
THIRD AMENDMENT TO PROFESSIONAL SERVICES
AND MEDICAL DIRECTOR AGREEMENT FOR NEONATAL SERVICES**

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: Diane Key, SLA, Women's & Children's Services

BACKGROUND: Children's Specialists of San Diego, Inc. (CSSD), provides exclusive Neonatal Professional and Medical Director services to Palomar Medical Center (PMC) and Pomerado Hospital (POM). CSSD has provided reliable Neonatal professional services and medical directorship to PPH since 1992 and has been responsive to the medical staff and health district in meeting the clinical needs of its patients.

Additionally, no adjustments were made to the compensation package with CSSD during the period of time between 1992 and 2007.

This Third Amendment represents an extension of the exclusive agreement for a period of three (3) years, along with a marketplace adjustment to the compensation package for services provided.

BUDGET IMPACT: Budgeted.

STAFF RECOMMENDATION: Approval

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the exclusive three-year **[November 1, 2007 to December 31, 2010]** extension of the Professional and Medical Director Services Agreement with Children's Specialists of San Diego, Inc., for the provision of Neonatal Services, which includes a budgeted marketplace adjustment to the compensation package for services provided.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Neonatal Services – Professional Services and Medical Director Agreement
7.1	AGREEMENT DATE	November 1, 2007
Preamble	PARTIES	Children's Specialists of San Diego, Inc., and Palomar Pomerado Health
Recital E	PURPOSE	Administrative services and professional medical services for the neonatal service
Exhibit A&B	SCOPE OF SERVICES	Provision of administrative and professional medical services for the neonatal service
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
7.1	TERM	Three years
	RENEWAL	None
7.2	TERMINATION	Without cause or penalty with no less than 90 days prior written notice, for cause as defined in the agreement
6.1 6.4	COMPENSATION METHODOLOGY	Compensation for administrative services. Professional medical services billing and collection responsibility of Children's Specialists of San Diego, Inc.
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT:
Exhibits A&B	EXCLUSIVITY	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES – EXPLAIN: Administration recommends single provider group for scope of services to assure consistent administrative oversight and delivery of quality patient care services
	JUSTIFICATION	Required for consistent administrative oversight and professional medical services for the neonatal service
	AGREEMENT NOTICED	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO Methodology & Response:
	ALTERNATIVES/IMPACT	
Exhibits A&B	Duties	<input type="checkbox"/> Provision for Staff Education <input type="checkbox"/> Provision for Medical Staff Education <input type="checkbox"/> Provision for participation in Quality Improvement <input type="checkbox"/> Provision for participation in budget process development
	COMMENTS	
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee <input checked="" type="checkbox"/> BOD

PALOMAR MEDICAL CENTER

THIRD AMENDMENT TO PROFESSIONAL SERVICES AND MEDICAL DIRECTOR FOR NEONATAL SERVICES

This Third Amendment to the Service Agreement is made by **PALOMAR POMERADO HEALTH**, a local hospital district organized pursuant to Division 23 of California Health and Safety Code ("PPH"), and **CHILDREN'S SPECIALISTS OF SAN DIEGO, INC.** ("CSSD").

RECITALS

PPH and Children's Specialists of San Diego are parties to that certain Neonatal Services Agreement dated September 1, 2003 (the "Agreement"), pursuant to which Children's Specialists of San Diego, Inc. provides Professional and Medical Director Services for Neonatal Services to Palomar Medical Center and Pomerado Hospital, owned and operated by PPH.

The Parties desire to enter into this Amendment in order to extend the term of the Agreement accordingly.

6.0 Billing and Compensation

6.2 Compensation for Provider Services

- (a) For the administrative, supervisory and other provider services performed by Medical Group, Administrative Director, Neonatal Associates, and Nurse Practitioners at Palomar, Medical Group shall be paid Fourteen Thousand Seven Hundred Eighty-Seven & 54/100 dollars (\$14,787.54) per month for a total of One Hundred Seventy-Seven Thousand Four Hundred Fifty & 48/100 dollars (\$177,450.48) per year. Fifty-Three Thousand Seven Hundred Thirty-Two & 35/100 dollars (\$53,732.35) of that sum shall be for costs of administrative services.
- (b) For the administrative, supervisory and other provider services performed by Medical Group, Administrative Director, Neonatal Associates, and Nurse Practitioners at Pomerado, Medical Group shall be paid Eight Thousand Nine Hundred Ninety-Five & 79/100 dollars (\$8,995.79) per month for a total of One Hundred Seven Thousand Nine Hundred Forty-Nine & 48/100 dollars (\$107,949.48) per year. Seventy-Four Thousand Five Hundred Eight & 86/100 dollars (\$74,508.86) of that sum shall be for costs of administrative services.
- (c) Medical Group shall receive One Thousand Seven Hundred Sixty-Three & 00/100 dollars (\$1,763.00) per month for secretarial support for a total of Twenty-One Thousand One Hundred Fifty-Six & 00/100 dollars (\$21,156.00) per year.

(d) Medical Group agrees not to bill, nor cause to be billed, Medicare or Medi-Cal patients, or Medicare Part B carriers, or any other patients or their carriers, for administrative, supervisorial or other administrative provider services.

(e) Medical Group shall be responsible for paying the Administrative Director, all Neonatal Associate stipends, all Nurse Practitioners expenses, the required malpractice insurance, all newborn exam allowance and all social security and other payroll taxes required as an independent contractor from said compensation.

(f) The compensation to Group shall be subject to an upward annual adjustment of the lesser of three percent (3%) or the cumulative Consumer Price Index (CPI-U) for hospital costs, Western United States, less the actual cumulative CPI-U for hospital costs, Western United States, increases received over the term of the agreement as specified on the United States Department of Labor (DOL) website.

7.0 Term and Termination

7.1 Term Notwithstanding its date(s) of execution by the parties, the term of this Agreement shall commence effective as of September 1, 2003, and shall terminate on December 31, 2010.

PALOMAR POMERADO HEALTH

By: _____

Name: _____
(Please Print)

Date: _____

CHILDREN'S SPECIALISTS OF SAN DIEGO, INC.

By: _____

Name: _____
(Please Print)

Date: _____

**PALOMAR POMERADO HEALTH
BREAST CENTER MEDICAL DIRECTOR AGREEMENT
WITH X-RAY MEDICAL GROUP RADIATION ONCOLOGY, INC.
FOR THE SERVICES OF LORI COLEMAN, M.D.**

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: Diane Key, SLA, Women's & Children's Services

BACKGROUND: Agreement previously submitted and approved by the Finance Committee on June 20, 2007, and by the Board of Directors on July 9, 2007, under the agreement name "Breast Center Medical Director Agreement between Palomar Pomerado Health and Lori Coleman, M.D." *Resubmitted due to change in agreement title only.*

BUDGET IMPACT: Budget approved as part of the Women's Center business plan.

STAFF RECOMMENDATION: Staff recommends approval of the one-year Breast Center Medical Director Agreement between Palomar Pomerado Health and X-Ray Medical Group Radiation Oncology, Inc., for the Services of Lori Coleman, M.D.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the one-year [September 25, 2007 to September 24, 2008] Breast Center Medical Director Agreement between Palomar Pomerado Health and X-Ray Medical Group Radiation Oncology, Inc., for the Services of Lori Coleman, M.D.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Breast Center Medical Director Agreement
Preamble	AGREEMENT DATE	September 25, 2007
Preamble	PARTIES	X-ray Medical Group Radiation Oncology, Inc. for the Services of Lori Coleman, MD, and Palomar Pomerado Health
Recital E	PURPOSE	Medical Directorship including Administrative services for the Breast Center at Pomerado
Exhibit A	SCOPE OF SERVICES	Medical Directorship including Administrative services for the Breast Center at Pomerado
	PROCUREMENT METHOD	Request For Proposal <input type="checkbox"/> Discretionary Memorandum regarding medical director position posted for all PPH medical staff.
4.1	TERM	One (1) year September 25, 2007 through September 24, 2008.
	RENEWAL	
4.2	TERMINATION	Without cause or penalty with no less than 90 days prior written notice, for cause as defined in the agreement
3.1	COMPENSATION METHODOLOGY	Compensation for medical director oversight for the Breast Center based approx 8 hours per week
	BUDGETED	YES <input checked="" type="checkbox"/> NO – IMPACT: Included in approved Women's Center business plan.
Exhibit A	EXCLUSIVITY	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES – EXPLAIN: Administration recommends single provider group for scope of services to assure consistent administrative oversight.
	JUSTIFICATION	Required for consistent administrative oversight.
	POSITION POSTED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO Methodology & Response: Memorandum regarding medical director position posted for all PPH medical staff.
	ALTERNATIVES/IMPACT	Hire a consultant to facilitate the development, implementation and provide oversight for the Breast Center.
Exhibit A	Duties	<input checked="" type="checkbox"/> Provision for Staff Education <input checked="" type="checkbox"/> Provision for Medical Staff Education <input checked="" type="checkbox"/> Provision for participation in Quality Improvement <input checked="" type="checkbox"/> Provision for participation in budget process development
	COMMENTS	
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> CAO <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Committee Finance <input checked="" type="checkbox"/> BOD

BREAST CENTER MEDICAL DIRECTOR AGREEMENT

between

PALOMAR POMERADO HEALTH

a local health care district

and

X-RAY MEDICAL GROUP RADIATION ONCOLOGY, INC.

For The Services of

Lori Coleman, M.D.

September 25, 2007

MEDICAL DIRECTOR AGREEMENT

THIS MEDICAL DIRECTOR AGREEMENT ("Agreement") is made and entered into effective September 25, 2007 by and between Palomar Pomerado Health, a local health care district organized pursuant to Division 23 of California Health and Safety Code ("PPH") and X-Ray Medical Group Radiation Oncology Inc., a California professional corporation ("Medical Group").

RECITALS

A. Palomar Pomerado Health is the owner and operator of Pomerado Hospital, a general acute care hospital located at 15615 Pomerado Road, Poway, California ("Hospital").

B. Hospital operates a Breast Center ("the Center").

C. Medical Group is a professional medical corporation whose shareholder(s), employee(s) and contracting physician(s) ("Physicians") are duly qualified and licensed to practice medicine in the State of California, are experienced and qualified in the specialized field of radiation oncology, and are members of the Medical Staff of Hospital ("Medical Staff").

D. Lori Coleman, M.D., is an officer of Medical Group, is a physician who is qualified and licensed to practice medicine in the State of California, is experienced, and board certified in a Radiation Oncology, and is also experienced in the specialized field of Medicine related to the assessment, diagnosis, or treatment of breast health issues, and who is a member of the Medical Staff of Hospital ("Medical Staff").

E. Program consists of facilities and equipment owned by Hospital and staffed by Hospital employees.

F. Hospital desires to retain Medical Group as an independent contractor to provide certain administrative services ("Administrative Services") in the operation of the Center, and Hospital desires Medical Group to discharge its obligations primarily through the use of Lori Coleman, M.D., who will serve as the Medical Director of the Center. Hospital has determined that this proposed arrangement with Medical Group will enhance the Center's and Hospital's organization, procedure standardization, economic efficiency, professional proficiency, and provide other benefits to enhance coordination and cooperation among the Center's providers and users.

G. Hospital and Medical Group acknowledge and agree that this Agreement shall supercede the agreements, if any, previously entered into by the parties for the provision of Administrative Services with respect to the Center, but shall not supersede that certain Professional Services And Medical Director Agreement For Radiation Oncology Services, entered into by and between the parties, dated July 1, 2004.

H. It is the intent of both Hospital, Medical Group, and Medical Director that the terms and conditions of this Agreement, and the manner in which services are to be

performed hereunder, fulfill and comply with all applicable requirements of any applicable "safe harbor" or exception to Stark I and II including, but in no way limited to, the applicable requirements set forth in regulations promulgated by the Program of Health and Human Services, Office of Inspector General, and in the Ethics in Patient Referral Act.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein, and for such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. MEDICAL DIRECTOR SERVICES

1.1 Medical Director of Program. Medical Group shall provide Lori Coleman, M.D., to act as the medical director ("Medical Director") of the Center in accordance with the terms of this Agreement, the Medical Staff bylaws ("Medical Staff Bylaws"), and Hospital's bylaws, rules, regulations, policies, and procedures (collectively, "Hospital Bylaws"). Medical Director, at all times during the term of this Agreement, shall be duly licensed as a physician under California law, shall be board certified in an area of specialization related to the assessment, diagnosis, or treatment of breast health issues, shall be a member in good standing of the active Medical Staff, shall comply with all applicable standards and recommendations of the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), and shall hold all clinical privileges on the active Medical Staff of Hospital appropriate to the discharge of his or her obligations under this Agreement.

1.2 Assistant Medical Director. Medical Director is primarily responsible for the performance of Administrative Services hereunder. Subject to the prior written approval of Hospital, Medical Director shall appoint an Assistant Medical Director affiliated with Medical Group to perform the duties of Medical Director in Medical Director's absence. The Assistant Medical Director shall meet all of the same qualifications as specified herein for Medical Director.

1.3 Medical Director Administrative Duties. Medical Director shall perform the Administrative Services as set forth on Exhibit A. Medical Director and PMC shall use best efforts to meet monthly to discuss the performance of Administrative Services in the Center.

1.4 Administrative Hours. Medical Director shall commit to a minimum of 4-8 hours per week and Medical Director shall set his or her own work schedule consistent with the proper operation of the Center. In the event Medical Director seeks to provide more than 4-8 hours per week during any week in connection with this Agreement, Medical Director shall obtain advance approval from Hospital's administrative liaison.

1.5 Use of Premises. In order to preserve Hospital's exemption from property and other taxes, pursuant to state and federal law, Hospital space must be

**PALOMAR POMERADO HEALTH
PHYSICIAN INDEPENDENT CONTRACTOR AGREEMENT
INFORMATION SYSTEMS SERVICES**

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: Ben Kanter, MD, CMIO

BACKGROUND: Palomar Pomerado Health (PPH) requires the active training and involvement of physicians in many aspects of Information Systems programs, Quality and Safety projects, and Regulatory initiatives. Currently, PPH employs a CMIO (Benjamin Kanter, MD) who is solely responsible for the relationship between the medical staff and information systems. In addition to succession planning, another primary physician champion and expert in information systems will improve service to the entire PPH enterprise.

Aria Anvar, BS, MD, MBA, is a Hospitalist, currently on active staff at both PMC and Pomerado. From 1988-1993 he was an Information Systems Specialist for Unisys Corporation, where he led information systems implementation, database consolidation, and quality improvement projects. In addition, he has received training as a national Baldrige examiner.

Dr. Anvar has an abiding interest in improving the Quality and Safety of patient care delivery, and an intimate knowledge of PPH's infrastructure. His knowledge of information systems and the Quality/Safety/Baldrige work at Unisys make him a unique asset for PPH.

BUDGET IMPACT: After discussion with many different sites across the U.S., a fair market value was established for the mean value hourly reimbursement for such work. We have contracted for 20 hours of work/month. No budget impact – amount is budgeted.

STAFF RECOMMENDATION: Approval.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the one-year [April 1, 2007 to March 31, 2008] Independent Contractor Agreement with Aria Anvar, BS, MD, MBA, for Information Systems Services.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Independent contractor agreement
9.1	AGREEMENT DATE	April 1, 2007. Physician has provided services on an interim basis since that date.
Preamble	PARTIES	PPH and Dr. Aria Anvar
Recitals	PURPOSE	Contractor has agreed to serve as a consultant regarding implementation and performance of computer-based programs to be used at PPH medical facilities from the perspective of a trained medical practitioner.
1.1	SCOPE OF SERVICES	Contractor shall assist the CMIO in his work as it relates to the development and maintenance of the PPH electronic health record, the CAPE project, and with any other I.S. projects/initiatives that the parties mutually agree to.
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
9.1	TERM	1 year
9.1	RENEWAL	None
9.2	TERMINATION	30 day written notice without cause. Immediate termination if the contractor loses PPH medical staff privileges, or his medical license.
2.1, 1.1.1	COMPENSATION METHODOLOGY	Aside from officially scheduled meetings or work, Contractor shall not engage in any billable activities without the prior permission of PPH. Contractor's work shall not exceed 20 hours/month.
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT:
	EXCLUSIVITY	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES – EXPLAIN:
	JUSTIFICATION	Standard reimbursement for physician work on hospital information systems and electronic medical record development.
	AGREEMENT NOTICED	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO Methodology & Response: Physician interviewed and invited to serve by the CMIO
	ALTERNATIVES/IMPACT	none
	Duties	<input type="checkbox"/> Provision for Staff Education <input type="checkbox"/> Provision for Medical Staff Education <input type="checkbox"/> Provision for participation in Quality Improvement <input type="checkbox"/> Provision for participation in budget process development
	COMMENTS	
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee <input checked="" type="checkbox"/> BOD

INDEPENDENT CONTRACTOR AGREEMENT

This Independent Contractor Agreement ("Agreement") is entered into by and between Aria Anvar, MD ("Contractor"), with a principal place of business at _____ and Palomar Pomerado Health, a local healthcare district organized pursuant to Division 23 of the California Health and Safety Code ("PPH"), with a principal place of business at 15255 Innovation Drive, San Diego, California 92128.

WHEREAS, Contractor is a medical doctor with necessary privileges to practice medicine at PPH's medical facilities. Contractor has occasion to use various computer programs approved by PPH and in use at PPH facilities. Contractor has agreed to serve as a consultant regarding implementation and performance of computer-based programs to be used at PPH medical facilities from the perspective of a trained medical practitioner.

WHEREAS, PPH desires to engage Contractor to provide such services;

NOW, THEREFORE, in consideration of the promises, and of the mutual covenants hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

1. DUTIES OF CONTRACTOR

1.1 Scope of Services: Contractor shall assist the CMIO in his work as it relates to the development and maintenance of the PPH electronic health record, the CAPE project, and with any other Information System projects or initiatives that the parties mutually agree to.

1.1.1 Contractor shall provide the consulting services described herein on an as-needed basis as agreed between Contractor and PPH. Aside from officially scheduled meetings or work, Contractor shall not engage in any billable activities under this Agreement without the prior permission of PPH. PPH may limit the number of hours worked under this agreement, and in no event shall Contractor's work exceed 20 hours per month.

1.1.2 Contractor shall provide services in compliance with all applicable laws, regulations, and standards of care, as well as all PPH policies, procedures, rules and regulations.

1.2 Local, State and Federal Taxes: If Contractor is required to pay any federal, state or local sales, use, property or value added taxes based on the services provided under this Agreement, the taxes shall be separately billed to PPH. Contractor shall pay any interest or penalties incurred due to late payment or nonpayment of such taxes by PPH. In addition, Contractor shall pay all income taxes, Workers Compensation, and FICA (Social Security and Medicare taxes) incurred while performing under this

Agreement. PPH shall not:

1.2.1 withhold FICA (Social Security and Medicare taxes) from Contractor's payments or make FICA payments on Contractor's behalf;

1.2.2 make state or federal unemployment compensation contributions on Contractor's behalf; or

1.2.3 Withhold state or federal income tax from Contractor's payments.

2. DUTIES OF PPH

2.1 Payment for Services: PPH shall pay Contractor [REDACTED] per hour for consulting services provided under this Agreement. In addition to professional fees, PPH agrees to reimburse Contractor for reasonable, out-of-pocket expenses, to be approved in advance by PPH. If services are performed, Contractor shall send PPH invoices on a monthly basis. Contractor shall provide invoices for all services rendered under this agreement for work performed outside of formal meetings. Invoices shall be accompanied by the pertinent timesheets and an itemization of services and approved expenses for each consultation project. Payment shall be due within thirty (30) days of PPH's receipt of each undisputed invoice.

3. INDEPENDENT CONTRACTOR

3.1 In the performance of the duties and obligations of Contractor under this Agreement, it is mutually understood and agreed that Contractor is at all times acting and performing as an independent contractor, and nothing in this Agreement is intended nor shall be construed to create between PPH and Contractor an employer/employee, joint venture, lease or landlord/tenant relationship. Contractor has held himself out as having a particular expertise in the services to be provided under this Agreement. In that regard, Contractor shall be responsible for the manner in which he provides services under this Agreement in accordance with local, state and federal standards. Contractor shall not hold himself out as an officer, agent or employee of PPH and Contractor shall take all reasonable steps to disavow such status or relationship in every instance where a reasonable party might assume that such a relationship exists between the parties.

4. EEO COMPLIANCE

4.1 PPH is an equal employment opportunity employer and is in full compliance with any and all applicable anti-discrimination laws, rules, and regulations. Contractor agrees not to harass, discriminate against, or retaliate against any PPH employee because of his or her race, national origin, age, sex, religion, disability, marital status, or other category protected by law. In the event of any complaint of unlawful discrimination, harassment, or retaliation against Contractor by any employee of PPH, Contractor agrees to cooperate in the prompt investigation and resolution of such complaint.

**PALOMAR POMERADO HEALTH
PHYSICIAN INDEPENDENT CONTRACTOR AGREEMENT
CERNER OPTIMIZATION**

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: Ben Kanter MD, CMIO

BACKGROUND: Palomar Pomerado Health (PPH) requires the active participation of physicians in the design and implementation of the Cerner Optimization project. This team, known as the Cerner Physician Advisory Council (CPAC), is broad based and provides design review work and consultative oversight for the physician components of the Cerner Optimization project. Through its representative on the Cerner Optimization Steering Committee, CPAC has a defined role within the overall project.

The CPAC team is currently composed of the following physicians who would be covered under by these contracts:

Greg Hirsch – Critical Care, Internal Medicine, Pulmonary – PMC and POM
Frank Martin – General Surgery – POM and PMC
David Cloyd – General Surgery, Trauma – PMC
Robert Reichman – Cardiothoracic Surgery – PMC
Mikhail Malek – Cardiology – PMC and POM
Nabil Fatayerji – Neonatology – POM and PMC
Jaime Rivas – Emergency Services – PMC and POM
William Tench – Pathology, Lab – PMC and POM
Robert Felder – Internal Medicine, Kaiser – PMC
Serge Kaska – Orthopedic Surgery – PMC

It is probable that this list will expand and contract over the next 24 months.

BUDGET IMPACT: It is standard practice to reimburse physicians for their time spent on such projects. After discussion with many different sites across the U.S., a fair market value was established for the mean value hourly reimbursement for such work. We have contracted for 20 hours of work/month – aggregate for all physicians' services. No budget impact – amount has been budgeted within the Cerner Optimization project.

STAFF RECOMMENDATION: Approval.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the one-year [May 3, 2007, through May 2, 2008] Independent Contractor Agreement with the Cerner Physician Advisory Council for Cerner Optimization.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Independent contractor agreement
9.1	AGREEMENT DATE	May 3 rd , 2007. Physicians have provided services on an interim basis since that date.
Preamble	PARTIES	PPH and Drs: Nabil Fatayerji, David Cloyd, Gregory Hirsch, Robert Reichman, Mikhail Malek, John Martin, William Tench, Robert Felder, and Jaime Rivas
Recitals	PURPOSE	Contractor has agreed to serve as a consultant regarding implementation and performance of computer-based programs to be used at PPH medical facilities from the perspective of a trained medical practitioner.
1.1	SCOPE OF SERVICES	Contractor shall assist the CMIO in his work as it relates to the development and maintenance of the PH electronic medical record.
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
9.1	TERM	1 year
9.1	RENEWAL	None
9.2	TERMINATION	14 day written notice without cause. Immediate termination if the contractor loses PPH medical staff privileges, or his medical license.
2.1, 1.1.1	COMPENSATION METHODOLOGY	Aside from officially scheduled meetings or work, Contractor shall not engage in any billable activities without the prior permission of PPH. Contractor's work shall not exceed 6 hours/month.
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT:
	EXCLUSIVITY	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES – EXPLAIN:
	JUSTIFICATION	Standard reimbursement for physician work on hospital information systems and electronic medical record development
	AGREEMENT NOTICED	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO Methodology & Response: Physicians invited to serve on the panel by the CMIO
	ALTERNATIVES/IMPACT	none
	Duties	<input type="checkbox"/> Provision for Staff Education <input type="checkbox"/> Provision for Medical Staff Education <input type="checkbox"/> Provision for participation in Quality Improvement <input type="checkbox"/> Provision for participation in budget process development
	COMMENTS	
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee <input checked="" type="checkbox"/> BOD

INDEPENDENT CONTRACTOR AGREEMENT

This Independent Contractor Agreement ("Agreement") is entered into by and between _____ ("Contractor"), with a principal place of business at _____ and Palomar Pomerado Health, a local healthcare district organized pursuant to Division 23 of the California Health and Safety Code ("PPH"), with a principal place of business at 15255 Innovation Drive, San Diego, California 92128.

WHEREAS, Contractor is a medical doctor with necessary privileges to practice medicine at PPH's medical facilities. Contractor has occasion to use various computer programs approved by PPH and in use at PPH facilities. Contractor has agreed to serve as a consultant regarding implementation and performance of computer-based programs to be used at PPH medical facilities from the perspective of a trained medical practitioner.

WHEREAS, PPH desires to engage Contractor to provide such services;

NOW, THEREFORE, in consideration of the promises, and of the mutual covenants hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

1. DUTIES OF CONTRACTOR

1.1 Scope of Services: Contractor shall assist the CMIO in his work as it relates to the development and maintenance of the PPH electronic health record.

1.1.1 Contractor shall provide the consulting services described herein on an as-needed basis as agreed between Contractor and PPH. Aside from officially scheduled meetings or work, Contractor shall not engage in any billable activities under this Agreement without the prior permission of PPH. PPH may limit the number of hours worked under this agreement, and in no event shall Contractor's work exceed 6 hours per month.

1.1.2 Contractor shall provide services in compliance with all applicable laws, regulations, and standards of care, as well as all PPH policies, procedures, rules and regulations.

1.2 Local, State and Federal Taxes: If Contractor is required to pay any federal, state or local sales, use, property or value added taxes based on the services provided under this Agreement, the taxes shall be separately billed to PPH. Contractor shall pay any interest or penalties incurred due to late payment or nonpayment of such taxes by PPH. In addition, Contractor shall pay all income taxes, Workers Compensation, and FICA (Social Security and Medicare taxes) incurred while performing under this Agreement. PPH shall not:

1.2.1 withhold FICA (Social Security and Medicare taxes) from Contractor's payments or make FICA payments on Contractor's behalf;

1.2.2 make state or federal unemployment compensation contributions on Contractor's behalf; or

1.2.3 Withhold state or federal income tax from Contractor's payments.

2. DUTIES OF PPH

2.1 Payment for Services: PPH shall pay Contractor [REDACTED] per hour for consulting services provided under this Agreement. In addition to professional fees, PPH agrees to reimburse Contractor for reasonable, out-of-pocket expenses, to be approved in advance by PPH. If services are performed, Contractor shall send PPH invoices on a monthly basis. Contractor shall provide invoices for all services rendered under this agreement for work performed outside of formal meetings. Invoices shall be accompanied by the pertinent timesheets and an itemization of services and approved expenses for each consultation project. Payment shall be due within thirty (30) days of PPH's receipt of each undisputed invoice.

3. INDEPENDENT CONTRACTOR

3.1 In the performance of the duties and obligations of Contractor under this Agreement, it is mutually understood and agreed that Contractor is at all times acting and performing as an independent contractor, and nothing in this Agreement is intended nor shall be construed to create between PPH and Contractor an employer/employee, joint venture, lease or landlord/tenant relationship. Contractor has held himself out as having a particular expertise in the services to be provided under this Agreement. In that regard, Contractor shall be responsible for the manner in which he provides services under this Agreement in accordance with local, state and federal standards. Contractor shall not hold himself out as an officer, agent or employee of PPH and Contractor shall take all reasonable steps to disavow such status or relationship in every instance where a reasonable party might assume that such a relationship exists between the parties.

4. EEO COMPLIANCE

4.1 PPH is an equal employment opportunity employer and is in full compliance with any and all applicable anti-discrimination laws, rules, and regulations. Contractor agrees not to harass, discriminate against, or retaliate against any PPH employee because of his or her race, national origin, age, sex, religion, disability, marital status, or other category protected by law. In the event of any complaint of unlawful discrimination, harassment, or retaliation against Contractor by any employee of PPH, Contractor agrees to cooperate in the prompt investigation and resolution of such complaint.

5. COMPLIANCE WITH LAWS / PERFORMANCE STANDARDS

PALOMAR POMERADO HEALTH
PHYSICIAN INDEPENDENT CONTRACTOR AGREEMENT – DOCUSYS

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: Ben Kanter, MD, CMIO

BACKGROUND: The DocuSys project comprises installation of a state of the art electronic anesthesia record as well as a bar-code controlled medication administration system within the operating rooms. Design, training, implementation, and maintenance of the system requires the active involvement of medical staff.

Anesthesia leadership is being provided by Drs. Marc Gipsman and Rick Engel. They are representing the needs and expectations of their colleagues and have expressed a desire to improve the quality and safety of medical care delivered in the operating rooms at both PMC and Pomerado.

BUDGET IMPACT: It is standard practice to reimburse physicians for their time spent on such projects. After discussion with many different sites across the U.S., a fair market value was established for the mean value hourly reimbursement for such work. We have contracted for 20 hours of work/month. It is estimated that the total cost will not exceed \$10,000 – budgeted for FY08.

STAFF RECOMMENDATION: Approval.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the one-year [September 1, 2007, to August 31, 2008] Independent Contractor Agreement with Drs. Marc Gipsman and Rick Engel for services related to the DocuSys project.

Motion: X

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
	TITLE	Independent contractor agreement
9.1	AGREEMENT DATE	September 7, 2006. Physicians have provided services on an interim basis since that date.
Preamble	PARTIES	PPH and Drs Marc Gipsman and Rick Engel
Recitals	PURPOSE	Contractor has agreed to serve as a consultant regarding implementation and performance of computer-based programs to be used at PPH medical facilities from the perspective of a trained medical practitioner.
1.1	SCOPE OF SERVICES	Contractor shall assist the CMIO in his work as it relates to the Docusys electronic anesthesia record and medication management project.
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
9.1	TERM	1 year
9.1	RENEWAL	None
9.2	TERMINATION	14 day written notice without cause. Immediate termination if the contractor loses PPH medical staff privileges, or his medical license.
2.1, 1.1.1	COMPENSATION METHODOLOGY	Aside from officially scheduled meetings or work, Contractor shall not engage in any billable activities without the prior permission of PPH. Contractor's work shall not exceed 20 hours/month.
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT: The total cost is not expected to exceed \$10,000 for the duration of the project.
	EXCLUSIVITY	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES – EXPLAIN:
	JUSTIFICATION	Standard reimbursement for physician work on hospital information systems and electronic medical record development
	AGREEMENT NOTICED	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO Methodology & Response: Physicians directly involved in the choice of vendor and invited to participate by the CMIO
	ALTERNATIVES/IMPACT	none
	Duties	<input type="checkbox"/> Provision for Staff Education <input type="checkbox"/> Provision for Medical Staff Education <input type="checkbox"/> Provision for participation in Quality Improvement <input type="checkbox"/> Provision for participation in budget process development
	COMMENTS	
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Finance Committee <input checked="" type="checkbox"/> BOD

INDEPENDENT CONTRACTOR AGREEMENT

This Independent Contractor Agreement ("Agreement") is entered into by and between _____ ("Contractor"), with a principal place of business at _____ and Palomar Pomerado Health, a local healthcare district organized pursuant to Division 23 of the California Health and Safety Code ("PPH"), with a principal place of business at 15255 Innovation Drive, San Diego, California 92128.

WHEREAS, Contractor is a medical doctor with necessary privileges to practice medicine at PPH's medical facilities. Contractor has occasion to use various computer programs approved by PPH and in use at PPH facilities. Contractor has agreed to serve as a consultant regarding implementation and performance of computer-based programs to be used at PPH medical facilities from the perspective of a trained medical practitioner.

WHEREAS, PPH desires to engage Contractor to provide such services;

NOW, THEREFORE, in consideration of the promises, and of the mutual covenants hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

1. DUTIES OF CONTRACTOR

1.1 Scope of Services: Contractor shall assist the CMIO in his work as it relates to the Docusys electronic anesthesia record and medication management project.

1.1.1 Contractor shall provide the consulting services described herein on an as-needed basis as agreed between Contractor and PPH. Aside from officially scheduled meetings or work, Contractor shall not engage in any billable activities under this Agreement without the prior permission of PPH. PPH may limit the number of hours worked under this agreement, and in no event shall Contractor's work exceed twenty (20) hours per month.

1.1.2 Contractor shall provide services in compliance with all applicable laws, regulations, and standards of care, as well as all PPH policies, procedures, rules and regulations.

1.2 Local, State and Federal Taxes: If Contractor is required to pay any federal, state or local sales, use, property or value added taxes based on the services provided under this Agreement, the taxes shall be separately billed to PPH. Contractor shall pay any interest or penalties incurred due to late payment or nonpayment of such taxes by PPH. In addition, Contractor shall pay all income taxes, Workers Compensation, and FICA (Social Security and Medicare taxes) incurred while performing under this Agreement. PPH shall not:

1.2.1 withhold FICA (Social Security and Medicare taxes) from Contractor's payments or make FICA payments on Contractor's behalf;

1.2.2 make state or federal unemployment compensation contributions on Contractor's behalf; or

1.2.3 Withhold state or federal income tax from Contractor's payments.

2. DUTIES OF PPH

2.1 Payment for Services: PPH shall pay Contractor [REDACTED] [REDACTED] per hour for consulting services provided under this Agreement. In addition to professional fees, PPH agrees to reimburse Contractor for reasonable, out-of-pocket expenses, to be approved in advance by PPH. If services are performed, Contractor shall send PPH invoices on a monthly basis. Contractor shall provide invoices for all services rendered under this agreement for work performed outside of formal meetings. Invoices shall be accompanied by the pertinent timesheets and an itemization of services and approved expenses for each consultation project. Payment shall be due within thirty (30) days of PPH's receipt of each undisputed invoice.

3. INDEPENDENT CONTRACTOR

3.1 In the performance of the duties and obligations of Contractor under this Agreement, it is mutually understood and agreed that Contractor is at all times acting and performing as an independent contractor, and nothing in this Agreement is intended nor shall be construed to create between PPH and Contractor an employer/employee, joint venture, lease or landlord/tenant relationship. Contractor has held himself out as having a particular expertise in the services to be provided under this Agreement. In that regard, Contractor shall be responsible for the manner in which he provides services under this Agreement in accordance with local, state and federal standards. Contractor shall not hold himself out as an officer, agent or employee of PPH and Contractor shall take all reasonable steps to disavow such status or relationship in every instance where a reasonable party might assume that such a relationship exists between the parties.

4. EEO COMPLIANCE

4.1 PPH is an equal employment opportunity employer and is in full compliance with any and all applicable anti-discrimination laws, rules, and regulations. Contractor agrees not to harass, discriminate against, or retaliate against any PPH employee because of his or her race, national origin, age, sex, religion, disability, marital status, or other category protected by law. In the event of any complaint of unlawful discrimination, harassment, or retaliation against Contractor by any employee of PPH, Contractor agrees to cooperate in the prompt investigation and resolution of such complaint.

5. COMPLIANCE WITH LAWS / PERFORMANCE STANDARDS

**PALOMAR POMERADO HEALTH
ADMINISTRATIVE SERVICES AGREEMENT
WILLIAM S. SAMUEL, M.D.**

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: Lorie Shoemaker, RN, MSN, CNAA-BC, Chief Nurse Executive

BACKGROUND: This is a request to approve the Administrative Services Agreement with William S. Samuel, M.D. Dr. Samuel will serve as a physician advisor at Palomar Medical Center and is responsible for serving as an expert resource to the staff of the Quality and Clinical Effectiveness Department and other medical staff members in developing and promoting compliance with evidence based clinical guidelines. Dr. Samuel will also be responsible for supervision of the Stroke Unit at Palomar Medical Center.

BUDGET IMPACT: Budgeted position – no budget impact.

STAFF RECOMMENDATION: Staff recommended approval of the Administrative Services Agreement with William S. Samuel, M.D., for the one-year [June 14, 2007, through June 14, 2008, with a one-year renewal option] physician advisory services to the Quality and Clinical Effectiveness Department and for supervision of the Stroke Unit at Palomar Medical Center.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
Preamble	TITLE	Administrative Services Agreement
Preamble	AGREEMENT DATE	June 14, 2007
Preamble	PARTIES	1) PPH 2) William S. Samuel, M.D.
Recitals C	PURPOSE	To provide certain administrative services at Palomar Medical Center with respect to the Quality and Clinical Effectiveness Department
Exhibit 1.1 1-9	SCOPE OF SERVICES	Duties as defined in the Director Services in the agreement.
	PROCUREMENT METHOD	<input type="checkbox"/> Request For Proposal <input checked="" type="checkbox"/> Discretionary
5.1	TERM	June 14, 2007 through June 14, 2008
5.1	RENEWAL	One one-year renewal option
5.2	TERMINATION	- Hospital may terminate immediately for cause as defined in the Agreement
5.3		- Practitioner shall have the right to terminate Agreement upon breach of Agreement by Hospital where the breach is not cured within thirty (30) calendar days after Practitioner gives written notice of the breach to Hospital
2.1	COMPENSATION METHODOLOGY	Hourly rate based on submission of time sheet indicating number of hours of service provided; 10 hours/month maximum
	BUDGETED	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO – IMPACT:
	EXCLUSIVITY	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES – EXPLAIN:
	JUSTIFICATION	Regulatory requirements call for Medical Staff oversight for the programs and services.
	AGREEMENT NOTICED	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO Methodology & Response:
	ALTERNATIVES/IMPACT	Required by Joint Commission for Stroke Certification Program, which was approved by the Strategic Planning Committee of the Board
	Duties	<input checked="" type="checkbox"/> Provision for Staff Education <input checked="" type="checkbox"/> Provision for Medical Staff Education <input checked="" type="checkbox"/> Provision for participation in Quality Improvement <input checked="" type="checkbox"/> Provision for participation in budget process development
	COMMENTS	
	APPROVALS REQUIRED	<input checked="" type="checkbox"/> VP <input checked="" type="checkbox"/> CFO <input checked="" type="checkbox"/> CEO <input checked="" type="checkbox"/> BOD Committee Finance <input checked="" type="checkbox"/> BOD

ADMINISTRATIVE SERVICES AGREEMENT

by and between

PALOMAR POMERADO HEALTH ("Hospital")

and

William S. Samuel, M.D. ("Practitioner")

ADMINISTRATIVE SERVICES AGREEMENT

THIS ADMINISTRATIVE SERVICES AGREEMENT (this "Agreement") is entered into as of this ____ day of _____, 2007 (the "Execution Date"), by and between Palomar Pomerado Health, a local health care district organized under Division 23 of the California Health and Safety Code ("Hospital"), and William S. Samuel, M.D., an individual ("Practitioner"). Hospital and Practitioner are sometimes referred to in this Agreement individually as a "Party" or, collectively, as the "Parties."

RECITALS

- A. Hospital owns and operates Palomar Medical Center, an acute care hospital facility located in Escondido, California.
- B. Practitioner is licensed to practice medicine in the State of California, board certified for the practice of medicine in the specialty of Neurology (the "Specialty") and a member in good standing of Hospital's medical staff (the "Medical Staff").
- C. Hospital desires to engage Practitioner as an independent contractor to provide certain administrative services at Palomar Medical Center with respect to the Quality and Clinical Effectiveness Department (the "Department"), and believes that the following can be achieved if Practitioner assumes such responsibility as set forth in this Agreement. This will enhance the Hospital's organization, procedure standardization, economic efficiency, professional proficiency, and provide other benefits to enhance coordination and cooperation among the Hospital's providers and users.
- D. Hospital has considered the following factors in determining the necessity and amount of compensation payable to Practitioner pursuant to this Agreement:
1. The nature of Practitioner's duties as contemplated by this Agreement.
 2. Practitioner's qualifications.
 3. Survey of practitioner compensation prepared by Sullivan Cotter and Associates, Inc.

Acceptance: Diversity Commitment Statement

TO: PPH Board of Directors
MEETING DATE: November 12, 2007
FROM: Human Resources Committee, August 21, 2007
BY: Wallie George, Chief Human Resources Officer

BACKGROUND: HR Committee members reviewed the proposed CLAS Charter for adoption. Brad Wiscons attended this meeting to educate the HR Committee on the acceptance of the Diversity Commitment Statement for PPH. This statement will be linked to the PPH Intranet and Internet sites.

Members made the following changes:

- a. In keeping with the mission statement, "professional staff" in the first paragraph will be changed to "employees."
- b. The first bullet point will end after the word "Directors"

BUDGET IMPACT: Not Applicable

STAFF RECOMMENDATION:

Motion by M. Rivera, 2nd by L. Greer and carried for approval to accept the Diversity Commitment Statement, with the changes as directed.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion: X

Individual Action:

Information:

Required Time:

DRAFT

Page 1

The Charter of the PPH Culturally and Linguistically Appropriate Services Steering Committee

Purpose: The PPH Culturally and Linguistically Appropriate Services (CLAS) Steering Committee shall provide executive oversight to the CLAS Initiative of PPH. The CLAS Initiative's primary goal is to improve the quality of care delivered to PPH patients and District residents by providing clinical and support services in the language of choice of our patients in a culturally appropriate manner, in support of PPH's mission to heal, comfort and promote health.

There are seven objectives for the PPH CLAS Initiative:

1. To provide timely and accurate 24/7 medical interpreting services to all patients and families requiring interpretation in their language of choice. This shall also include interpretative services to hearing impaired patients.
2. To provide forms that patients or families must understand and/or sign in the language of choice. To provide patient information/education materials and wayfinding tools to the patient in the language of choice.
3. To improve the congruency between the cultural diversity of our patients and district residents and the clinical staff of Palomar Pomerado Health.
4. To promote the development and implementation of cultural competency standards and training protocols for all PPH staff and physicians.
5. To collaborate with local nursing, medical, and allied health schools to support CLAS activities in order to produce highly educated and prepared healthcare workers who reflect the cultural diversity of our region.
6. To serve as a collaborator and leader with key local health and human service agencies to build a regional network that supports improving patient care through CLAS activities.
7. To support a bi-directional communication system with PPH and the diverse residents of our District to improve the quality of care provided according to CLAS standards.

To serve these objectives, the CLAS Steering Committee is to provide guidance, direction, oversight, and resources to the four CLAS work teams. The four CLAS work teams with initial Chair-elects proposed are:

- Linguistically Appropriate Services Committee – Sharon Andrews, Chair-elect
- Workforce Diversity Committee – Mary Oelman, Chair-elect
- Community Partners Committee – Tina Pope or Janet Bath, Chair-elect
- Community Advisory Board – Larry Ward, Chair-elect

DRAFT

Page 2

Composition: The CLAS Steering Committee shall be composed of the following members:

- Chief Nurse Executive – CLAS Steering Committee Chair
- Associate Chief Nurse Executive – Palomar Medical Center
(LAS Committee Chair)
- Associate Chief Nurse Executive – Pomerado Hospital
(Workforce Diversity Committee Chair)
- CLAS Community Partners Committee Chair
- CLAS Community Advisory Board Chair
- Representative of Human Resources Department
- Representative of Clinical Outreach Department
- Representative of Language Interpreting Program
- Representative of Clinical Care Extender Program
- CLAS Physician Champion
- Director of Grant Services

Meeting Frequency: The CLAS Steering Committee shall meet at least four times per year.

The purposes of the meetings of the CLAS Steering Committee shall include:

1. To develop an annual work plan for CLAS at PPH;
2. To monitor and evaluate outcomes of the PPH CLAS work plan;
3. To provide leadership, guidance, and support to the members of the CLAS work teams;
4. To receive, review, and approve reports of activities of the four CLAS work teams;
5. To advocate for CLAS within PPH and, more generally, in the health and health education fields;
6. To provide guidance and direction to resource allocation and resource development activities at PPH including grant applications for CLAS activities;
7. To make an Annual Report with recommendations to the Executive Management Team (EMT) and the PPH Board of Directors (BOD).

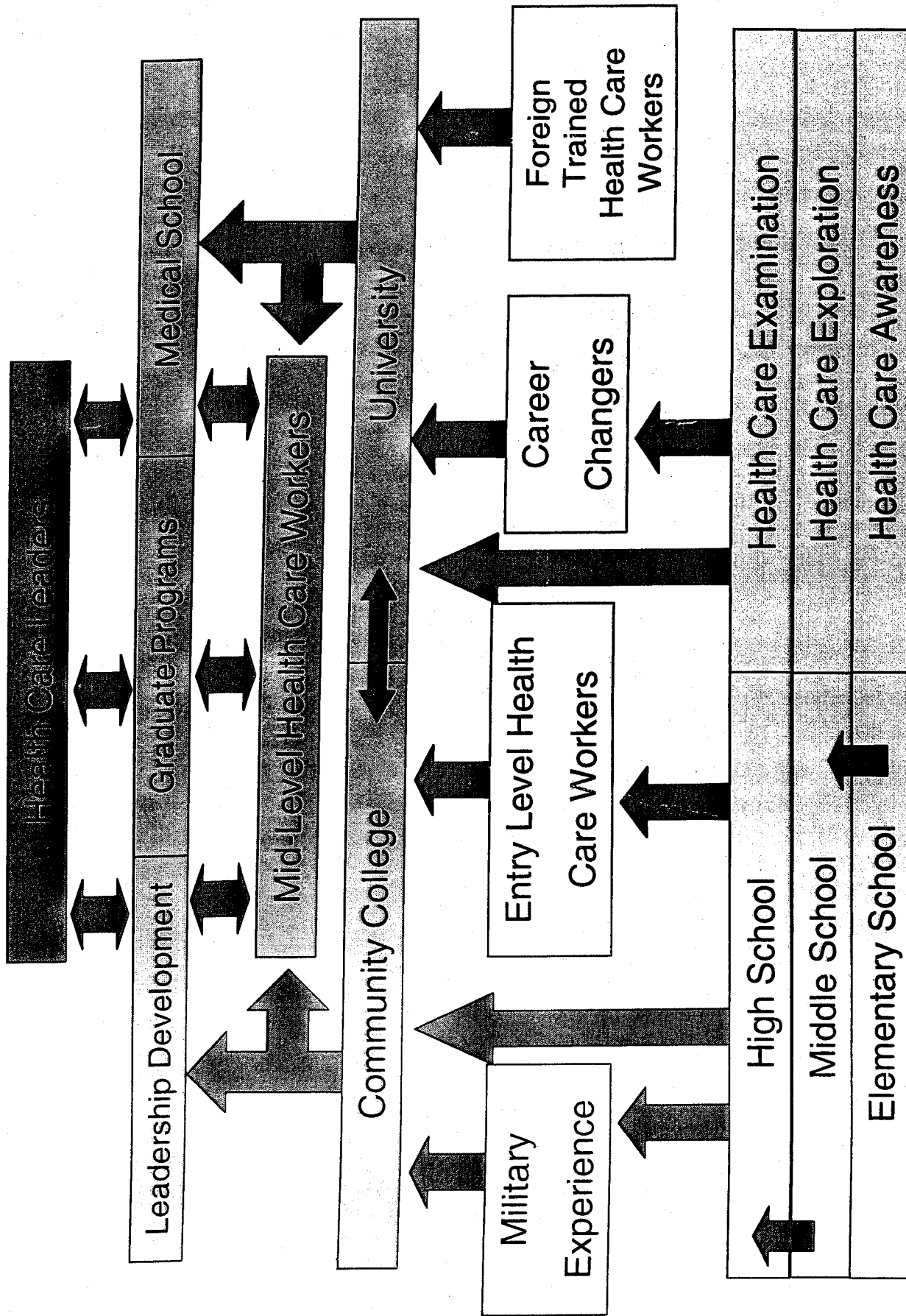
Diversity Commitment Statement for PPH

With our mission to heal, comfort, and promote health, we at PPH are committed to the highest quality of care, safety, and customer satisfaction in the diverse communities we serve. We strive to be the health system of choice for our patients, physicians, employees and volunteers.

We strive for a clear understanding regarding the impact that diversity has on the delivery of effective and compassionate care. This comes through learning and education, and is supported in part by our multifaceted workforce that comes to us from a variety of backgrounds, perspectives, and experiences.

We demonstrate our investment in Culturally and Linguistically Appropriate Services (CLAS) through our:

- Publicly elected Board of Directors
- CLAS Steering Committee and Work Teams
- Ongoing diversity education and training
- Language translation and interpretation services
- Workforce development activities
- Diverse leadership development activities and programs
- Partnerships with faith- and community-based organizations



Health Care Workforce Training Network

MEDICAL STAFF SERVICES

October 30, 2007

TO: Board of Directors

BOARD MEETING DATE: November 12, 2007

FROM: John J. Lilley, M.D., Chief of Staff
PMC Medical Staff Executive Committee

SUBJECT: Medical Staff Credentialing Recommendations

PALOMAR MEDICAL CENTER

- I. Provisional Appointment (11/12/2007 – 10/31/2009)
John S. Anderson, M.D., Diagnostic Radiology
Darren M. Buono, M.D., Diagnostic Radiology
Ami P. Doshi, M.D., Pediatrics
Joshua P. Landau, M.D., Orthopaedic Surgery
Gabriel Rodarte, M.D., Psychiatry/Family Practice (includes PCCC)
Craig E. Stewart, M.D., Diagnostic Radiology
Kristen T. Wade-Kempiak, M.D., Pediatrics
Nelar Wine, M.D., Internal Medicine
David B. Winn, M.D., Internal Medicine
- II. Reinstatement and Advancement from Provisional to Associate Status
Alicja S. Steiner, M.D., Pain Management (11/12/2007 – 02/28/2009) (Includes PCCC)
- III. Advance from Provisional to Associate Status
Jayanthi Magesh, M.D., Internal Medicine (11/12/2007 – 01/31/2008)
- IV. Change from Associate to Active Status
Stanley H. Weinberg, M.D., Family Practice
- V. Change from Consulting Only Privileges to include the following privileges:
Marcus M. Van, M.D., Diagnostic Radiology
 - Interpretation (Imaging) in Hospital Bundle and Miscellaneous Bundle
- VI. Additional Privileges
Robert T. Reichman, M.D., Cardiothoracic Surgery
 - Intravascular Ultrasound (IVUS)Janos Taller, M.D., General Surgery
 - Trauma Privileges
- VII. Voluntary Resignations/Withdrawals
Alex I. Fraser, M.D., Anesthesiology (Effective 11/30/2007)
Angelica D. Mendez, M.D., Family/General Practice (Effective 10/12/2007)
Vakas A. Sial, M.D., Internal Medicine (Effective 10/01/2007) (Includes PCCC)
- VIII. Allied Health Professional Appointment (11/12/2007 – 10/31/2009)
Eve S. Allerton, P.A.-C., Physician Assistant; Sponsors: Kaiser Orthopaedic Surgeons
Polly E. Amaral, AuD, Evoked Potential Technician/Audiologist; Sponsors: Drs. McKinley and Yoo

PALOMAR MEDICAL
CENTER
555 East Valley Parkway
Escondido, CA 92025
Tel 760.739.3140
Fax 760.739.2926

POMERADO
HOSPITAL
15615 Pomerado Road
Poway, CA 92064
Tel 858.613.4664
Fax 858.613.4217

ESCONDIDO
SURGERY CENTER
343 East Grand Avenue
Escondido, CA 92025
Tel 760.480.6606
Fax 760.480.1288

- IX. Allied Health Professional Withdrawal
 Corrine A. Carroll, R.N., Registered Nurse; Sponsors: Drs. Unhold, McDonald (Effective 11/12/2007)
 Caroline E. Self, P.A.-C., Physician Assistant; Sponsors: Drs. Moldovan, Bulkin, Georgy, Polansky, Price,
 Rickards, Taggart, Sung, Federhart. (Effective 11/06/2007)

X. Reappointments Effective 12/01/2007 – 11/30/2009

Celestine J. Arambulo, D.O. (Includes PCCC)	Internal Medicine	Dept of Medicine	Associate
Michael J. Beecher, M.D.	OB/GYN	Dept of OB/GYN	Active
Duane M. Buringrud, M.D.	OB/GYN	Dept of OB/GYN	Active
Ying Chang Chen, M.D.	OB/GYN	Dept of OB/GYN	Active
David W. Cloyd, M.D.	General/Vascular Surgery	Dept of Surgery	Active
Russell W. Engevik, M.D.	Emergency Medicine	Dept of Emergency Med	Active
Anna Rita Foraci, D.O.	Family Practice	Dept of Family Practice	Active
Tahir Ijaz, M.D.	Radiation Oncology	Dept of Radiology	Consulting
Thomas A. Jones, M.D.	Urology	Dept of Surgery	Active
Steve Laverson, M.D.	Plastic Surgery	Dept of Surgery	Active
Ronald M. Levin, M.D.	Anesthesiology	Dept of Anesthesia	Active
William J. Lewis, M.D. (Changed from Courtesy to Consulting)	Pediatric Neurology	Dept of Pediatrics	Consulting
Vincent R. Okamoto, M.D.	Anesthesiology	Dept of Anesthesia	Associate
Glenn M. Panzer, M.D. (Includes PCCC)	Family Practice	Dept of Family Practice	Courtesy
Steven G. Pratt, M.D.	Ophthalmology	Dept of Surgery	Associate
Thomas E. Rastle, M.D. (Includes PCCC)	Family Practice	Dept of Family Practice	Active
Ghazala Q. Sharieff, M.D.	Emergency Medicine	Dept of Emergency Med	Active
Steve S. Song, M.D.	Internal Medicine	Dept of Medicine	Active
William D. Tench, M.D.	Pathology	Dept of Pathology	Active
F. Omar Tordilla, M.D. (Includes PCCC)	Family Practice	Dept of Family Practice	Active

- XI. Allied Health Professional Reappointment Effective 12/01/2007 – 11/30/2009
 Wayne Inancsi, P.A.-C., Physician Assistant; Sponsors: Kaiser Continuing Care Physicians
 (Includes PCCC)

Certification by and Recommendation of Chief of Staff:

As Chief of Staff of Palomar Medical Center, I certify that the procedures described in the Medical Staff Bylaws for appointment, reappointment or alteration of staff membership or the granting of privileges and that the policy of the Palomar Pomerado Health System's Board of Directors regarding such practices have been properly followed. I recommend that the action requested in each case be taken by the Board of Directors.

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

Provider Name & Title	John S. Anderson, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Diagnostic Radiology – Certified 2007
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ORGANIZATIONAL NAME

Name	Stat Radiology Medical Corporation
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Case Western Reserve University, Cleveland, OH From: 08/01/1995 To: 05/16/1999 Doctor of Medicine Degree
Internship Information	Brooke Army Medical Center, Fort Sam Houston, TX General Surgery From: 07/01/1999 To: 06/30/2000
Residency Information	Barnes-Jewish Hospital at Washington University, St. Louis, MO Radiology, Diagnostic Imaging From: 07/01/2003 To: 06/30/2007
Fellowship Information	University of California, San Diego Magnetic Resonance Imaging From: 07/01/2007 To: Present Expected Date of Completion: 06/30/2008
Current Affiliation Information	None

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

Provider Name & Title	Darren M. Buono, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Diagnostic Radiology – Certified 2007
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ORGANIZATIONAL NAME

Name	Stat Radiology Medical Corporation
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Robert Wood Johnson Medical School, New Brunswick, NJ From: 08/01/1998 To: 05/22/2002 Doctor of Medicine Degree
Internship Information	Harbor/UCLA Medical Center Transitional From: 06/24/2002 To: 06/23/2003
Residency Information	University of California, San Diego Radiology, Diagnostic Imaging From: 07/01/2003 To: 06/30/2007
Fellowship Information	University of California, San Diego Musculoskeletal Radiology From: 07/01/2007 To: Present Expected Date of completion: 06/30/2008
Current Affiliation Information	None

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

<i>Provider Name & Title</i>	Ami P. Doshi, M.D.
<i>PPHS Facilities</i>	Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

<i>Specialties</i>	Pediatrics – Not Certified
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ORGANIZATIONAL NAME

<i>Name</i>	Children's Specialists of San Diego
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EDUCATION/AFFILIATION INFORMATION

<i>Medical Education Information</i>	University of California, Irvine School of Medicine From: 08/01/2000 To: 06/19/2004 Doctor of Medicine Degree
<i>Internship Information</i>	University of California, San Diego Pediatrics From: 06/23/2004 To: 06/27/2005
<i>Residency Information</i>	University of California, San Diego Pediatrics From: 07/01/2005 To: 06/30/2007
<i>Fellowship Information</i>	Children's Specialists of San Diego Pediatric Hospital Medicine From: 07/01/2007 To: Present Expected Date of Completion: 06/30/2008
<i>Current Affiliation Information</i>	Rady Children's Hospital, San Diego

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

Provider Name & Title	Joshua P. Landau, M.D.
PPHS Facilities	Escondido Surgery Center Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Orthopaedic Surgery – Not Certified
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ORGANIZATIONAL NAME

Name	San Diego Arthroscopy and Sports Medicine
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	University of North Carolina School of Medicine, Chapel Hill, NC From: 08/01/1998 To: 05/19/2002 Doctor of Medicine Degree
Internship Information	St. Mary's Medical Center, San Francisco, CA Orthopaedic Surgery From: 07/01/2002 To: 06/30/2003
Residency Information	St. Mary's Medical Center, San Francisco, CA Orthopaedic Surgery From: 07/01/2003 To: 06/30/2007
Fellowship Information	San Diego Arthroscopy and Sports Medicine Sports Medicine From: 08/01/2007 To: Present Expected Date of Completion: 07/31/2008
Current Affiliation Information	None

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

<i>Provider Name & Title</i>	Gabriel Rodarte, M.D.
<i>PPHS Facilities</i>	Pomerado Hospital (Villa Pomerado) Palomar Medical Center (Palomar Continuing Care Center)

SPECIALTIES/BOARD CERTIFICATION

<i>Specialties</i>	Psychiatry – Not Certified Family Practice – Certified 2007
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ORGANIZATIONAL NAME

<i>Name</i>	Neighborhood Healthcare
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EDUCATION/AFFILIATION INFORMATION

<i>Medical Education Information</i>	University of California, San Francisco, CA From: 09/02/1996 To: 06/16/2002 Doctor of Medicine Degree
<i>Internship Information</i>	University of California, San Diego Psychiatry/Family Practice From: 06/24/2002 To: 06/30/2003
<i>Residency Information</i>	University of California, San Diego Psychiatry/Family Practice From: 07/01/2003 To: 06/30/2007
<i>Fellowship Information</i>	N/A
<i>Current Affiliation Information</i>	None

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

Provider Name & Title	Craig E. Stewart, M.D.
PPHS Facilities	Pomerado Hospital Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Diagnostic Radiology – Certified 2007
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ORGANIZATIONAL NAME

Name	Stat Radiology Medical Corporation
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Indiana University School of Medicine, Indianapolis, IN From: 08/01/1998 To: 05/12/2002 Doctor of Medicine Degree
Internship Information	Carilion Medical Center, Roanoke, VA Transitional From: 07/01/2002 To: 06/30/2003
Residency Information	University of California, San Diego Radiology, Diagnostic Imaging From: 07/01/2003 To: 06/30/2007
Fellowship Information	University of California, San Diego Musculoskeletal Radiology From: 07/01/2007 To: Present Expected Date of Completion: 06/30/2008
Current Affiliation Information	None

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

Provider Name & Title	Kristen T. Wade-Kempiak, M.D.
PPHS Facilities	Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Pediatrics – Certified 2006
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ORGANIZATIONAL NAME

Name	Neighborhood Healthcare
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	Albert Einstein College of Medicine, Bronx, NY From: 08/01/1999 To: 06/04/2003 Doctor of Medicine Degree
Internship Information	N/A
Residency Information	Montefiore Medical Center, Bronx, NY Albert Einstein College of Medicine of Yeshiva University Social Pediatrics From: 07/01/2003 To: 06/30/2006 Montefiore Medical Center, Bronx, NY Albert Einstein College of Medicine of Yeshiva University Chief Resident - Social Pediatrics From: 07/01/2006 To: 06/30/2007
Fellowship Information	N/A
Current Affiliation Information	None

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

<i>Provider Name & Title</i>	Nelar Wine, M.D.
<i>PPHS Facilities</i>	Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

<i>Specialties</i>	Internal Medicine – Certified 1997
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ORGANIZATIONAL NAME

<i>Name</i>	Kaiser Permanente
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EDUCATION/AFFILIATION INFORMATION

<i>Medical Education Information</i>	Vanderbilt University, Nashville, TN From: 08/01/1990 To: 05/13/1994 Doctor of Medicine Degree
<i>Internship Information</i>	University of California, San Diego Internal Medicine From: 06/24/1994 To: 06/27/1995
<i>Residency Information</i>	University of California, San Diego Internal Medicine From: 07/01/1995 To: 06/30/1997
<i>Fellowship Information</i>	N/A
<i>Current Affiliation Information</i>	Kaiser Permanente, San Diego

**PALOMAR POMERADO HEALTH SYSTEM
PROVISIONAL APPOINTMENT
November, 2007**

PERSONAL INFORMATION

Provider Name & Title	David B. Winn, M.D.
PPHS Facilities	Palomar Medical Center

SPECIALTIES/BOARD CERTIFICATION

Specialties	Internal Medicine – Certified 1996; Re-Certified 2006
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ORGANIZATIONAL NAME

Name	Kaiser Permanente
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EDUCATION/AFFILIATION INFORMATION

Medical Education Information	George Washington University, Washington D.C. From: 07/01/1988 To: 05/29/1992 Doctor of Medicine Degree
Internship Information	George Washington University Hospital, Washington D.C. Internal Medicine From: 06/23/1992 To: 06/30/1993
Residency Information	George Washington University Hospital, Washington D.C. Internal Medicine From: 07/01/1993 To: 06/30/1996
Fellowship Information	N/A
Current Affiliation Information	Kaiser Permanente, San Diego Sharp Memorial Hospital Sharp Mary Birch Hospital Sharp Rees Stealy

**PALOMAR POMERADO HEALTH
ALLIED HEALTH PROFESSIONAL
APPOINTMENTS
FOR NOVEMBER 2007**

NAME: Eve S. Allerton, P.A.-C.
SPECIALTY: Physician Assistant
SERVICES: Physician Assistant services for Kaiser Orthopaedic Surgeons
TRAINING: University of Southern California, Los Angeles, CA
 Bachelor of Science – Physician Assistant practice 09/01/96-12/21/98
 Arrowhead Regional Medical Center, Colton, CA
 Orthopaedic Physician Assistant Residency Program 09/01/98-08/31/99
PRACTICE: Orthopaedic Physician Assistant, Kaiser Permanente, San Diego, CA 03/01/00-Present
 Physician Assistant, Arrowhead Regional Medical Center, Colton, CA 09/13/99-03/12/01
SPONSORS: Kaiser Orthopaedic Surgeons at Palomar Medical Center
CERTIFICATION: National Commission on Certification of Physician Assistants 1998
FACILITIES: Palomar Medical Center and Escondido Surgery Center

NAME: Polly "Beth" Amaral, AuD
SPECIALTY: Evoked Potential Technician
SERVICES: Intraoperative Monitoring services (evoked potential)
TRAINING: University of Mississippi, University, MS
 Bachelor of Arts Degree- Communicative Disorders 08/01/90-05/30/94
 Master of Science Degree – Communicative Disorders 08/01/94-5/30/96
 Arizona School of Health Sciences
 Doctor of Audiology degree 03/01/05-11/17/06
PRACTICE: Evoked Potential Technician, Neurophysiology, Inc,
 San Diego, CA 04/01/07-Present
 Clinical Audiologist, Hearing Professionals, Inc,
 Waldorf, MD 02/01/05-03/31/07
 Clinical Audiologist, Sonus, Inc, San Diego, CA 02/08/99-09/30/03
 Clinical Audiologist, Professional Hearing Associates,
 Escondido, CA 10/01/98-1/31/99
 Clinical Audiologist, West Florida Medical Center,
 Pensacola, FL 04/01/98-09/30/98
 Clinical Audiologist, Methodist Hospital of Memphis, TN 7/14/97-05/01/98
 Clinical Audiologist, Audiology Clinics of West Tennessee 07/01/97-07/01/98
 Clinical Audiologist, Beltone Hearing Center, Pace, FL 05/01/96-07/01/97
SPONSORS: Laurence McKinley, M.D. & Kevin Yoo, M.D.
CERTIFICATION: American Speech-Hearing-Language Association None
FACILITIES: Palomar Medical Center

MEDICAL STAFF SERVICES

PALOMAR
POMERADO
HEALTH

DATE: October 30, 2007
MEMO TO: Palomar Pomerado Health
Board of Directors
FROM: Marvin Levenson, M.D.
Medical Director, Escondido Surgery Center
RE: Medical Staff Recommendations

The Medical Staff of Palomar Medical Center approved the following credentialing recommendations for Escondido Surgery Center for submission to the Board of Directors:

Appointment

- ◆ Joshua P. Landau, M.D., Orthopaedic Surgery (11/12/2007 – 10/31/2009)

Reinstatement

- ◆ Alicja S. Steiner, M.D., Pain Management (11/12/2007 – 02/28/2009)

Resignations

- ◆ Alex I. Fraser, M.D., Anesthesiology (Effective 11/30/2007)

Allied Health Professional Appointment

- ◆ Eve S. Allerton, P.A.-C., Physician Assistant; Sponsors: Kaiser Orthopaedic Surgeons (11/12/2007 – 10/31/2009)

Allied Health Professional Withdrawal

- ◆ Corrine A. Carroll, R.N., Registered Nurse; Sponsors: Drs. Unhold, McDonald (Effective 11/12/2007)
- ◆ Caroline E. Self, P.A.-C., Physician Assistant; Sponsors: Drs. Moldovan, Bulkin (Effective 11/06/2007)

Reappointment

12/01/2007 – 11/30/2009

- ◆ Duane M. Buringrud, M.D., OB/GYN
- ◆ Ying Chang Chen, M.D., OB/GYN
- ◆ David W. Cloyd, M.D., General/Vascular Surgery
- ◆ Thomas A. Jones, M.D., Urology
- ◆ Steve Laverson, M.D., Plastic Surgery
- ◆ Ronald M. Levin, M.D., Anesthesiology
- ◆ Vincent R. Okamoto, M.D., Anesthesiology
- ◆ Steven G. Pratt, M.D., Ophthalmology
- ◆ Thomas E. Rastle, M.D., Family Practice
- ◆ William D. Tench, M.D., Pathology
- ◆ F. Omar Tordilla, M.D., Family Practice

Certification by and Recommendation of Escondido Surgery Center Medical Director:

As Medical Director of Escondido Surgery Center, I certify that the procedures described in the Escondido Surgery Center Bylaws for appointment, reappointment or the granting of privileges and that the policy of the Palomar Pomerado Health Board of Directors regarding such practices have been properly followed. I recommend that the action requested in each case be taken by the Board of Directors.

PALOMAR MEDICAL
CENTER
555 East Valley Parkway
Escondido, CA 92025
Tel 760.739.3140
Fax 760.739.2926

POMERADO
HOSPITAL
15615 Pomerado Road
Poway, CA 92064
Tel 858.613.4664
Fax 858.613.4217

ESCONDIDO
SURGERY CENTER
343 East Grand Avenue
Escondido, CA 92025
Tel 760.480.6606
Fax 760.480.1288

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PALOMAR
POMERADO
HEALTH

Pomerado Hospital Medical Staff Services
15615 Pomerado Road
Poway, CA 92064
Phone - (858) 613-4664
FAX - (858) 613-4217

DATE: October 31, 2007
TO: Board of Directors - November 12, 2007
FROM: Benjamin Kanter, M.D., Chief of Staff, Pomerado Hospital Medical Staff
SUBJECT: Medical Staff Credentials Recommendations - October 2007

Provisional Appointments: (11/12/2007 - 10/31/2009)

John S. Anderson, M.D. - Radiology
Darren M. Buono, M.D. - Radiology
Joshua P. Landau, M.D. - Orthopedic Surgery (Assisting Only)
Gabriel Rodarte, M.D. - Psychiatry/Family Practice (includes Villa)
Craig E. Stewart, M.D. - Radiology

Advancements:

Maria L. Castillo, M.D. - OB/GYN - Active Category - 11/12/2007 - 04/30/2009
Josue D. Leon, M.D. - OB/GYN - Affiliate Category - 11/12/2007- 08/31/2008
Alicja S. Steiner, M.D. - Anesthesia - Affiliate Category - 11/12/2007 - 02/28/2009

Biennial Reappointments: (12/01/2007 - 11/30/2009)

Celestine J. Arambulo, D.O. - Medicine - Associate (includes Villa)
Duane M. Buringrud, M.D. - OB/GYN - Courtesy
Ying Chang Chen, M.D. - OB/GYN - Courtesy
Russell W. Engevik, M.D. - Emergency Medicine - Active
Anna Rita Foraci, D.O. - Medicine (Family Practice) - Courtesy
Robert W. Herbst, M.D. - Surgery - Active (includes Villa)
Tahir Ijaz, M.D. - Radiology - Consulting
Thomas A. Jones, M.D. - Surgery - Courtesy
Steve Laverson, M.D. - Surgery - Courtesy
Ronald M. Levin, M.D. - Anesthesia - Active
Patrocinia A. Magat, M.D. - Medicine (Family Practice) - Affiliate
Richard A. Merino, M.D. - Medicine - Affiliate
Kevin B. Merkes, M.D. - Medicine - Affiliate
Vincent R. Okamoto, M.D. - Anesthesia - Affiliate
Glenn M. Panzer, M.D. - Medicine (Family Practice) - Active (includes Villa)
Steven G. Pratt, M.D. - Surgery - Courtesy
Ghazala Q. Sharieff, M.D. - Emergency medicine - Active
William D. Tench, M.D. - Pathology - Active

Resignations/Expirations of Membership:

Delois J. Bean, M.D.
James Jacquet, M.D.
Jiandong Liu, M.D.
James P. Lyons, M.D.
Vakas A. Sial M.D.

Change of Category

Louis Maletz, M.D. – Affiliate to Provisional (11/12/2007 – 10/31/2009)

Additional Privileges:

Marcus M. Van, M.D. – Interpretation (Imaging) and Miscellaneous Bundles

Allied Health Renewal of Membership: (12/01/2007 – 11/30/2009)

Wayne Inancsi, P.A.-C – Sponsors Kaiser Physicians (includes Villa)

Allied Health Resignation:

Caroline Self, P.A.-C

POMERADO HOSPITAL: Certification by and Recommendation of Chief of Staff: As Chief of Staff of Pomerado Hospital, I certify that the procedures described in the Medical Staff Bylaws for appointment, reappointment, or alternation of staff membership or the granting of privileges and the policy of the Palomar Pomerado Health System's Board of Directors regarding such practices have been properly followed. I recommend that the Board of Directors take the action requested in each case.

Presentation of Service Award Pin upon Assuming Office

TO: Board of Directors

DATE: November 12, 2007

FROM: Marcelo R. Rivera, M.D., Board Chairman

BY: Christine Meaney, Board Assistant

BACKGROUND: A service award pin for Directors is awarded upon taking up office. In recognition of Ms Linda Bailey's appointment as a director of the Board of Palomar Pomerado Health, unanimously approved at a special board meeting November 1, 2007, Marcelo R. Rivera, M.D., Board Chairman, will on behalf of the Board, present to Ms Bailey a pin upon her assuming office.

**AMENDED RESOLUTION ESTABLISHING
DATES OF REGULAR BOARD MEETINGS**

TO: Board of Directors
DATE: November 12, 2007
FROM: Christine Meaney for Marcelo R. Rivera, M.D., Board Chair
SUBJECT: Amending Resolution to Change Date of December Board Meeting

BACKGROUND:

Consistent with the California Government Code and PPH Bylaws, dates of regular meetings of the Board of Directors must be established by resolution in the year before the pertinent calendar year. The dates for the current calendar year were established at the Annual Meeting last December. The attached resolution has been drawn following a Board member request, to change the date of the December Board Meeting from Monday, December 10 to Monday, December 17 due to the Board Member being away November 30 – December 12, 2007. This item is submitted for discussion and possible action. The Palomar location is available December 10, and could be available December 17.

STAFF RECOMMENDATION:

Adoption of attached resolution amending established dates of Regular Board Meetings for Calendar Year 2007 to change the December 10 meeting date to December 17, pending Board discussion as to whether this may change or not.

RESOLUTION NO. 11.12.07 (01) - 13

RESOLUTION OF THE BOARD OF DIRECTORS OF
PALOMAR POMERADO HEALTH
ESTABLISHING REGULAR BOARD MEETINGS
FOR CALENDAR YEAR 2007

WHEREAS, Palomar Pomerado Health is required, pursuant to Section 54954 of the California Government Code and Section 5.2.2 of the PPH Bylaws, to pass a resolution adopting the time, place and location of the regular board meetings;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of Palomar Pomerado Health that the following schedule of regular meetings will apply for calendar year 2007:

2007 BOARD MEETING SCHEDULE

January 8	Pomerado	July 9	Pomerado
February 12	PMC	August 13	PMC
March 12	Pomerado	September 17	Pomerado
April 16	PMC	October 8	PMC
May 15	Pomerado	November 12	Pomerado
June 11	PMC	December 17	PMC

Each meeting will begin at 6:30 p.m. Those meetings held at Palomar will be in Graybill Auditorium; those at Pomerado will be in the third floor meeting room.

PASSED AND ADOPTED at a regular meeting of the Board of Directors of Palomar Pomerado Health, held on November 12, 2007, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

DATED: November 12, 2007

APPROVED:

ATTESTED:

Marcelo R. Rivera, M.D., Chairman
Board of Directors

Linda C. Greer, R.N., Secretary
Board of Directors

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Informational: Review of HR Policies 04 and 05

TO: PPH Board of Directors
MEETING DATE: November 12, 2007
FROM: Human Resources Committee, August 21, 2007
BY: Wallie George, Chief Human Resources Officer

BACKGROUND: HR Committee members reviewed/revised two HR Board Policies that are up for review in the fourth quarter of this year.
HR-04...."Total Compensation"
HR-05...."Employee Relations"

BUDGET IMPACT: Not Applicable

STAFF RECOMMENDATION:

No changes were made to the existing documents.
M. Rivera made the motion to accept the documents as currently written.
L. Greer seconded the motion
Motion passed.

Policies, HR-04 and HR-05, were forwarded to the October 26, 2007, Governance Committee
(*Governance Committee canceled and rescheduled due to Oct firestorm*).

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

Customer Relationship Management

TO: PPH Board of Directors
MEETING DATE: November 12, 2007
FROM: Community Relations Committee on October 12, 2007
BY: Gustavo Friederichsen

BACKGROUND: Gustavo Friederichsen and Jayne Thompson of CPM updated the committee on the Customer Relationship Management. This included a presentation that illustrated the value of target marketing versus mass media and what specific steps we have taken and will continue to take to grow market share, increase utilization of programs and awareness of services.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

PPH Campus Update

TO: PPH Board of Directors

MEETING DATE: November 12, 2007

FROM: Community Relations Committee on October 12, 2007

BY: Janet Gennoe

BACKGROUND: Janet Gennoe reported to the committee on Campus updates for Palomar Medical Center as well as Marketing updates for the hospital system. Janet also updated the committee on the opening of the Jean McLaughlin Woman's Center For Health and Healing VIP Event for sometime in December or January; this will also be followed by a community event that will include a public tour scheduled sometime in February 2008.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

Branding Update

TO: PPH Board of Directors

MEETING DATE: November 12, 2007

FROM: Community Relations Committee on October 12, 2007

BY: Gustavo Friederichsen

BACKGROUND: Due to time constraints Gustavo Friederichsen will update the committee on the Branding plans for Palomar Pomerado Health at the next Community Relations Meeting.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

Monthly Reports

TO: PPH Board of Directors

MEETING DATE: November 12, 2007

FROM: Community Relations Committee on October 12, 2007

BY: Gustavo Friederichsen

BACKGROUND: Monthly reports were respectively presented to the Community Relations Committee. Included were Marketing/Public Relations, HealthSource, Community Outreach and Media Relations for the months of August and September 2007.

BUDGET IMPACT: None

STAFF RECOMMENDATION: For information purposes only

COMMITTEE RECOMMENDATION:

Information: X

Facility Update

TO: PPH Board of Directors
DATE: November 12, 2007
FROM: Joint BOD/Strategic Planning Committee on October 16, 2007
BY: Mike Shanahan, Director Facilities Planning & Development
Marcia Jackson, Chief Planning Officer

BACKGROUND: On a regular basis, the Strategic Planning Committee meeting is expanded to a full PPH Board meeting for the purpose of reviewing the facilities planning and design. This agenda item consisted of a periodic Facility Master Plan update.

Mike Shanahan and Mike Samudio from Rudolph and Sletten presented an update on the PMC West campus. The team made several jobsite tours to gain lessons learned from other project to help us prepare for our project. Grading has begun on the site.

For the Pomerado update Mike and Mike presented that the Phase 1 work is 98% complete. Current efforts include the installation of new utility upgrades, off-site improvements at Twin Peaks and Camino del Norte and relocation of the helistop. The bridge connection from the parking structure is a top priority at POM to establish an easy access through the rear entrance prior to closing the front entrance.

Mike Shanahan and Joe Mascari from Childs, Warner Mascari Architects presented the design of the Ramona facility. The design provides for a 40,000 square foot building. The architects have carefully considered an architectural design that respects the heritage of Ramona and also conveys a modern, future-oriented health care facility.

Mike and Joe next presented the design proposed for the PMC East campus. Rebirth is the theme for the campus design. They have attempted to better connect the hospital campus with Grand Avenue. Dr. Larson was very complimentary toward the PMC East design. Ted Kleiter expressed that he felt the design and plans reflect a great revitalization for the downtown campus.

BUDGET IMPACT: None

COMMITTEE RECOMMENDATION: For information only

COMMITTEE RECOMMENDATION:

Information: X

Strategic Plan

TO: PPH Board of Directors
DATE: November 12, 2007
FROM: Joint BOD/Strategic Planning Committee on October 16, 2007
BY: Marcia Jackson, Chief Planning Officer

BACKGROUND: At the August Strategic Planning Committee meeting, a draft Strategic Plan was presented and discussed. Marcia Jackson was asked to follow-up individually with Board members not on the Committee to discuss their input and questions, which was done. The Strategic Plan was an agenda item for this October 16 Joint BOD/Strategic Planning meeting to seek Board approval of the plan. The Board and Committee members were asked for any additional comments or questions. Ted Kleiter suggested that the Workforce Development efforts should address the people leaving the military who could become health care providers. In particular he noted that corpsman are not licensed in California, but they have excellent training. Lorie Shoemaker stated that they do qualify for an LVN with minimal additional requirements. Then they can take the necessary steps to move from an LVN to an RN. Marcia Jackson noted that the Health Care Workforce Training Network diagram on page 27 of the plan does depict a pathway for individuals with military training to flow into a health care career. So, this issue has been noted; however, there are no specific efforts underway currently.

Marcia Jackson will share the input on military personnel with Wallie George and Brad Wiscons.

Nancy Bassett made a motion to approve the PPH Strategic Plan. Ted Kleiter seconded the motion. The Joint BOD/Strategic Planning Committee approved the Plan unanimously.

BUDGET IMPACT: None

COMMITTEE RECOMMENDATION:

Information: X (BOD Action Taken at October 16 Joint BOD/Strategic Planning Committee Meeting)

Palomar Pomerado Health

Strategic Plan

August 2007

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Executive Summary

Palomar Pomerado Health (PPH) is a district healthcare system serving a diversified population in an 800 square mile area in North Inland San Diego County. PPH has established strategic domains and objectives to guide the utilization of all resources toward achieving the mission and vision of the organization. These strategic domains are financial strength, customer service, quality, and workforce and workplace development.

This strategic plan identifies PPH's focus over the next 3-5 years. Business growth is a key thrust for PPH to achieve financial strength. PPH will primarily focus on the district area as its primary service area, with a goal to increase market share from 50-60% to 70-80%. Service line development will be a key strategy to increase market share, with cardiovascular, neurosciences, orthopedics and women's and children's services being the most significant service line focuses. Enhancements to these service lines could also attract in-migration to PPH from surrounding communities. Development of a formalized primary care strategy is a key component of long-term sustainability and growth of market share.

PPH is committed to customer service and quality, with key emphasis being placed on implementing best practices in customer service, demonstrating superior clinical outcomes and achievement of Magnet Recognition Status for the entire health system.

Several multi-year initiatives support workforce and workplace development. Educational partnerships, both to attract middle school and high school students to consider health careers, as well as at the collegiate level to educate individuals who are currently preparing for health careers, are at the core of workforce development efforts. Additionally, providing the best environment for employees to work in and providing learning opportunities are key aspects of attracting and retaining a highly qualified workforce. Workplace development through the multi-year Facilities Master Plan represents a significant effort by PPH to provide the most optimal facilities for delivering and receiving health care services.

PPH is committed to a philosophy of partnership and collaboration in achieving its mission and vision. The focus is on creating partnerships to fill gaps in the healthcare continuum of care and to enhance programs and services being offered to the community. PPH has developed several successful partnerships in the past, including Kaiser Permanente and Children's Hospital, and will continue to nurture new partnerships, such as UCSD.

PPH is an organization committed to innovation and creativity and is taking some tangible steps to demonstrate and actualize this commitment. This includes the establishment of a Research Institute and a structured framework to seek, study, develop and implement innovative opportunities.

PPH Leadership recognizes that focus, accountability and communication are the key disciplines necessary for the successful execution of this strategic plan and for the achievement of the organization's mission and vision.

Palomar Pomerado Health Strategic Overview

The mission of Palomar Pomerado Health is to heal, comfort and promote health in the communities we serve.

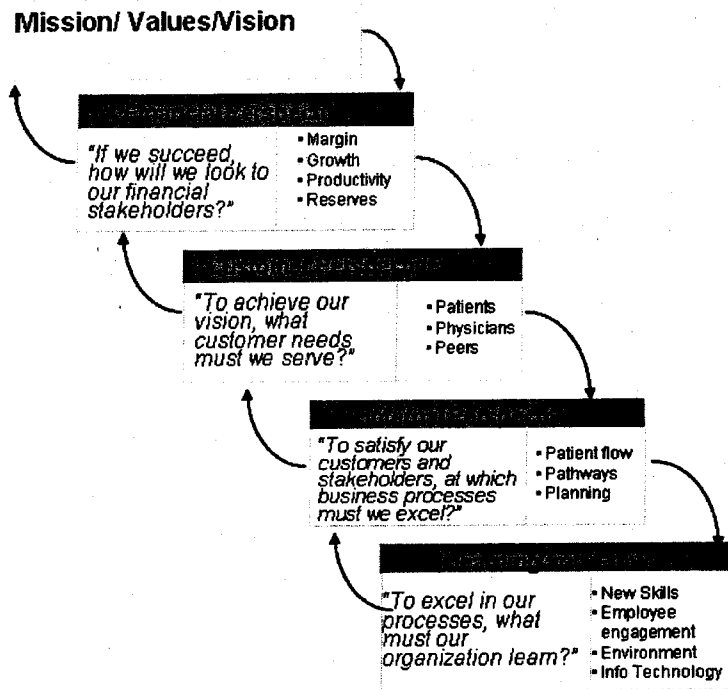
The vision is to be the health system of choice for patients, physicians and employees, recognized nationally for the highest quality of clinical care and access to comprehensive services.

Below are Palomar Pomerado Health's Values:

- Integrity—Be honest and ethical in all we do regardless of consequences
- Innovation and Creativity—Courageously seek and accept new challenges; take risks. Envision new and endless possibilities
- Teamwork—Work together toward a common goal while valuing our differences
- Excellence—Continuously strive to meet the highest standards, to surpass all customer expectations
- Compassion—Treat our patients and their families with dignity, respect, and empathy at all times. Be considerate and respectful to colleagues
- Stewardship—Inspire commitment, accountability, and a sense of common ownership by all individuals

In order to realize this mission and vision, Palomar Pomerado Health utilizes a balanced scorecard as the strategic framework and has established strategic domains and objectives to guide the utilization of all resources: time, treasure and talent. PPH selected its balanced scorecard domains to reflect the key strategic imperatives that PPH believes it must excel in to achieve the Mission and Vision. All efforts to achieve the Mission and Vision will be undertaken in a manner which is consistent with PPH's Values. The strategic domains are financial strength, customer service, quality, and workforce and workplace development. The diagram below shows the linkages among PPH's balanced scorecard domains.

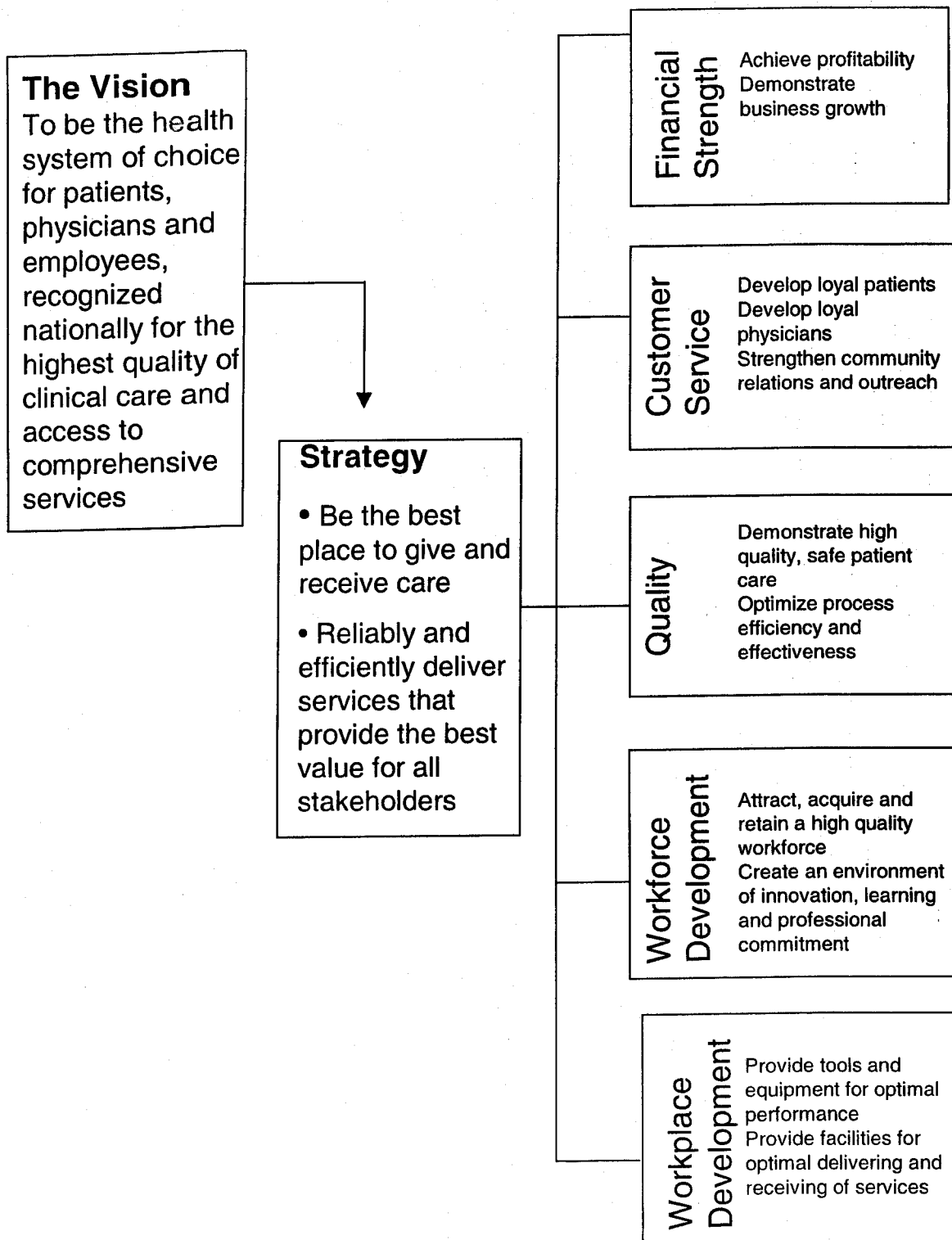
Causal Relationships among Domains Help Define Successful Strategy



Reference: **Balanced Scorecard Collaborative**

The fundamental element in achieving the mission and vision is to have high quality employees who are engaged and motivated so they can focus on the care and services provided to patients. They have to have the equipment and facilities to support that care. Highly skilled employees provide high quality, safe care and services. PPH must provide high quality, safe care, but also must meet customer expectations to be treated with respect and compassion in a well-organized manner. Building relationships with patients, physicians and the community through excellent customer service and high quality safe care will enable PPH to be the provider of choice. Being the provider of choice will enhance PPH's reputation and will result in business growth. Business growth and strong financial performance will ensure PPH has the funds necessary to reinvest in staff, equipment and facilities to continually enhance the programs and services provided to the community.

The diagram below depicts the 3 – 5 year strategic objectives for PPH.



PPH has adopted long-term goals, strategic objectives, and outcome measures for each domain to move towards the vision. Each year PPH establishes initiatives to close the

gap between the existing situation and the long-term goals and objectives. Many of the initiatives are multi-year. Appendix A shows the initiatives for FY08. Annual planning in subsequent years will involve assessment of initiative achievement and development of additional initiatives as needed to continually progress towards the vision and to overcome the key challenges.

Domain	Long-Term Goal (FY09)	Objective	Outcome Measure
Financial Strength	Achieve Moody's As bond rating	<ol style="list-style-type: none"> 1. Achieve profitability 2. Demonstrate business growth 	<ol style="list-style-type: none"> 1. OEBITDA margin including property tax revenue 2. Weighted patient days
Customer Service	Achieve 90 th percentile for patient and physician loyalty	<ol style="list-style-type: none"> 1. Develop loyal patients 2. Develop loyal physicians 3. Strengthen community relationships and outreach 	<ol style="list-style-type: none"> 1. Patient loyalty scores 2. Physician loyalty scores 3. Community and Partnership survey
Quality	Achieve national recognition for clinical quality and performance excellence, including achieving the California Baldrige Award and Magnet Recognition status	<ol style="list-style-type: none"> 1. Demonstrate high quality, safe patient care 2. Optimize process efficiency and effectiveness 	<ol style="list-style-type: none"> 1. Core measures 2. % of time department standards are met
Workforce Development	Achieve national recognition as one of the top health systems to work for and achieve 90 th percentile on employee engagement	<ol style="list-style-type: none"> 1. Attract, acquire and retain a high quality workforce 2. Create an environment of innovation, learning and professional commitment 	<ol style="list-style-type: none"> 1. Employee engagement scores 2. Mgmt composite score on Gallup question have had opportunity at work to learn and grow
Workplace Development	Achieve national recognition for development of state-of-the-art facilities and technology	<ol style="list-style-type: none"> 1. Provide the tools and equipment for optimal performance 2. Provide facilities for optimal delivery and receiving of services 	<ol style="list-style-type: none"> 1. Score on Gallup question about tools and equipment to do job 2. Facilities Master Plan

INDUSTRY AND ENVIRONMENTAL SCAN

In Moody's "Not-for-Profit Healthcare Sector: 2007 Industry Outlook," Moody's projects stable operating performance and financial position for not-for-profit hospitals and health systems in calendar year 2007, with some uncertainty for 2008 and 2009.

Moody's identified relatively favorable Medicare rates, stable national and state economies and better management of financial resources and strategic initiatives as contributing factors for the stable outlook. However, they anticipate that weak growth in patient volume, increasing competition for inpatient and outpatient volume, and higher capital spending will challenge the industry in the coming years. Moody's also expects increased federal scrutiny over not-for-profit hospital's tax-exempt status and hospital billing practices will require a greater amount of management's time and board's oversight.

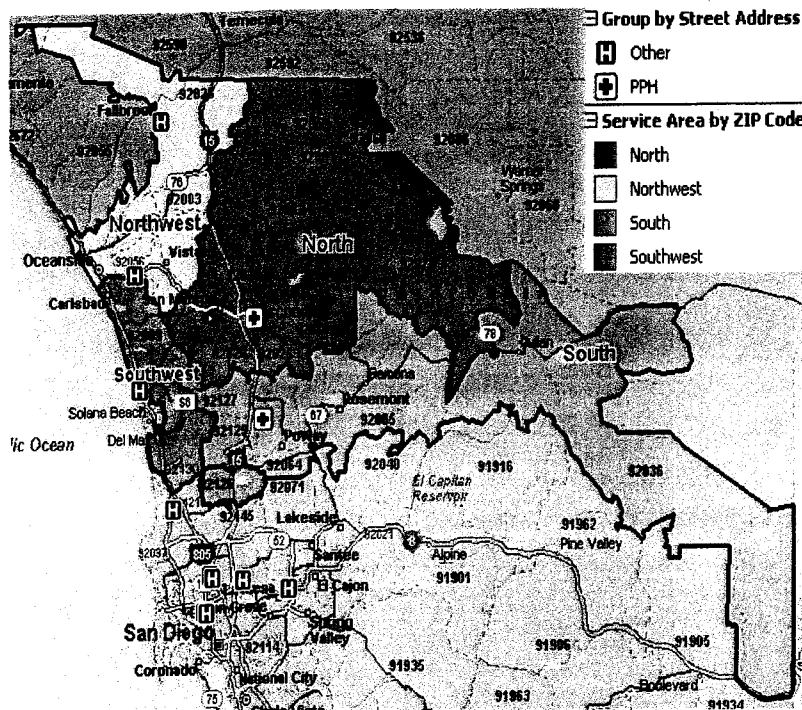
Despite experiencing a relatively stable period, healthcare is still a very challenging industry. There are legislative/political impacts, severe economic pressures, demographic and healthcare behavior factors, technological changes and competitive forces. Amidst all of the challenges, PPH Leadership has identified the following key challenges that must be addressed in strategic planning:

- Workforce shortages
- Financial resources to support PPH Mission
- Competition and market growth
- Establishing a culture that promotes PPH Values and Behavior Standards
- Reliable delivery of services using systematic processes

MARKET ASSESSMENT

Palomar Pomerado Health, a California Healthcare District, has provided healthcare to the Inland North San Diego County community for over 50 years, and is the largest public hospital district in California, covering approximately 800 square miles. While PPH has the only acute care hospitals within the district boundaries, there is significant competition from Scripps Clinic and Sharp Rees Steely Medical Group, each with numerous physicians providing service through medical offices located within the District. These physicians then utilize Scripps and Sharp hospitals and outpatient facilities for their patients' services. These managed care networks provide the single greatest competitive threat to PPH. Information within this market assessment will show that there is greater competition from Scripps and Sharp in the southern portion of the service area, due to the closer proximity of those hospitals and the presence of Scripps Clinic and Sharp Rees Steely offices in Carmel Mountain Ranch and Rancho Bernardo.

PPH's District area, highlighted as the North and South clusters on the map below, comprises the primary service area. Approximately 75% of the patients who are hospitalized at Palomar and Pomerado reside within this primary service area. As part of the strategic planning process, the District area was analyzed as well as two geographic clusters which border the District area: the Northwest cluster includes Fallbrook, Vista and Oceanside, and the Southwest cluster includes Carlsbad, Del Mar, and Carmel Valley. The map below shows the four clusters that were analyzed.



As shown in Table 1 over 50% of PPH patients originate from the north cluster, which has been consistent over the past 3 years.

**Table 1
PPH Inpatient Volume Trends**

Cluster	Cases			% of Total Cases			2003 - 2005 Change	
	2003	2004	2005	2003	2004	2005	Cases	%
North	14,743	15,584	15,510	52.0%	53.3%	52.6%	767	5.2%
South	6,634	6,429	6,782	23.4%	22.0%	23.0%	148	2.2%
Northwest	2,912	2,957	2,821	10.3%	10.1%	9.6%	(91)	(3.1%)
Southwest	1,086	931	938	3.8%	3.2%	3.2%	(148)	(13.6%)
Service Area TOTAL	25,375	25,901	26,051	89.5%	88.6%	88.3%	676	2.7%
Immigration	2,984	3,334	3,458	10.5%	11.4%	11.7%	474	15.9%
TOTAL	28,359	29,235	29,509	100.0%	100.0%	100.0%	1,150	4.1%

Population growth is quite favorable in the PPH service area, and is one key reason for the need for added capacity for the health system. Table 2 shows the population growth from 2006-2011 projected for each of the clusters as well as some information about the population breakdown by age. The projected growth rate of 8.6% is higher than the projected growth rate for the U.S., 4.9%.

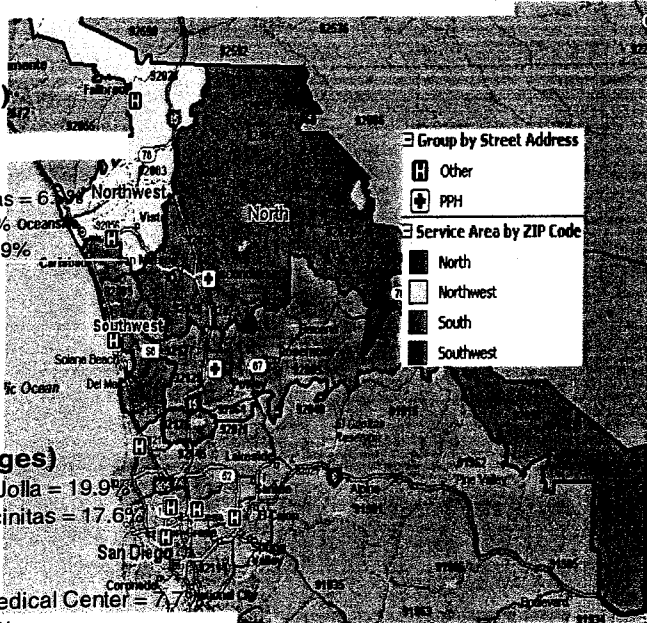
**Table 2
2006-2011 Population Growth**

Source: Claritas

The graphic below and Table 3 show the market share by hospital by cluster, that is, of the people who reside in a given geography who were hospitalized, what hospital they were admitted to. The graphics show that PPH is dominant in the north cluster and has growth opportunities in the south cluster.

Total Area (87,478 Discharges)

1. Palomar Medical Center = 22.3%
2. Tri-City Medical Center = 18.8%
3. Scripps Memorial Hospital - La Jolla = 8.4%
4. Pomerado Hospital = 7.5%
5. Scripps Memorial Hospital - Encinitas = 6.7%
6. Kaiser Fnd Hosp - San Diego = 5.4%



Northwest (26,482 Discharges)

- Tri-City Medical Center = 48.6%
- Palomar Medical Center = 9.8%
- Fallbrook Hospital District = 7.6%
- Scripps Memorial Hospital - Encinitas = 6.3%
- Kaiser Fnd Hosp - San Diego = 4.4%
- Children'S Hospital - San Diego = 3.9%

North (24,795 Discharges)

1. Palomar Medical Center = 58.0%
2. Tri-City Medical Center = 7.4%
3. Pomerado Hospital = 4.5%
4. Children'S Hospital - San Diego = 4.4%
5. Kaiser Fnd Hosp - San Diego = 4.1%
6. Scripps Memorial Hospital - La Jolla = 3.7%

Southwest (20,033 Discharges)

- Scripps Memorial Hospital - La Jolla = 19.9%
- Scripps Memorial Hospital - Encinitas = 17.6%
- Tri-City Medical Center = 8.6%
- Scripps Green Hospital = 7.7%
- University Of Calif-San Diego Medical Center = 7.7%
- 1. Palomar Medical Center = 2.5%

South (16,168 Discharges)

1. Pomerado Hospital = 29.4%
2. Palomar Medical Center = 12.6%
3. Scripps Memorial Hospital - La Jolla = 9.1%
4. Kaiser Fnd Hosp - San Diego = 7.7%
5. Scripps Green Hospital = 7.4%
6. Sharp Memorial Hospital = 7.3%

**Table 3
PPH Market Share by Geographic Cluster**

Cluster	Palomar Market Share	Pomerado Market Share	PPH Total Market Share
North	58.0%	4.5%	62.5%
South	12.6%	29.4%	42.0%
Northwest	9.8%	0.9%	10.7%
Southwest	2.5%	2.1%	4.6%
Total	22.3%	7.5%	29.8%

While PPH has a very strong market share in the north cluster, the strength varies substantially within the two key north cluster cities. PPH has over 70% market share in Escondido, but only 42.6% market share in San Marcos.

Escondido (15,332 Discharges)

1. Palomar Medical Center = 66.8%
2. Pomerado Hospital = 5.1%
3. Children's Hospital - San Diego = 4.5%
4. Kaiser Fnd Hosp - San Diego = 3.9%
5. Scripps Green Hospital = 2.8%
6. Scripps Memorial Hospital - La Jolla = 2.6%

San Marcos (7,241 Discharges)

1. Palomar Medical Center = 39.3%
2. Tri-City Medical Center = 19.5%
3. Scripps Memorial Hospital - Encinitas = 7.0%
4. Scripps Memorial Hospital - La Jolla = 6.4%
5. Scripps Green Hospital = 5.7%
6. Kaiser Fnd Hosp - San Diego = 4.8%
7. Pomerado Hospital = 3.3%

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Payor mix varies by cluster. Table 4 shows that the south and southwest clusters have a more favorable payor mix.

**Table 4
Payor Mix by Geographic Cluster**

Cluster	Total Cases	Medi-Cal	Medicare	Private Coverage	Kaiser	Self Pay/Other
North	24,795	19.2%	32.3%	27.4%	11.2%	9.9%
South	16,168	8.4%	33.7%	40.4%	11.2%	6.3%
Northwest	26,481	19.5%	34.5%	26.7%	8.7%	10.6%
Southwest	20,033	7.4%	30.0%	46.8%	9.2%	6.6%
TOTAL	87,478	14.6%	32.7%	34.0%	10.0%	8.7%

It is important to have looked at a wider geography than the PPH service area, however, there is additional opportunity within the north and south clusters which should be the first focus of PPH in terms of growing business. Particularly in the south cluster, PPH has significant opportunity for volume growth. Market opportunity was segmented by service line and payor to identify if there are specific aspects in which PPH underperforms.

**Table 5
PPH Market Share by Payor**

Payor	North Cluster PPH Market Share	South Cluster PPH Market Share
Medi-Cal	80.3%	58.0%
Medicare	68.7%	60.6%
Private Coverage	48.4%	28.9%
Kaiser	52.3%	20.6%
Self Pay/Other	58.9%	42.8%
Total	62.6%	41.9%

In both geographic regions, PPH underperforms with regard to market share among patients with private coverage. PPH has strongest market share among patients covered by Medi-Cal and Medicare insurance.

PPH market share also varies significantly by service line as shown in Table 6 below.

**Table 6
PPH Market Share by Service Line**

Service Line	North Cluster PPH Market Share	South Cluster PPH Market Share
Obstetrics Delivery	73.1%	35.7%
General Medicine	67.7%	53.0%
Orthopedics	54.2%	39.9%

Cardiology	74.7%	60.9%
General Surgery	60.1%	41.6%
Pulmonary	71.1%	55.5%
Cardiac/vascular/thoracic surgery	50.4%	34.4%
Neurology	73.3%	56.8%
Neonate	53.6%	22.0%
Oncology	46.9%	30.8%
Nephrology/Urology	62.3%	50.1%
GYN	52.4%	31.3%
OB non-delivery	58.9%	17.5%
Neurosurgery	38.3%	22.4%
Other	43.3%	25.1%

In the north cluster, PPH has strongest market share for Cardiology, Neurology, OB Deliveries, Pulmonary and General Medicine. In the south cluster, PPH has strongest market share for Cardiology, Neurology, Pulmonary, General Medicine and Nephrology/Urology. Noticeably, PPH market share substantially drops among the surgical service lines. For instance, the strong market share for cardiology does not translate into strong market share for cardiac/vascular/thoracic surgery.

FINANCIAL STRENGTH

Palomar Pomerado Health must remain a financially strong organization in order to fund the development efforts necessary to achieve the vision of becoming the "health system of choice for patients, physicians and employees, recognized nationally for the highest quality of clinical care and access to comprehensive services."

Palomar Pomerado Health established a 10-year financial plan, which identified the necessary financial performance required to effectively fund the Facilities Master Plan.

Ratio/Statistic	Moody's "A" Rated Hospitals	Audited		Projected								
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Operating Revenue	\$391,162	\$397,497	\$428,403	\$451,431	\$476,980	\$505,018	\$534,846	\$575,441	\$604,823	\$635,920	\$668,824	\$703,661
Operating Income	\$11,658	(\$4,408)	\$4,910	\$3,129	\$5,811	\$5,864	(\$8,223)	(\$8,673)	(\$10,529)	(\$16,443)	(\$21,442)	(\$22,284)
Net Income	\$21,837	\$20,982	\$23,271	\$22,399	\$25,359	\$28,560	\$13,848	\$12,949	\$14,095	\$10,548	\$7,162	\$7,964
Cash Flow (Net Inc + Depr)	\$49,314	\$39,719	\$42,045	\$43,721	\$49,019	\$57,830	\$62,065	\$75,658	\$76,512	\$76,831	\$77,350	\$77,858
Unrestricted Cash	\$245,912	\$121,703	\$160,921	\$190,015	\$227,135	\$254,500	\$152,725	\$215,464	\$361,189	\$426,840	\$492,511	\$552,065
EBIDA	\$38,179	\$44,125	\$46,749	\$52,834	\$58,272	\$66,629	\$70,385	\$83,558	\$87,354	\$90,514	\$92,883	\$95,286
Long-Term Debt	\$138,549	\$151,347	\$324,787	\$315,712	\$445,552	\$435,272	\$527,382	\$519,072	\$510,317	\$501,102	\$486,097	\$476,202
Profitability												
Operating Margin	3.3%	(1.1%)	1.1%	0.7%	1.2%	1.2%	(1.5%)	(1.5%)	(1.7%)	(2.6%)	(3.2%)	(3.2%)
Operating Margin (Including Property Tax)	3.3%	1.8%	4.1%	3.5%	4.0%	3.8%	1.0%	0.9%	0.6%	(0.3%)	(1.0%)	(1.0%)
Excess Margin	5.9%	5.0%	5.2%	4.8%	5.1%	5.4%	2.5%	2.2%	2.2%	1.6%	1.0%	1.1%
EBIDA Margin	12.0%	11.1%	10.9%	11.7%	12.2%	13.2%	13.2%	14.5%	14.4%	14.2%	13.9%	13.5%
Liquidity												
Cash to Debt	124.2%	80.4%	49.5%	60.2%	51.0%	58.5%	29.0%	41.5%	70.8%	85.2%	101.3%	115.9%
Days Cash On Hand (days)	173	116	145	162	185	198	113	151	238	266	290	307
Days in A/R, net	48.9	66.8	61.8	59.8	57.8	55.8	54.8	53.8	52.8	51.8	50.8	50.3

PPH has two primary objectives within this strategic domain: 1) to achieve profitability and 2) to grow business. PPH desires to increase its current market share of 50-60% to 70-80% within the district as well as to grow the business it captures from neighboring communities. The outcome measures, which are used to track the achievement of these objectives, are OEBITDA and Weighted Patient Days. Several key initiatives have been established to improve profitability and to grow business:

- Develop, implement and operationalize a patient focused revenue cycle plan, inclusive of all business and clinical aspects. This initiative is referred to as HealthWoRx.
- Develop and implement a primary care growth strategy
- Finalize and implement strategic and business plans for key clinical service lines
- Develop and implement an Outpatient Services Plan
- Facilitate development of collaborative opportunities

These initiatives are multi-year, with action plans and milestones established for each year of the initiative. These initiatives will assist PPH in addressing two key challenges: 1) financial resources to support PPH mission, and 2) competition and market growth.

HealthWoRx

The purpose of HealthWoRx is to completely rebuild the patient business processes at Palomar Pomerado Health from beginning to end. It will develop a seamless flow that, from the moment an inquiry about treatment is received, to the day the patient account reaches zero balance, is efficient, clear, measurable, and easy to understand for patients, families and physicians. The redesign of processes will be based on patient needs and customer preferences with the expectation that such a design will foster community loyalty to PPH for all their healthcare needs. A key goal of this strategy will be to improve the revenue cycle to assure that all expected net revenue is realized.

Primary Care Growth Strategy

It is critical that community members select primary care relationships with physicians and services affiliated with PPH so that specialty referrals, diagnostic, treatment and continuum of care services will remain within the PPH system. In the Market Assessment section the strong presence of Scripps Clinic and Sharp Rees Steely Medical Group were identified as significant competitive threats. Once community members develop their physician relationships with these two groups, and their respective managed care networks, there is very little opportunity for PPH to participate in providing their healthcare services. Despite the critical importance of establishing this primary care relationship, to date, PPH has had minimal structured strategy to attempt to attract and retain community members beginning with their primary care relationship. The purpose of this initiative is to develop and implement such a strategy. The primary care growth strategy is in fact many sub-initiatives that will contribute to providing additional avenues by which community members will become aligned with PPH in the beginning of their healthcare processes. Key elements of the primary care growth strategy include:

- Identification/stratification of present primary groups to partner with in specific areas to be served
- Identification of new zip codes for development and kinds of primary care physicians required
- Establishment of alternative structures to supply primary care physicians in zip codes to be served
 - Evaluation of Foundation Model in support of present primary care physician groups
 - Direct assistance in recruitment of physicians to support present groups
 - Evaluation of Clinic-based Model for the satellite facilities
 - Establishment of a specific recruitment program to support zip codes not served or wanting to be served by present groups or solo practitioners, including potential establishment of a new group with expansion capabilities
 - Recruitment of physician(s)/groups from secondary markets
 - Expand primary care medical group relationships with UCSD physician group
- Evaluate alternative programs to expand referral pattern to PCP/Specialists

- Establishment of retail clinic network
- Expansion of Corporate Health program
- Aggressive expansion of health fairs/screening programs to support specialty referral efforts for women's/cardiac/neuro/ortho services
- Outreach effort within churches-to include faith-based clinics
- Establishment of alternative/integrative medicine clinics
- Establishment of major clinic screening programs specifically for self-referring services, such as diabetes/obesity/cardiac
- Creation of Geriatrics referral program
- Establish budget to support primary care strategy-based on priorities of recruitment and expansion into zip codes identified for PPH penetration
- Create a measurement vehicle to track market penetration, referral pattern to specialists, utilization of PPH services, net financial growth

As part of assessing the community physician supply and demand, PPH retained Medical Development Specialists (MDS) to perform a Physician Needs Study to analyze the current supply of physicians in the community by specialty compared with the projected needs for physicians based on the community population and demographics. The results of the study are shown in Table 7. MDS very strongly identified a community need for additional primary care physicians. This shortage of primary care physicians indicates that a core element of the primary care strategy must include recruitment of additional primary care physicians to the community. PPH is working closely with the primary care groups associated with PPH to assist them in growing the number of physicians in their groups.

Substantial Physician Needs (> 10)	Moderate Physician Needs (6-10)	Slight Needs (1-5)	Specialties at/near Equilibrium	Adequate Supply
<ul style="list-style-type: none"> ● Family Practice ● Internal Medicine ● OB/GYN ● Psychiatry 	<ul style="list-style-type: none"> ● General Surgery ● Oncology ● Physical Medicine ● Urology ● ENT (acute need) 	<ul style="list-style-type: none"> ● Allergy ● Cardiology ● Dermatology ● Endocrinology ● Gastroenterology ● Infectious Disease ● Neurology ● Radiation Oncology ● Rheumatology ● Cardiac Surgery ● Pediatrics ● Plastic Surgery 	<ul style="list-style-type: none"> ● Nephrology ● Pulmonary Medicine ● Ophthalmology ● Neurosurgery 	<ul style="list-style-type: none"> ● Orthopedics

Where appropriate, PPH has utilized a risk sharing capitation strategy with affiliated medical groups and IPAs. This has aligned PPH with these primary care-based groups more strongly. Additional alignment has occurred with Centre for Health Care with their recent relocation into the Pomerado Outpatient Pavilion. PPH views this as very positive.

Service Line Development

Service Line excellence and branding have been utilized for decades in the healthcare industry as a key strategy for business growth as well as fundraising. While PPH offers comprehensive services, with the exception of transplants and burn services, there is a desire to focus on some key service lines for program development and strategic marketing opportunities. As shown in the Market Assessment section, PPH's market share strength varies considerably by service line.

Table 8
PPH Market Share by Service Line

Service Line	North Cluster PPH Market Share	South Cluster PPH Market Share
Obstetrics Delivery	73.1%	35.7%
General Medicine	67.7%	53.0%
Orthopedics	54.2%	39.9%
Cardiology	74.7%	60.9%
General Surgery	60.1%	41.6%
Pulmonary	71.1%	55.5%
Cardiac/vascular/thoracic surgery	50.4%	34.4%
Neurology	73.3%	56.8%
Neonate	53.6%	22.0%
Oncology	46.9%	30.8%
Nephrology/Urology	62.3%	50.1%
GYN	52.4%	31.3%
OB non-delivery	58.9%	17.5%
Neurosurgery	38.3%	22.4%
Other	43.3%	25.1%

The financial benefit to PPH also varies by service line as shown in Table 9 below.

Table 9
Contribution Margin per Case by Specialty by Hospital

PPH		PMC		POM	
Summary	Avg. CM / case	Summary	Avg. CM / case	Summary	Avg. CM / case
Neurosurgery	\$ 13,572	Cardiac Thoracic Surgery	\$ 12,876	Neurosurgery	\$ 21,060
Cardiac Thoracic Surgery	\$ 13,178	Neurosurgery	\$ 12,685	Cardiac Thoracic Surgery	\$ 17,899
Vascular Surgery	\$ 5,991	General Surgery	\$ 6,516	Vascular Surgery	\$ 8,481
Oncology	\$ 5,399	Vascular Surgery	\$ 5,578	Oncology	\$ 8,180
General Surgery	\$ 5,318	Oncology	\$ 4,660	GYN	\$ 3,378
Other - Medical	\$ 4,670	Neurology	\$ 3,862	General Surgery	\$ 2,781
Neurology	\$ 3,976	Orthopedics	\$ 3,855	General Medicine	\$ 2,602
General Medicine	\$ 3,075	General Medicine	\$ 3,276	All Other - Surgical	\$ 2,093
Orthopedics	\$ 3,068	Neonate	\$ 2,918	Orthopedics	\$ 2,058
GYN	\$ 2,725	Pulmonary	\$ 2,873	Neurology	\$ 1,723
Pulmonary	\$ 2,661	Nephrology Urology	\$ 2,638	Obstetrics Delivery	\$ 1,684
Nephrology Urology	\$ 2,364	GYN	\$ 2,403	Obstetrics ND	\$ 1,590
Neonate	\$ 2,296	All Other - Surgical	\$ 2,064	Cardiology	\$ 1,014
Other - Surgical	\$ 2,080	Cardiology	\$ 1,718	Nephrology Urology	\$ 946
Cardiology	\$ 1,625	All Other - Medical	\$ 937	Pulmonary	\$ 425
Obstetrics ND	\$ 994	Obstetrics ND	\$ 935	All Other - Medical	\$ 108
Obstetrics Delivery	\$ 688	Obstetrics Delivery	\$ 428	Neonate	\$ (153)
Total	\$ 2,676	Total	\$ 2,687	Grand Total	\$ 1,894

Source: Finance Department, FY06 data

Neurosurgery, Cardiac Thoracic Surgery, Vascular Surgery, Oncology, and General Surgery are the five highest margin services at PPH and PMC. These service lines represent four of the top five at Pomerado Hospital.

In taking into account market volume, PPH market share, and PPH financial contribution by service line, it is possible to see the potential financial opportunity available by service line (see Table 10).

Table 10
Financial Opportunity by Service Line

Service Line	Market Discharges	Available Discharges	PPH Discharges	Market Share	Gross Margin Per Discharge	Market Potential
Cardiac Vascular Thoracic Surgery	6,110	4,777	1,333	21.8%	\$4,415	\$21,089,245
General Surgery	9,045	6,404	2,641	29.2%	\$1,127	\$7,217,906
General Medicine	13,588	9,110	4,478	33.0%	\$734	\$6,682,536
Oncology	4,058	3,199	860	21.2%	\$2,074	\$6,633,587
Neurology	4,915	3,091	1,824	37.1%	\$1,298	\$4,011,877
Neurosurgery	998	832	166	16.7%	\$4,875	\$4,056,747
Orthopedics	11,559	8,495	3,064	26.5%	\$370	\$3,142,855
OB GYN	2,511	1,966	544	21.7%	\$1,444	\$2,838,573
Neonate	4,992	3,995	997	20.0%	\$588	\$2,350,476
All Other - Surgical	1,408	1,147	261	21.5%	\$504	\$578,088
Obstetrics ND	1,377	1,067	310	22.5%	(\$4)	(\$3,795)
Nephrology Urology	3,975	2,730	1,245	31.3%	(\$113)	(\$309,348)

Cardiology	9,584	5,917	3,667	38.3%	(\$140)	(\$828,215)
All Other - Medical	8,319	6,778	1,541	18.5%	(\$435)	(\$2,946,605)
Pulmonary	7,179	4,597	2,583	36.0%	(\$673)	(\$3,095,789)
Obstetrics Delivery	17,024	11,418	5,605	32.9%	(\$625)	(\$7,136,878)
Total	106,640	75,522	31,118	29.2%	\$965	\$44,281,261

As part of this strategic planning process, PPH reassessed its service line priorities. External consultants from Kaufman Hall worked on this project with PPH Management and Service Line Administrators with a retreat inclusive of Board, management and physician leadership. The results of the analysis are that PPH will focus on cardiovascular, neurosciences, orthopedics, and women's services. The initiative for these service lines includes the creation of business plans and specific implementation plans. Additionally, an assessment will be done for oncology to determine if this should also be a prioritized service line. Executive summaries of several service line strategic and business plans are provided in Appendix B for reference.

The development of a physician growth strategy that focuses on aggressive expansion of primary care is a critical element in supporting these service line developments. There must be an appropriate primary care base from which to gain the referrals for these service lines. The MDS Physician Needs study also highlights some specialty shortages that will need to be addressed for the service lines (see Table 7). In particular, additional OB/GYN physicians will be critical to the Women's service line. There is a slight need for additional cardiologists and cardiac surgeons, impacting the cardiovascular service line as well as neurology needs that would impact the neuroscience service line development. Each individual plan will address the specific recruitments targeted for each service line, but all service lines will benefit from a stronger primary care structure within PPH.

Outpatient Services Plan

Over the past several years, ambulatory care has become the "revenue king" of the health care industry, accounting for almost half of the \$1.1 trillion year 2000 industry revenue (Gardner, Modern Healthcare, 12/3/01). Technological advancements such as MRI, ultrasound, and minimally invasive surgery have facilitated more rapid diagnosis, less invasive treatments, and reduced length of stay, enabling the shift of many procedures to the outpatient setting. According to Health Care Strategic Management (Zuckerman, February 2002), market research also indicates that consumer preference for ambulatory care has driven the construction of numerous freestanding centers, many of which resemble upscale hotels.

PPH certainly acknowledges the growth in outpatient healthcare services, and the facility master plan calls for PPH to establish several new outpatient satellite centers. With land already purchased in Rancho Peñasquitos and Ramona, significant resources will be put into the planning, design, building and successful opening of these two centers. A developer partner will be sought to help defray the costs associated with these projects and to manage any medical offices which are developed as part of these projects.

Additionally, PPH is in the process of final tenant improvements and operational planning to open outpatient imaging, an outpatient women's center, an infusion center and an outpatient surgery and endoscopy center in a portion of the new 175,000 sq.ft. Pomerado Outpatient Pavilion (located on the Pomerado Hospital campus). The successful opening of these centers will be a key initiative in FY08 (see more under Workplace Development section).

PPH has also just opened a new Wound Care and Hyperbaric Center in San Marcos. Additional outpatient centers are planned for San Marcos and Valley Center. With the emphasis and amount of outpatient facilities PPH is developing, it is necessary to develop a comprehensive strategic plan for outpatient services. This plan will define which services should be placed where, based on community need and market opportunity. This plan will be completed in FY'08.

Collaborative Opportunities

In an effort to stem the potential threat of new competing centers, improve physician alignment and find additional equity sources, PPH will pursue several joint venture or partnership opportunities. Initial priorities for collaborative opportunities are the outpatient surgery and endoscopy centers and the outpatient-imaging center in the Pomerado Outpatient Pavilion. Additionally, PPH is seeking a collaborative business venture for the Trilogy Stereotactic Radiosurgery equipment and program, which will open mid-FY 2008 at Palomar Medical Center.

An additional collaborative opportunity is the establishment of Retail Clinics. The Retail Clinics provide an opportunity to partner with the key primary care groups in the area to provide medical oversight to the clinics. The Retail Clinics will meet consumer desire for convenience for the very low acuity health needs, as well as provide a source for capturing potential new patients into PPH's primary care partners, and ultimately to provide referrals to PPH specialists and to PPH inpatient and outpatient services.

Establishing these collaborative ventures is viewed as critical to securing the volume and capital required for the success of these new centers and services including the continuum services of acute patient care.

CUSTOMER SERVICE

Due in part to the Internet and the push for public disclosure and transparency, the healthcare consumer is more informed, savvy and discerning than ever before. Publicly reported information on hospital quality and patient satisfaction will change how patients select their healthcare providers.

The establishment of HCAHPS, a national standardized survey instrument designed to assess patients' perspective, and CHART, the State of California standardized public reporting tool, are making much more information readily available to the public.

PPH is mindful of this changing healthcare environment and is focused on exceeding customer expectations and clinical and operational excellence as key strategies for the organization.

Building relationships with patients, physicians and the community through excellent customer service and high quality, safe care will enable PPH to be the provider of choice.

With regards to customer service, PPH has established the following objectives:

- Develop loyal patients
- Develop loyal physicians
- Strengthen community relationships and outreach

Excellence in customer service will result in high patient and physician loyalty and thus help address the key challenge of competition and market growth.

The initiatives being undertaken to improve customer service are:

- Systematically implement best practices in patient loyalty
- Aggregate customer feedback and develop a plan to analyze and respond to trends
- Resolve physicians' issues to improve physician confidence in administration and nursing and regularly communicate
- Develop a plan regarding PPH's strategy for addressing community health improvement

Best Practices in Patient Loyalty

In the summer of 2006, PPH began utilizing Press Ganey to measure patient satisfaction and loyalty. Press Ganey provides significant training and education materials to assist hospitals in improving customer service. This initiative focuses on sharing this information with all staff to institute best practices at PPH. The Patient Loyalty Service Excellence Work Group is one of the key teams charged with learning about and recommending best practices for PPH. A recent publication by Press Ganey Associates Inc., "What Patients Love, Press Ganey's Guide to HCAHPS," provides very specific, proven techniques that hospitals can implement to improve patient satisfaction. This guidebook is a key tool for this initiative.

Aggregate Customer Feedback

Soliciting patient feedback is merely one step in the customer satisfaction process. Aggregating, analyzing and developing appropriate responses and action plans based on the feedback are critical processes to improving customer service. PPH's performance on the latter steps was identified as an opportunity for improvement in the recent California Award for Performance Excellence (CAPE) evaluation.

To improve performance a system-wide feedback and complaint database software, called MIDAS, will be installed and initiated at PPH in FY'08. Staff on every unit will be trained how to input patient feedback into the system. Having this information computerized will enable aggregation, analysis and then action planning.

Physician Loyalty

While consumerism is increasing in healthcare decisions, physicians are still the primary decision maker for where patients will be hospitalized. Thus, physicians are a key source for patient volume to the Palomar Pomerado Health system. Their satisfaction with, and loyalty to, PPH is critical to the ultimate success of the organization.

To help measure physician loyalty, and to prioritize opportunities for improvement, PPH has utilized Gallup's Physician Loyalty survey tool. The last survey undertaken in mid-2006 identified specific critical drivers of physician engagement for Palomar Medical Center and Pomerado Hospital.

Most Critical Drivers of Physician Engagement at Palomar Medical Center:

1. The ability of the hospital administration to manage the hospital effectively
2. The quality of communication between the medical staff and the executive administration
3. The mission and values are a central focus of hospital operations
4. The opportunity for involvement in hospital-related discussions
5. Effective pain management
6. The efficiency of patient flow in the ER

Most Critical Drivers of Physician Engagement at Pomerado Hospital

1. The competency of staff nurses
2. The delivery of consistently high quality care across shifts and departments
3. The established protocols to handle situations in absence of a doctor
4. The overall quality of nursing care
5. The teamwork between doctors and nurses
6. Physician's ability to establish standard orders to be followed in his/her absence

Administration and Nursing are working collaboratively at both hospitals to implement specific actions to address these issues. The goal will be to see marked improvement when the study is repeated at the end of FY08.

Community Health Improvement

PPH's commitment to health promotion and illness prevention is very strong. Since 1992, PPH has facilitated Health Care Advisory Councils (HCACs) throughout the district. These Advisory Councils have been a tremendous source for sharing information and developing collaborative programs to address the health issues in each community. The priority areas and projects for the HCACs are shown below:

Poway/Rancho Bernardo/Rancho Peñasquitos

Access to Care

- Every Child Insured!
- Poway Clinic
- PPH Satellite Medical Facility
- Health Resource Directory

At-risk Youth

- Violence Prevention Project – Poway Unified School District (PUSD)

Isolated Seniors

- Jewish Family Services Rides and Smiles

Obesity Prevention

- Diabetes/Obesity Screening and Intervention Program
- Running Clubs – PUSD

San Marcos

Isolated Seniors/Mental Health

- Taxi Voucher Program
- SOCS Box Training Program (Training "friendly visitors" on mental health issues)

At-risk Youth

- Panorama Teen and Family Resource Center
- San Marcos at-risk Youth Group

Access to Care

- Passport to Health model

Escondido

Obesity prevention

- Gardening/nutrition program – UC Davis Cooperative Extension

Access to care

- Passport to Health model
- Congregations for Civic Action

Ramona/Julian

Obesity Prevention

- Obesity and Diabetes Intervention/Screening Program
- Healthy Living Scholarship Fund

At-risk Youth
BEST Mentoring Program
Access to Care
Every Child Insured!
Health Resource Directory
Ramona Satellite Medical Facility

Pala/Pauma/Valley Center

Obesity
Obesity and Diabetes Intervention/Screening Program
Diabetes Improvement Control Program
Health Careers
Health and Safety and Career Day

Committee on Alcohol/Tobacco and Other Drugs

Over the Counter/Prescription Drug Abuse among Teens and College-Age
Students ToolBox

In 2005 PPH developed a community health needs assessment called the Community Health Check. This health report provides the basis upon which community health programs and interventions can be targeted, developed, and evaluated with the ultimate goal of improving the health of the community and its members. This Community Health Check was a key source of information by which the HCACs established the above priorities. The Community Health Check will be performed again during FY'08.

In addition to undertaking the community needs assessment, PPH will also be developing a formal survey to measure community outreach and strategic relationships. This survey will be completed by community members and leaders throughout the district. The needs assessment and this survey will both provide key information for the development of PPH's strategy for addressing community health improvement.

QUALITY

One of the core strategies for Palomar Pomerado Health is to reliably and efficiently deliver services that provide the best value for all stakeholders. For patients, this involves providing high quality, safe care. The long-term goal in this domain is to achieve national recognition for clinical quality and performance excellence, including achieving the California Award for Performance Excellence (California Baldrige Award) and Magnet Recognition Status. PPH has acknowledged the industry trend towards pay-for-performance, and has been proactive in joining the CMS Core Measure Demonstration Project.

Within this domain, PPH has established these objectives:

- Demonstrate high quality, safe patient care
- Optimize process efficiency and effectiveness

The key initiatives are:

- Systematically implement best practices to achieve reliable delivery of evidence-based care
- Integrate the Joint Commission preparation process into our daily work activities
- Achieve Magnet Recognition Status

These initiatives will assist in addressing the key challenge of reliable delivery of services using systematic processes.

Systematically Implement Best Practices

Within the CMS Demonstration Project, initially 5 top diagnoses were selected for initial focus: congestive heart failure, hip and knee surgical patients, pneumonia, acute myocardial infarction (AMI), and open heart surgery (CABG). PPH formed multi-disciplinary best practice teams for each focus area. These teams have been involved in many activities including updating and creating education packets for patients and families, continuing education of physicians and nurses, working with outside agencies to more closely align the inpatient stay to outpatient services, developing a standardized "hand-off" communication to include time, dose and route of medications, and creating a vaccine screening tool.

These best practice teams continue to monitor indicators to ensure best practices are maintained and that improvements are being achieved as expected. As CMS expands diagnoses and procedures for inclusion in the Demonstration Project, PPH initiates additional teams to champion processes that enable PPH to achieve national recognition as a best practice health system. The most current additions are in the surgical areas.

Integrate Joint Commission Preparation

The Joint Commission accreditation process has evolved over the years with the current emphasis being on operational and clinical tracers. This tracer methodology involves following a patient encounter or a business or support process from beginning to end to

identify what worked well and where processes and systems fail. The effort within this initiative is to make the tracer methodology, and the continuous performance improvement culture that goes with it, to be a regular part of how PPH operates on a daily basis. The initiative will be to hardwire these opportunities and to document the outcomes of these processes.

Achieve Magnet Recognition Status

In 1983, the American Academy of Nursing's Task Force on Nursing Practice in Hospitals conducted a study to identify and describe variables that created an environment that resulted in recruitment and retention of well qualified nurses and promoted quality patient care. Of the 163 hospitals included in the study, 41 exhibited distinct characteristics that appeared related to their ability to attract and retain professional nurses. These facilities were described as "magnet" hospitals and the identified characteristics became known as the "Forces of Magnetism". The purpose of the Magnet Recognition Program, administered by the American Nurses Credential Center, is to provide a framework to recognize facilities that provide the very best in patient care and support professional nursing practice. Imbedded within the program are opportunities to disseminate and share best practices between nurses, and among hospital systems.

Based on research that documents that Magnet-designated hospitals achieve better patient outcomes, improved patient satisfaction, and improved nurse satisfaction, recruitment and retention, PPH decided that it would strive to receive Magnet Recognition for all aspects of the health system. There are very few health systems that have achieved Magnet Recognition for their entire continuum of services: home care, acute care and skilled nursing facilities. The Magnet journey is a multi-year process and is a key initiative to support both quality and workforce development.

WORKFORCE DEVELOPMENT

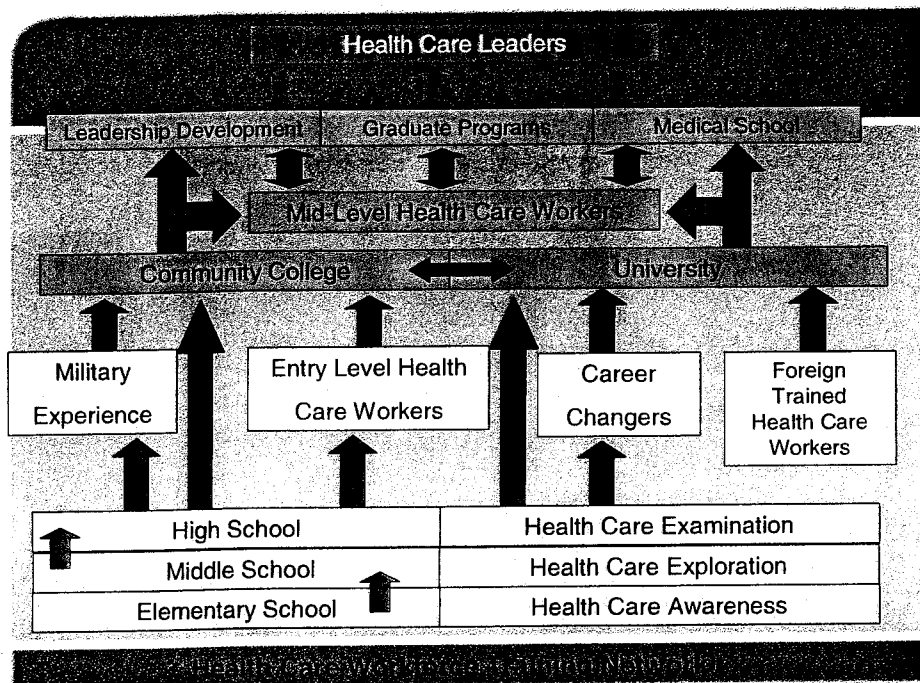
Palomar Pomerado Health must have a motivated, engaged, and prepared workforce in order to provide the highest quality of care and service to patients. Emphasis on workforce development addresses two identified key challenges: 1) workforce shortages; and 2) establishing a culture that promotes PPH values and behavior standards.

With regards to workforce development, PPH has established these objectives:

- Attract, acquire and retain a high quality workforce
- Create an environment of innovation, learning and professional commitment

Workforce shortages have significant impact on PPH's ability to achieve the first objective. The current situation is severe; however, it will be further exacerbated by the new, expanded facilities and programs brought on line over the next 4 years. A strategic workforce analysis has been completed for five critical job categories reflecting the replacement need through 2015. The analysis reviewed normal turnover by occupation, anticipated growth resulting in increased FTE's and retirement of staff. This analysis allows the identification of various sources for recruitment, approaches to phased retirement and the competencies and qualifications required.

Strategies to increase qualified providers are both short- and long-term. The graphic below depicts the Health Care Workforce Training Network that shows the framework for PPH's efforts in this area.



PPH continues to invest in long-term strategies for workforce development.

- Need to make younger folks aware and interested in healthcare careers:
 - Middle school program

- High school health academies
- High school red shirt program
- Critical Care Extenders
- For those already in or actively pursuing education in a healthcare career, need to establish an early link to PPH
 - Scholarship programs
 - Mira Costa College LVN to RN program
 - Palomar College – expand instructors
 - CSUSM – establish BSN program

Shorter-term strategies include:

- Greatly improve quality and resources dedicated to recruitment efforts
- Actively monitor metrics associated with recruitment and retention
- Clinical rotations for students

PPH has been a leader in establishing relationships and partnerships to increase the number of nurses in the community through the establishment of the BSN program at CSUSM and supporting expanded instructors at Palomar College and Mira Costa College. PPH will apply this same collaborative philosophy to extend educational partnerships to selected additional disciplines to address other severe shortages. PPH has also recognized the importance of providing a diverse workforce and has developed an initiative named CLAS – Culturally and Linguistically Appropriate Services.

The National Center for Cultural Competence has identified the following six essential reasons why cultural competency is a timely and necessary step for health care organizations: The CLAS Challenge:

1. To respond to current and projected demographic changes in the United States.
2. To eliminate long-standing disparities in the health status of people of diverse, racial, ethnic, and cultural backgrounds.
3. To improve the quality of services and health outcomes.
4. To meet legislative, regulatory and accreditation mandates.
5. To gain a competitive edge in the marketplace.
6. To decrease the likelihood of liability/malpractice claims.

Retention efforts are also critical to achieve the objective to attract, acquire and retain a high quality workforce. A new initiative to support this is to implement behavioral and skills assessment tools in the hiring process. The effort here is to hire candidates with the proper skills and values and behaviors consistent with PPH. Other on-going retention efforts include:

- Competitive salary and benefits
- Providing an environment in which people want to work
- Management and leadership development

The second objective in the workforce development domain is to create an environment of innovation, learning, and professional commitment. There are aspects of this for all employees, but PPH is initially emphasizing focus on supervisors, managers, directors, service line administrators and senior management. This approach is supported by Gallup research that indicates a primary reason why employees leave an organization is

due to the supervisor or manager. It is important to provide the management team with tools and training to be highly effective in their roles.

The initiatives for this objective are:

- Implement a systematic approach for management talent identification and succession planning
- Implement a comprehensive management orientation and leadership development program

Establishment of an electronically based Learning Management System provides a vibrant platform to increase educational and leadership development offerings at PPH. With infrastructure put in place in FY'07, the focus in FY'08 is to provide high quality, consistent management and leadership education to all supervisors and above at PPH. The consistent education will help address the challenge of creating a culture to promote PPH values and behavior standards.

In FY'08 there are two key new programs being implemented as part of the initiatives. Management 101 is designed to provide fundamental skills necessary for leadership success. The program is highly interactive and engages the audience in adult learning opportunities. A blended learning approach utilizes Harvard Manage Mentor and live classroom sessions. Management 101 will be provided for all supervisors and all new managers at PPH. Other managers are also welcome to take the program.

The second program is Leadership Development. This program includes several Leadership Modules based on Jim Kouzes' and Barry Posner's "The Leadership Challenge." This introduces five best practices: Model the Way, Inspire a Shared Vision, Challenge the Process, Inspire Others to Act, and Encourage the Heart. The Leadership Development Program also includes feedback on leadership behavior through a 360 multi-rater assessment process.

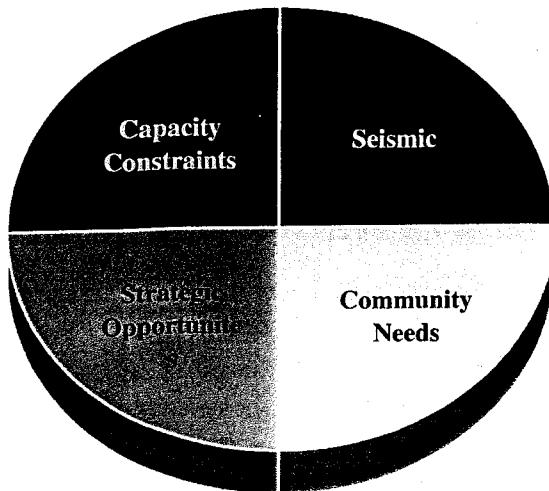
WORKPLACE DEVELOPMENT

Palomar Pomerado Health strives to provide the optimal environment in which employees work and in which customers receive care. Two objectives have been established within this domain:

- Provide the tools and equipment for optimal performance
- Provide facilities for optimal delivery and receiving of services

Efforts within the workplace development domain help to address the key challenge of competition and market growth as well as reliable delivery of services using systematic processes. There are many healthcare facility developments taking place throughout San Diego County, and California, in part due to the seismic regulations. Having modern facilities featuring healing environments will be important in the competitive marketplace. Additionally, evidence-based design research has documented many ways in which facility design can enhance patient safety, patient satisfaction and staff satisfaction thus supporting reliable delivery of services using systematic processes.

PPH's efforts with regards to major facility enhancements began several years ago. A Facilities Master Plan (FMP) was adopted by the PPH Board of Directors in July 2004. The FMP was driven by a confluence of several key drivers.



1. Capacity constraints
2. Seismic Compliance required by 2013
3. Strategic opportunities, including leveraging the Kaiser relationship
4. Leading provider to growing community

A diversified Plan of Finance was established and approved by the Board of Directors to fund the Facilities Master Plan:

- Successful passage of Measure BB yielding \$496 million of tax support
- General Obligation Bonds

- Revenue Bonds
- Possible Restructuring of Existing Debt
- Combination of Cash from Operations and Philanthropy/capital campaign

Below is a summary of each of the key projects in the Facilities Master.

Palomar Medical Center West – New Campus

670,000 BGSF Hospital & 130,000 BGSF Outpatient Services Pavilion includes:

- 168 Acuity Assignable Beds
- 192 Med/Surg Beds
- 16 Pediatric Beds
- 44 Postpartum Beds
- 16 NICU Beds
- 13 Operating Rooms
- 5 Cath Labs/Interventional Radiology Rooms
- 48 E.D. Stations, 15 Imaging Rooms
- 20 LDR/Antepartum Rooms
- Women’s Outpatient Center
- Conference/Education Center

Palomar Medical Center East - Existing Campus

- 24 Psych Beds (Adult)
- 18 Psych Beds (Geriatric)
- 30 Acute Rehab Beds
- Rehabilitation Therapy
- Radiation Therapy
- Additional Opportunities
- Urgent Care Center
- Outpatient Surgery Center
- Mixed Use Retail/Commercial Campus
 - Corporate And Administrative Offices
 - Housing 150 – 300 Units
 - Short Term Employee Housing
 - Transitional & Long Term
 - Employee Housing
 - Senior & Elderly Resident Care
 - Skilled Nursing Facility 100 – 150 beds
 - Educational facilities
 - Wellness Gym/Resources/Training

Pomerado Hospital

144,950 BGSF Hospital Expansion, 33,150 DGSF Hospital Remodel, and 88,720 DGSF Hospital to remain includes:

- 72 Acuity Assignable Beds
- 90 Med/Surg/Telemetry Beds
- 18 Postpartum Beds / 6 GYN Beds

184

- 4 NICU Beds
- 4 Operating Rooms
- 2 Cath Lab/Interventional Radiology Rooms
- 26 E.D. Stations
- 5 Imaging Rooms
- 11 LDR/Antepartum Rooms
- New Conference/Education Center

Palomar Pomerado Health Satellite Centers

- Establish up to 4 outpatient satellite centers
- Have purchased site in Rancho Peñasquitos and Ramona for development
- Increase capacity for growing populations
- Community access and convenience
- Increased market share and hospital feeder
- Enhance geographic dispersion of physicians loyal to PPH

PPH has completed planning and design for the Pomerado Hospital expansion and the new Escondido Hospital. Planning and design concepts are underway for the existing downtown PMC campus as well as for the Rancho Peñasquitos and Ramona satellite centers. Much of the emphasis in the next few years will be to prepare for the physical transition and cultural and skills transformation that will be needed to occupy the new facilities.

In addition to focusing on these major physical facility upgrades, over the past few years PPH has also undertaken installation of new computer systems for virtually all aspects of the organization. While many aspects of the information technology transition went well, the overall Cerner installation has been somewhat problematic and remains an area of focus within this domain.

There are several initiatives associated with achieving the objectives within the workplace development domain:

- Optimize Phase 1 Cerner system
- Implement Information and Technology decision making structure in order to more effectively prioritize resources
- Develop and initiate pilot projects and innovations linked to future facility development
- Plan and commission successful opening of new facilities
- Initiate philanthropic Capital Campaign

Optimize Phase 1 Cerner System

It is important and necessary to achieve a high level of stability of Phase 1 of the Cerner installation in order to move forward into Phase 2 and the movement towards an Electronic Health Record (EHR) and Computerized Physician Order Entry (CPOE). There is a task force dedicated to working on this project for finalization before the end

of FY08. Additionally, a Physician Advisory Group has been formed to work on Phase 1, EHR and CPOE.

Information and Technology Decision Making Structure

Technology deployed and integrated in a well-planned manner has the potential to significantly improve the delivery of high quality patient care, improve staff and physician efficiency and drive down health costs. Unfortunately, most healthcare organizations do not have a long-range plan for technology adoption and investments. Without a technology roadmap, and well-defined technology adoption processes, hospitals are likely to install systems that operate in isolation and may not provide the infrastructure necessary for emerging technologies. This initiative will develop a more formalized, integrated, and comprehensive approach to information and technology decision making at PPH. This initiative will establish a best practice approach at PPH leveraging the Control Objectives for Information and related Technology (COBIT) methodology adopted by the IT Governance Institute. PPH will use a Rapid Design and Validation Process using straw models and content developed by a team and validated by key stakeholders, constituents and internal/external experts.

Initiate Pilot Projects and Innovations

It is becoming very clear that the physical transition and the skill, process, and culture transformations that will be required to successfully provide the kind of innovative care that has been designed into the new facilities will be a tremendous undertaking. This initiative emphasizes the establishment of pilot projects to test materials, equipment and processes in real, operational settings. One such pilot will be to test various flooring and wall covering materials in unit renovations that are planned for in the routine capital budget for FY08. Installation of some ceiling lifts in existing patient rooms to test this equipment in actual patient care settings is another pilot project. PPH is working with the State of California Department of Health Services to attempt to secure approval to establish a pilot-nursing unit for acuity adaptable care. In addition to specific pilot projects, PPH will undertake education and planning for the physical, skill and cultural transformations.

Plan and Commission Successful Opening of New Facilities

The first phase of the facility plan at Pomerado Hospital will open in FY08 with the opening of an imaging center, a women's center, an infusion center, a lab draw center, and an outpatient surgery and endoscopy center in the new Pomerado Outpatient Pavilion. Significant planning and preparation will be necessary to successfully open these centers.

Initiate Philanthropic Campaign

Palomar Pomerado Health Foundation has completed a planning study to determine the feasibility of undertaking a significant capital campaign in support of the facilities master plan. The results of that study have positively indicated the likelihood of PPHF being

able to successfully undertake a capital campaign of at least \$55 million. This initiative will take approximately 4 years to complete.

Research and Development

One of the newer objectives articulated for PPH is to create an environment of innovation, learning and professional commitment. This supports PPH's Innovation and Creativity value. PPH is undertaking several initiatives to make innovation and learning a core element of PPH's culture and processes. These include the establishment of a Research Institute and the establishment of a senior position dedicated to innovation and technology.

Research Institute

Through Palomar Pomerado Health North County Health Development (Health Development, a 501 c 3 not-for-profit organization formed to support PPH's grant activities), a PPH Research Institute is in the very early stages of development. The goal of this Research Institute is to create a centralized organization for physicians, nurses, and allied health professionals to advance care of patients through innovative research at Palomar Pomerado Health. Currently research at PPH is fairly limited and diffuse with no central focus or organization except for the work of the Investigational Review Committee (IRC). Physicians who are conducting clinical trials or other types of research are poorly supported and the research being done has limited exposure, thus it is not positively influencing the public's perception of PPH's clinical expertise, nor is it assisting in attracting additional high quality physicians or other clinicians.

Establishment of this Research Institute will result in:

- Increase number of clinical therapies
- Create an environment for new technologies and care protocols to be developed
- Increase patient volumes for our clinician partners
- Improve physician and staff satisfaction
- Improve recruitment and retention of physicians and other clinicians
- Enhance community and industry recognition
- Help build strategic alliances and relationships with key healthcare providers, health plans, pharmaceutical/biotechnology companies and funding agencies
- Create a learning environment that is focused on continuous quality and process improvement leading to better safety and medical decision making
- Support fundraising campaigns that will benefit the District at large

The types of research that are anticipated for the Research Institute include:

- Translational Research
- Drug trials
- Medical device studies
- Disease management
- Process improvement studies
- Patient safety and quality of care research
- Architectural design studies
- Community health and wellness studies
- Information systems design and development research
- Other management initiated studies

- Alternative/Complementary Medicine studies

As noted above, the Research Institute will be a conduit for strengthening strategic alliances. In particular, the focus initially is with UCSD and USD. For USD, the focus collaboration will be for nursing research. For UCSD the opportunities are broader, including the School of Medicine for clinical trials and translation research, Jacobs School of Engineering for device and robotics development and studies, Graduate Studies and Research by tapping into the wealth of PhD candidates who are interested in clinical research, Rady School of Management for system studies and a potential linkages for future PPH managers, and Skaggs School of Pharmacy and Pharmaceutical Sciences for drug safety and informatics studies, as well as a potential source for recruitment of future pharmacists for PPH.

The Research Institute will also work to leverage opportunities that we are becoming aware of through existing relationships, such as through Dr. Richard Satava, a member of our Expert Advisory Panel. Dr. Satava has shared with PPH that the military has a large portfolio of advanced research projects. They have a need to test these new devices and procedures - not only in the battlefield environment, but in a civilian hospital environment as well. The establishment of the Research Institute provides the necessary infrastructure and innovative climate to open PPH up to such opportunities.

PPH Medical Staff support for the development of this Research Institute has been very strong. Dr. Just serves as the Medical Director. Other physicians who are taking leadership roles or are actively engaged include Dr. Buringrud, Dr. McKinley, Dr. Bernstein, Dr. Kolins, Dr. Tornambe, Dr. Ho, Dr. Hirsch, and Dr. Conrad. Dozens of other physicians have been involved in early discussions and are quite supportive of this initiative.

The Research Institute will contribute positively to several of the strategic domains:

- Business growth
 - Improve PPH's image and reputation
 - Attract new patients to PPH
 - Attract new physicians to PPH
- Customer Service
 - Improve physician loyalty among physicians who participate in research
- Quality
 - Research of new technologies and care protocols
- Workforce Development
 - Improve staff satisfaction, recruitment, and retention for those staff that want to be involved in research

Driving Innovation Programs

To support the objective to create an innovative environment a leadership position has been created for a Chief Technology and Innovation Officer. Through this leader a framework has been established to transform PPH into an organization that actively seeks, studies, develops and implements innovative opportunities. The core steps in this process are:

Idea Creation

Theme → Affect → Cluster → Pathway → Catalyst

Idea Realization

Idea package → Screen → Study → Advise → Approve
+ Plan → Resource → Integrate → Launch → Study

The intent is to create several idea packages that can then be prioritized based on the investment required and the competitiveness of that idea.

For each Idea Creation the following aspects are defined to develop the idea package:

- Theme: a unifying or dominant idea, motif
- Affect: to act on; produce an effect or change in
- Cluster: a group of the same or similar elements gathered or occurring closely together
- Pathway: a path, course, route or way
- Catalyst: an agent that provokes or speeds significant change or action

Sourcing and engaging catalysts are keys to developing innovative opportunities. Catalysts may include venture-backed companies, government and foundations, established technology companies and strategic business partners. PPH will differentiate itself as being a healthcare organization that is actively seeking these partners in order to improve healthcare.

Partnership Development

There have been several initiatives described in this Strategic Plan that involve the establishment or strengthening of partnerships and collaborations. PPH has a business philosophy that embraces the value of partnering with external entities and organizations in order to best achieve the vision of the organization.

Kaiser Partnership

Kaiser Permanente has had a relationship with PPH for many years. The relationship began in the late 1990s with a contract for Kaiser obstetric patients to have their babies delivered at Palomar Medical Center. The partnership has grown over the years to additional types of patients, as PPH capacity has permitted, and as Kaiser has expanded their physician presence in North County. Kaiser Permanente operates one hospital in San Diego County, down in Mission Gorge (referred to as their Zion facility). This hospital has substantial seismic compliance shortfalls, as well as operates at or near capacity most of the year. In 2001-2002 Kaiser carefully studied their facility options with regards to how to increase hospital capacity, particularly in North County. What resulted is a long-term contract between Kaiser Permanente and PPH for PPH to provide inpatient hospital services to Kaiser's North County membership for nearly all inpatient care upon opening the PMC-West new campus. The new hospital has been sized to have adequate capacity to meet Kaiser's needs as well as the needs of all of the community-based physicians currently practicing at Palomar Medical Center, including planning for growth in population and market share.

This partnership not only provides financial benefit for PPH with the opening of the new facilities, but also enables PPH to better fulfill its mission and vision for all residents of the District area, not just non-Kaiser members.

UCSD

A partnership with an academic medical center can provide many benefits to PPH. Over the past 1-2 years, PPH has been exploring a variety of opportunities with UCSD to see if there are mutually beneficial avenues of collaboration that can be pursued. The list below highlights some of the opportunities under exploration:

- Opportunity to establish clinical rotations for residents to train at PPH facilities in a variety of specialties
- Exposure of residents to practice opportunities in Inland North County with the goal of attracting these physicians to come to practice in the PPH community
- Linkages for the Research Institute
- Awareness and access to tertiary services not provided by PPH but needed by our patients and community members
- Sharing of best practices, clinical and business
- Cooperative relationship with the School of Pharmacy, again for best practices as well as attracting graduates
- Early exposure to PPH by pre-medicine students through the college-level workforce development program

The branding opportunity of linking PPH with an academic medical center could be a factor in differentiating PPH from Scripps and Sharp.

Children's Hospital and Children's Specialist Medical Group

There is a lack of pediatric capacity in San Diego County. This shortage provided the impetus for PPH and Children's Hospital to establish a collaborative relationship in the early 2000s. The goal was that through the adoption of many of Children's Hospital's protocols for lower acuity, common pediatric diagnosis, PPH would retain many pediatric admissions at Palomar Medical Center. This provides the added census necessary at Palomar Medical Center to maintain clinical competencies as well as to financially support PMC providing this service in North County. Children's Hospital benefits by limiting census of lower acuity patients to reserve capacity for those more acute, specialty patients who are best served at Children's Hospital. This partnership has provided the basis for the two organizations to work collaboratively on efforts to best serve the pediatric population.

In addition to partnering with Children's Hospital, PPH has also been working to establish stronger collaboration with Children's Specialist Medical Group. With the opening of their new medical office building in Escondido, more pediatric specialists will be available to pediatric patients in North San Diego County and South Riverside County. This additional specialist availability could enhance the volume of patients at PMC, by providing specialists willing to treat patients in a North County hospital. PPH will be actively working with Children's Specialists to identify such opportunities and determine what is required to bring them to fruition.

PPH will continue to embrace and seek out partnerships and collaborations that support PPH's strategic domains.

Strategic Marketing Plan

A Strategic Marketing Plan has been developed which defines the tactics and solutions to accomplish the following:

- Re-brand the institution
- Generate business/revenue growth
- Expand market share in essential service lines
- Increase customer acquisitions via the Web
- Establish PPH as the preeminent health care system serving the Inland North County San Diego region
- Create the most comprehensive and innovative legislative agenda/strategy

Accomplishing these goals will take place over a few years. Some of the key tactics in the Strategic Marketing Plan are:

- A transitional logo including a new type treatment and supporting tagline will be in use until new name and brand are established.
- Customer Relationship Management (CRM)
- Web communications
- TV advertising
- Public relations
- Government relations/public affairs
- Community health and development
- Service line/campus-focused marketing efforts
- New Movers campaign
- CaptivCast (hospital based digital feeds via plasma screens)
- ER communications campaign
- Women's conference
- Dial Don't Drive public service campaign
- Graphic standard manual development
- Naming strategy
- LaDainian Tomlinson partnership and creation of Project21SD

Appendix A

PPH FY08 Initiatives

Domain	Long-Term Goal (FY09)	Objective	Outcome Measure	FY08 Initiatives
Financial Strength	Achieve Moody's As bond rating	Achieve profitability Demonstrate business growth	OEBITDA margin including property tax revenue Weighted patient days	<ul style="list-style-type: none"> • Revenue Cycle program • Primary care growth strategy • Service line development • Develop Outpatient Services Plan • Collaborative opportunities
Customer Service	Achieve 90 th percentile for patient and physician loyalty	Develop loyal patients Develop loyal physicians Strengthen community relationships and outreach	Patient loyalty scores Physician loyalty scores Community and Partnership survey	<ul style="list-style-type: none"> • Systematically implement best practices in patient loyalty • Aggregate customer feedback and develop a plan to analyze and respond to trends • Resolve physicians' issues to improve MD confidence in administration and nursing and regularly communicate • Develop a plan regarding PPH's strategy for addressing community health improvement
Quality	Achieve national recognition for clinical quality and performance excellence, including achieving the California Baldrige Award and Magnet Recognition status	Demonstrate high quality, safe patient care Optimize process efficiency and effectiveness	Core measures % of time department standards are met	<ul style="list-style-type: none"> • Systematically implement best practices to achieve reliable delivery of evidenced-based care • Integrate the Joint Commission preparation process into our daily work activities • Complete all steps for Magnet site visit

Domain	Long-Term Goal (FY09)	Objective	Outcome Measure	FY08 Initiatives
Workplace Development	Achieve national recognition for development of state-of-the-art facilities and technology	<p>Provide the tools and equipment for optimal performance</p> <p>Provide facilities for optimal delivery and receiving of services</p>	<p>Score on Gallup question about tools and equipment to do job</p> <p>Facilities Master Plan</p>	<ul style="list-style-type: none"> • Optimize Phase 1 Cerner system • Implement Information and Technology decision making structure in order to more effectively prioritize resources • Develop and initiate pilot projects and innovations linked to future facility development • Plan and commission successful opening of new facilities • Initiate philanthropic Capital Campaign

**Issuance of GO Bonds, Election of 2004, Series 2007A,
And
Financial and Capital Plan, updated October 2007**

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: Bob Hemker, CFO

Background: At its July 13, 2004, Board of Directors meeting, the Board adopted the \$753 million Facilities Master Plan (FMP) as recommended by the Strategic Planning Committee at its July 12, 2004, meeting. With the adoption of the FMP, the Plan of Finance to fund the FMP was finalized by the Financing Team and approved by the Board of Directors at its August 4, 2004, meeting. Included in this approval of the final FMP and the Integrated Plan of Finance was the use of a General Obligation Bond Measure (\$496 million), issuance of Revenue Bonds, and the balance from Cash/Philanthropy to fund the FMP. At its December 20, 2005, Board of Director's Strategic Planning Committee Meeting, the Committee, full Board invited, reviewed the current development of the FMP, including design, project scope, and updated cost estimates. As the result of current market conditions, notably increased material and labor costs, and refinement of project definition within the approved FMP, the project costs increased from a total of \$753 million to approximately \$983 million. At that time, the Board requested that Management and the Financing Team assess the impact on PPH's debt capacity and update the Plan of Finance, which was done as part of the 2006 Certificates of Participation (CoP) issuance.

To date, various financing and funding vehicles have been evaluated and utilized to fund the FMP. These vehicles include Tax-Exempt Revenue Bonds/CoP, General Obligation Bonds (GO Bonds), Cash Reserves, and Philanthropy. To date the following debt instruments have been issued:

- General Obligation Bonds, Election of 2004, Series 2005A – July 7, 2005, \$80 million
- Certificates of Participation, Series 2006A – December 7, 2006, \$60 million
- Certificates of Participation, Series 2006B – December 7, 2006, \$60 million
- Certificates of Participation, Series 2006C – December 7, 2006, \$60 million

The 2006 CoP issues included the refunding of the 1993 Revenue Bonds utilized auction rate securities – synthetic fixed rate indebtedness, and resulted in approximately \$127 million of new money project proceeds.

As part of the next scheduled issuance of indebtedness – a General Obligation Bond tranche, the Financing Team has:

- Updated the Financial and Capital Plan to reflect current financial performance, market conditions, master facility plan scope and timing
- Determined the maximum amount of a General Obligation Bond tranche achievable while maintaining the tax levy of \$17.75/\$100,000 of assessed value
- Prepared the requisite documentation and resolutions necessary to achieve a December 2007 issuance

**Issuance of GO Bonds, Election of 2004, Series 2007A,
And
Financial and Capital Plan, updated October 2007**

Provisions of The Local Health Care District Law relating to the issuance of GO Bonds, including Section 32310 of The Local Health Care District Law, provide for sale of GO Bonds by competitive bid. Alternatively, other provisions of the California Government Code, including Sections 6588 and 6589 of the California Government Code, authorize PPH to sell its GO Bonds to a Joint Exercise of Powers Authority and authorize the Joint Exercise of Powers Authority to simultaneously resell such GO Bonds or other bonds in a negotiated sale. A negotiated sale will help assure the most cost-effective interest rate is obtained for the bonds. As with the issuance of the first tranche, it is recommended that PPH issue the bonds through a negotiated sale and utilize the previously established Joint Exercise of Powers Authority.

Remaining steps include:

- Rating Agency presentations – early November
- Review / consent of the Joint Exercise of Powers Authority
- Completion of Due Diligence
- Finalize required documents / agreements

In continuation for the preparation of the issuance of the second tranche of GO Bonds on or about December 7, 2007, the following documents/resolutions, as attached, will require Finance Committee recommendation and Board approval (at its November 12, 2007 meeting):

- Bond Resolution
- Paying Agent Agreement
- Preliminary Official Statement (POS)
- Continuing Disclosure Undertaking
- Bond Purchase Agreement; Bond Resolution

In summary, management will review the updated Financial and Capital Plan and Bond Documents and will recommend and seek the following actions for the second tranche of GO Bonds:

- Approval of the updated Financial and Capital Plan, October 2007
- Authorize the issuance of GO Bonds, Election of 2004, Series 2007A December ____, 2007, not to exceed \$250 million
- Authorize the issuance of the bonds through a negotiated sale and utilize the previously established Joint Exercise of Powers Authority
- Approve the Resolution and requisite documents and agreements to consummate the issuance

**Budget Impact: \$250 million tranche on remaining \$416 million General Obligation
Bond authorization**

**Issuance of GO Bonds, Election of 2004, Series 2007A,
And
Financial and Capital Plan, updated October 2007**

Staff Recommendation: Management recommended approval of the updated Financial and Capital Plan and the attached documents/resolutions and delegation to management of the authority to take the appropriate action necessary to complete the documents and matters necessary to issue the second tranche of GO Bonds on or about December 7, 2007.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the updated Financial and Capital Plan and the attached documents/resolutions and delegation to management of the authority to take the appropriate action necessary to complete the documents and matters necessary to issue the second tranche of GO Bonds on or about December 7, 2007.

Motion:

Individual Action: X

Information:

Required Time:

PALOMAR POMERADO HEALTH

RESOLUTION NO. 11.12.07 (02) – 14

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$250,000,000 AGGREGATE PRINCIPAL AMOUNT OF PALOMAR POMERADO HEALTH GENERAL OBLIGATION BONDS, ELECTION OF 2004; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A FIRST SUPPLEMENTAL PAYING AGENT AGREEMENT SETTING FORTH THE TERMS OF SAID BONDS; APPROVING THE NEGOTIATED SALE OF SAID BONDS; APPROVING THE FORM OF BOND PURCHASE AGREEMENT PROVIDING FOR SAID SALE AND AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH BOND PURCHASE AGREEMENT; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DISTRIBUTION OF AN OFFICIAL STATEMENT FOR SAID BONDS; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A CONTINUING DISCLOSURE UNDERTAKING FOR SAID BONDS, AND AUTHORIZING THE TAKING OF CERTAIN OTHER ACTIONS IN CONNECTION WITH THE ISSUANCE AND SALE OF SAID BONDS.

WHEREAS, pursuant to Resolution No. 08.04.04 (01)-8, adopted on August 4, 2004, by the Board of Directors of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District"), an election was duly called and regularly held in the District on November 2, 2004, at which election a proposition (hereinafter referred to as "Measure BB") was submitted to the electorate of the District to authorize the issuance of general obligation bonds by the District in an amount not to exceed \$496,000,000;

WHEREAS, an election was regularly held in the District on November 2, 2004 and the Registrar of Voters of the County of San Diego did duly and regularly canvass the returns of said election and did certify that Measure BB received at said election the affirmative vote of more than two-thirds of the votes cast on Measure BB at said election and that Measure BB was thereby carried and adopted by said election;

WHEREAS, pursuant to said favorable vote, the Board of Directors of the District (the "Board of Directors") is authorized to issue said general obligation bonds pursuant to and in accordance with Chapter 4 of Division 23 (commencing with Section 32300) of the California Health and Safety Code ("The Local Health Care District Law") and other applicable law;

WHEREAS, on July 7, 2005, the District issued \$80,000,000 aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A," of which \$68,360,000 aggregate principal amount remain outstanding, pursuant to a Paying Agent

Agreement, dated as of June 1, 2005 (the "Original Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), for the purpose of financing a portion of the hospital and health care facilities projects as referenced and described in Measure BB;

WHEREAS, for the purpose of financing an additional portion of the hospital and health care facilities projects as referenced and described in Measure BB (hereinafter referred to as the "Project"), the Board of Directors desires to authorize the issuance of certain additional general obligation bonds (hereinafter referred to as the "Bonds"), in an aggregate principal amount not to exceed \$250,000,000 aggregate principal amount;

WHEREAS, the Bonds will be issued pursuant to and in accordance with the provisions of The Local Health Care District Law and other applicable law and the Original Paying Agent Agreement, as supplemented and amended by the First Supplemental Paying Agent Agreement (the "First Supplemental Paying Agent Agreement," and, together with the Original Paying Agent Agreement, hereinafter collectively referred to as the "Paying Agent Agreement"), to be entered into between the District and the Paying Agent;

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of First Supplemental Paying Agent Agreement;

WHEREAS, the proceeds of the Bonds shall be applied as provided in Measure BB to finance or reimburse the District for its prior payment of costs of the Project and to pay costs of issuance of the Bonds;

WHEREAS, in order to facilitate such financing or reimbursement, the District has requested the assistance of the North San Diego County Health Facilities Financing Authority (the "Authority"), which was established and created pursuant to a joint exercise of powers agreement (the "JPA Agreement"), between the District and Tri-City Healthcare District;

WHEREAS, pursuant to a request received from Grossmont Healthcare District, a local health care district duly organized and existing under the laws of the State of California ("Grossmont"), and a "public agency" as such term is defined in the JPA Agreement, the Board of Directors of the Authority approved the addition of Grossmont as an additional Member (as such term is defined in the JPA Agreement) on May 11, 2007 in accordance with the provisions set forth in Section 19 of the JPA Agreement;

WHEREAS, pursuant to Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and the JPA Agreement, the District may sell the Bonds to the Authority, which is authorized to purchase the Bonds from the District, and to sell the Bonds so purchased from the District to public or private purchasers at public or negotiated sale;

WHEREAS, the Board of Directors deems it desirable to authorize the sale of the Bonds to the Authority and the simultaneous resale of the Bonds by the Authority to Citigroup Global Markets Inc. (hereinafter referred to as the "Purchaser") pursuant to a bond purchase

agreement (the "Bond Purchase Agreement"), which is proposed to be executed by the Purchaser and agreed to and accepted by the District and the Authority;

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of Bond Purchase Agreement;

WHEREAS, the Board of Directors hereby determines and finds that the issuance and sale of the Bonds as described herein to finance the Project is necessary in order to enable the District to continue to provide accessible health care services, including trauma, emergency room and acute care services, and is necessary and proper and in the best interests of the District and its residents;

WHEREAS, in order to facilitate the offering of the Bonds by the Purchaser, the Board of Directors proposes to approve, execute and deliver an official statement (the "Official Statement") describing the Bonds and certain related matters;

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of Official Statement in preliminary form describing the Bonds and certain related matters;

WHEREAS, in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) ("Rule 15c2-12"), the Board of Directors proposes to execute and deliver a continuing disclosure undertaking (the "Continuing Disclosure Undertaking");

WHEREAS, there has been prepared and presented to the Board of Directors a proposed form of Continuing Disclosure Undertaking;

WHEREAS, in order to obtain the lowest cost of borrowing obtainable at a prudent level of risk, it may be desirable to obtain bond insurance for the Bonds of one or more stated maturity dates;

WHEREAS, in order to accomplish the foregoing, it will be necessary for the District to enter into or execute or approve and deliver the following documents and agreements, forms of which have been prepared and presented to this meeting:

- (1) First Supplemental Paying Agent Agreement;
- (2) Bond Purchase Agreement;
- (3) Official Statement; and
- (4) Continuing Disclosure Undertaking.

WHEREAS, on October 31, 2006, there was published in a newspaper of general circulation in the District, a notice of public hearing concerning the proposed issuance by the District of obligations, including general obligation bonds, pursuant to a plan of financing;

WHEREAS, on November 20, 2006, the Board of Directors held a public hearing for purposes of Section 147(f) of the Internal Revenue Code of 1986 (the "Code") at which interested persons were given an opportunity to express their views concerning the issuance of the above-referenced obligations and on the nature and location of the facilities proposed to be financed pursuant to the above-referenced plan of financing;

WHEREAS, the Board of Directors desires to approve the issuance of the Bonds for purposes of Section 147(f) of the Code, to authorize and direct the execution and delivery of each of the above-identified documents and agreements (hereinafter collectively referred to as the "Financing Documents"), to authorize the issuance and sale of the Bonds pursuant to Measure BB and the Financing Documents, to authorize the negotiation of, and, as applicable, the securing of bond insurance to provide credit support for the Bonds, and to authorize the taking of such other actions as shall be necessary to consummate the financing of the Project as referred to and described in Measure BB, the Financing Documents and herein; and

WHEREAS, the Board of Directors has determined that the issuance of the Bonds will not cause the total outstanding bonded indebtedness of the District to exceed any applicable statutory or contractual debt limitation;

NOW, THEREFORE, BE IT RESOLVED THAT:

Section 1. Recitals. The foregoing recitals are true and correct, and this Board of Directors so finds and determines.

Section 2. Authorization of Issue; Designation of Bonds; Approval for Purposes of Section 147(f) of the Internal Revenue Code. This Board of Directors hereby authorizes and approves the issuance and sale of not to exceed \$250,000,000 aggregate principal amount of general obligation bonds of the District, such Bonds to be designated as the "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A" on the terms and conditions set forth herein, in the Original Paying Agent Agreement and in the First Supplemental Paying Agent Agreement, as finally executed and delivered.

It is the purpose and intent of the Board of Directors that this Resolution constitute approval of the issuance of the Bonds for purposes of Section 147(f) of the Code.

Section 3. First Supplemental Paying Agent Agreement and Terms of the Bonds. The proposed form of First Supplemental Paying Agent Agreement presented to this meeting is hereby approved. The President and Chief Executive Officer of the District (the "President") or the Chief Financial Officer of the District (the "Chief Financial Officer") is hereby authorized and directed, for and in the name of and on behalf of the District, to execute and deliver a First Supplemental Paying Agent Agreement, in substantially said form, with such changes therein as the officer executing the same (each, an "Authorized District Representative"), with the advice of counsel to the District ("District Counsel"), may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

The Bonds shall be dated their date of delivery, or such other date as shall be set forth in the First Supplemental Paying Agent Agreement as finally executed and delivered. The

Bonds shall mature on such date or dates, in each of the years, not exceeding thirty (30) years from the date of issuance, and in such aggregate principal amounts or accreted values at maturity as shall be set forth in the First Supplemental Paying Agent Agreement, as finally executed and delivered. The maximum interest rate on the Bonds shall not exceed 12% per annum (in accordance with Section 53531 and Section 53532 of the Government Code of the State of California), computed on the basis of a 360-day year of twelve 30-day months. The Bonds shall be issued as capital appreciation bonds or current interest serial bonds or current interest term bonds, shall be subject to redemption prior to their respective stated maturity dates at the option of the District as set forth in the First Supplemental Paying Agent Agreement, as finally executed and delivered, and in the Bonds, and may also be subject to mandatory sinking fund redemption as specified in the First Supplemental Paying Agent Agreement, as finally executed and delivered, and in the Bonds. The First Supplemental Paying Agent Agreement may provide that the Bonds of any maturity shall not be subject to optional or mandatory sinking fund redemption as further set forth therein. The Bonds shall be signed by the manual or facsimile signature of the Chairperson of the Board of Directors of the District, under seal attested by the manual or facsimile signature of the Secretary of the Board of Directors of the District. The time, manner and place or places of payment of the Bonds, the registration provisions and other terms of the Bonds shall be as set forth in the First Supplemental Paying Agent Agreement, as finally executed and delivered.

Section 4. Bond Purchase Agreement; Sale of Bonds. The proposed form of Bond Purchase Agreement presented to this meeting is hereby approved. The sale of the Bonds by the District to the Authority and the simultaneous resale of the Bonds by the Authority to the Purchaser, at a purchase price to be set forth therein are hereby approved; provided, that (i) the true interest cost for the Series 2007A Bonds shall not be in excess of 6.00%, (ii) the Purchaser's compensation shall not exceed 0.5% of the aggregate principal amount of the Bonds, plus any original issue premium, and excluding any costs of issuance the Purchaser agrees to pay pursuant to the provisions of the Bond Purchase Agreement; and (iii) the Bonds shall otherwise conform to the limitations specified herein. Each Authorized District Representative is hereby authorized and directed, for and in the name of and on behalf of the District, to execute and deliver a Bond Purchase Agreement, providing for the sale of the Bonds by the District to the Authority and the simultaneous resale of the Bonds by the Authority to the Purchaser, such Bond Purchase Agreement to be to be in substantially said form, with such changes therein as the Authorized District Representative executing the same, with the advice of District Counsel may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Official Statement. The Official Statement in preliminary form presented to this meeting is hereby approved. The Official Statement in preliminary form may be deemed final as of its date, within the meaning of Rule 15c2-12 (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12) by either Authorized District Representative for purposes of compliance with Rule 15c2-12 and the distribution of the Official Statement in such preliminary form as is deemed final by an Authorized District Representative to persons who may be interested in the purchase of Bonds is hereby authorized. Each Authorized District Representative is hereby authorized and directed, for and in the name and on behalf of the District to execute and deliver to the Purchaser a final

Official Statement, in substantially said form, with such changes therein as the officer executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Purchaser is hereby authorized and directed to deliver a copy of the Official Statement, as finally executed, to all actual purchasers of Bonds.

Section 6. Continuing Disclosure Undertaking. The proposed form of Continuing Disclosure Undertaking presented to this meeting is hereby approved. Each Authorized District Representative is hereby authorized and directed to execute and deliver a Continuing Disclosure Undertaking, in substantially said form, with such changes therein as the Authorized District Representative executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. Bond Insurance. The Chief Financial Officer is hereby authorized and directed, for and in the name and on behalf of the District, to negotiate with bond insurance companies, and, if the Chief Financial Officer determines that it is in the best interest of the District to commit to purchase bond insurance for Bonds of one or more stated maturity dates, the Chief Financial Officer is authorized to commit to purchase bond insurance on such terms as the Chief Financial Officer, with the advice of District Counsel, the financial advisor to the District, and the Purchaser, determines are appropriate.

Section 8. Request for Necessary County Actions. The Board of Supervisors of the County of San Diego (the "County") and the Treasurer-Tax Collector and other appropriate officials of the County are hereby requested to take and authorize such actions as may be necessary pursuant to all applicable laws of the State of California to provide for the levy and collection of a property tax on all taxable property within the District sufficient to provide for payment of all principal of, redemption premium, if any, and interest on the Bonds as the same shall become due and payable, and to transfer such moneys as directed by the District for deposit in the bond interest and sinking fund previously established by the District pursuant to the Paying Agent Agreement and in accordance with Section 32127 of The Local Health Care District Law.

Section 9. Notices to State Debt Commission. An Authorized District Representative is hereby authorized and directed to cause notices of the proposed sale and final sale of the Bonds to be filed in a timely manner with the California Debt and Investment Advisory Commission pursuant to Section 8855 of the Government Code of the State of California.

Section 10. Additional Actions. Each Authorized District Representative or the designee of either Authorized District Representative, acting singly, is, and each of them hereby is, authorized and directed, for and in the name and on behalf of the District, (i) to do any and all things and to execute and deliver any and all documents, instruments and certificates, including signature certificates, no-litigation certificates and tax certificates, and to enter into any and all agreements necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution and the transactions contemplated by any of the

documents and agreements authorized to be executed and delivered pursuant to this Resolution, including, without limitation, such documents, agreements, instruments or certificates as may be required or necessary to arrange for bond insurance for Bonds of one or more stated maturity dates, and (ii) to authorize payment of all reasonable fees and expenses incurred or to be incurred by the District in connection with the transactions contemplated by any of the documents and agreements authorized to be executed and delivered pursuant to this Resolution.

The Secretary of the Board of Directors of the District is hereby authorized to attest to the seal of the District and/or any signature of the Chairperson of the Board of Directors or Authorized District Representative on any of the documents, instruments, certificates and agreements (including the Bonds) authorized by this Resolution.

Section 11. Ratification of Actions. All actions heretofore taken by the officers, representatives or agents of the District, including without limitation, the Chairperson of the Board of Directors and each Authorized District Representative, in connection with the issuance and sale of the Bonds are hereby ratified, confirmed and approved.

Section 12. Effective Date. This Resolution shall take effect from the date of adoption hereof.

PASSED AND ADOPTED by the Board of Directors of Palomar Pomerado Health on the 12th day of November, 2007, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

Dated: November 12, 2007.

By: _____

Marcelo Rivera, M.D.
Chair, Board of Directors
Palomar Pomerado Health

Attested:

Linda C. Greer, R. N.
Secretary, Board of Directors
Palomar Pomerado Health

**PALOMAR MEDICAL CENTER
RADIATION THERAPY DEPARTMENT
TRILOGY JOINT VENTURE, LLC, WITH US RADIOSURGERY**

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: William Kail, Service Line Administrator, Imaging & Cardiology

BACKGROUND: Approximately a year ago, Palomar Pomerado Health ("PPH") approved the replacement of one of its linear accelerators. The state-of-the-art Varian Trilogy technology was selected. Renovation and equipment purchase were executed, forecasting December 2007 as the completion date.

Approximately eight months ago, PPH evaluated the possibility of investing in the CyberKnife Technology (Stereotactic Radiosurgery). Concurrently, several CyberKnife Centers were forming and opening in the surrounding community. Upon evaluating the CyberKnife Technology, it was discovered that it does not have a technological upgrade path, and that the technology is also limited to Stereotactic Radiosurgery ("SRS").

PPH was also evaluating a Joint Venture ("JV") model with US Radiosurgery which would utilize the CyberKnife technology. Based on the evaluation of that technology, both parties agreed to continue to explore the possibility of a joint venture model which would instead utilize the new Trilogy TX technology. The JV agreement will include reimbursement of the equipment capital back to PPH and implementation of Trilogy TX Services.

BUDGET IMPACT: Total capital investment \$5,057,864 – JV funded

STAFF RECOMMENDATION: Staff recommended that PPH finalize the JV with US Radiosurgery.

COMMITTEE QUESTIONS: The Board Finance Committee requested that the most recent drafts of the agreements related to the JV model be provided to the Board of Directors for review.

COMMITTEE RECOMMENDATION: The Board Finance Committee approved finalization of the Joint Venture model with US Radiosurgery for the utilization of the new Trilogy TX technology for Stereotactic Radiosurgery, with recommendation to the Board pending receipt of final documents.

Motion: X

Individual Action:

Information:

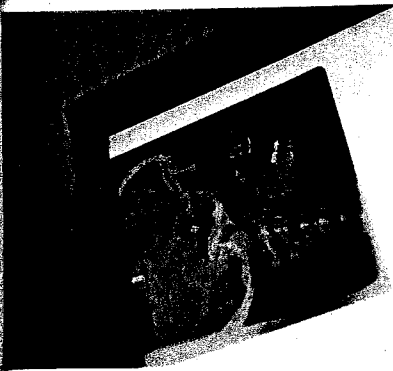
Required Time:

PALOMAR
POMERADO
HEALTH
SPECIALIZING IN YOU

15255 Innovation Drive
San Diego, CA 92128



Palomar Pomerado Health
Trilogy Project
October 15, 2007



Submitted by:
William Kail, Service Line Administrator
Palomar Pomerado Health
Imaging Services
555 East Valley Parkway
Escondido, CA 92025

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Project History

Approximately a year ago PPH approved replacement of one of its linear accelerators. The state of the art Varian Trilogy technology was selected. Renovation and equipment purchase were executed forecasting December '07 as completion date.

Approximately eight months ago PPH evaluated the possibility of investing in the Cyberknife Technology (Stereotactic Radiosurgery). Concurrently, several Cyberknife Centers were forming and opening in the surrounding community. Upon evaluating the Cyberknife Technology we discovered that it does not have a technological upgrade path. The technology is also limited to SRS (Stereotactic Radiosurgery).

PPH was also evaluating a joint venture model using the Cyberknife technology with US Radiosurgery. Both parties agreed not to proceed with Cyberknife technology but to explore the new Trilogy Tx technology. The Trilogy Tx Technology was recommended based on its flexibility to serve as a linear accelerator and stereotactic radiosurgery.

Why A Joint Venture

- Access an alternative source of capital:
 - Frees up existing capital for projects that do not qualify for JV structures
 - Expedites the approval process
 - Accelerates entrance of technology into the market
 - Pre-empt competitive ventures/services

- Mitigates Financial Risk
- Mitigates Implementation Risk
- Mitigates Operation Risk
- Accelerates Clinical Excellence

Why US Radiosurgery?

- Implementation Expertise
 - Standardized legal documents
 - Standardized regulatory documents
 - Complete policy and procedure manuals
 - Vault design and construction
 - Billing and collections tracking system
 - Supplemental on-site training
 - Clinical and workflow-database
- Operational Expertise
 - Knowledge and Expertise
 - Rocky Mountain CyberKnife site
 - Originally JV between physicians and Boulder Community Hospital in 2000-2002
 - US Radiology acquired, syndicated, implemented marketing plan and doubled case volume
- Marketing
 - Operational database
 - Central repository for all information
 - Detailed operational reports
 - Documents Physicians QA-monitoring
 - Accelerate Clinical Excellence
 - On-site consultation
 - On-going treatment planning support

PPH Trilogy Project, LLC

The PPH Trilogy Project, LLC, business structure will consist of three groups of partners: U.S. Radiosurgery, Physicians and PPH (See *Exhibit A*)

Business Analysis/Projections

Original Project Cost...
Equipment.....\$ 3,000,000.00
Renovation.....\$1,450,000.00
Total.....\$ 4,450,000.00

Return On Investment, ROI....2.55 years

See Exhibit B

Upgraded/New Cost...
Equipment.....\$ 3,263,940.00
Renovation.....\$ 1,793,924.00
Total.....\$ 5,057,864.00

Return On Investment, ROI...\$ 681,000.00 the first year - See Exhibit C

Addition revenue generated with increased ancillary services - See Exhibit D
Estimated 1st year \$1,313,600.00

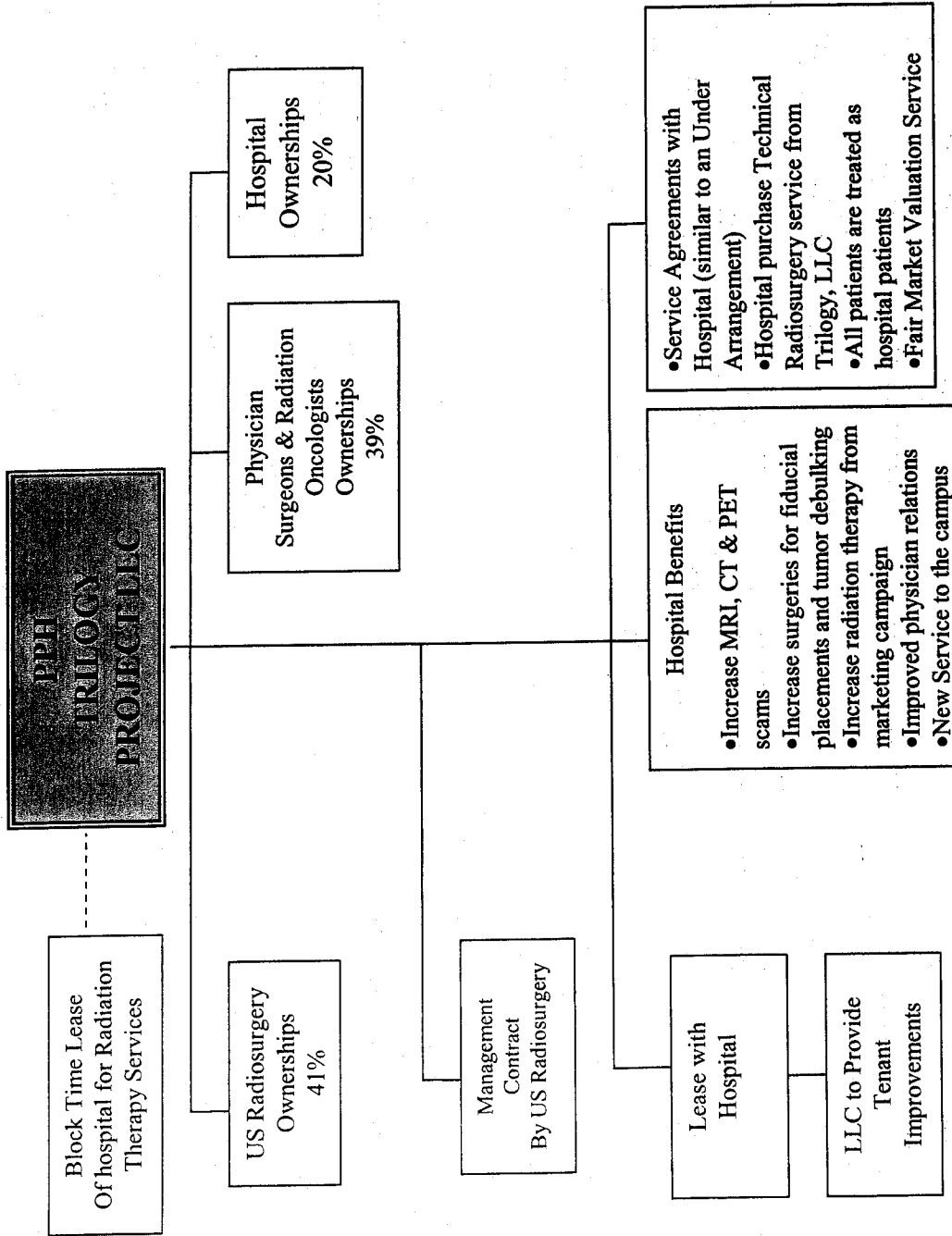
*Note: The new/upgraded proposal JV with US Radiosurgery will include a refund to PPH for equipment and renovations. (tenant improvements). Total \$5,057,864.00.

Recommendation

1. Finalize the JV with US Radiosurgery	In Progress
2. Implement Trilogy TX Services	In Progress

PPH TrilogY Project, LLC.

Exhibit A



PMC/Trilogy Multimodality System - Exhibit B

		EXHIBIT B Palomar Medical Center Trilogy - Multimodality System Lease/Purchase Analysis (Static Procedure Growth)				
		Year 1	Year 2	Year 3	Year 4	Year 5
Incremental Cash Flow		1,925,359	1,652,604	1,697,481	1,742,464	1,762,548
		1,202,911	930,156	975,033	1,020,016	1,040,100
	Initial Investment	(4,507,609)				
		(1,313,204)				
	Purchase					
	Lease (a)					
	Equipment	\$ 3,254,609	\$ 3,612,241			
	Construction	833,000	833,000			
	Design, Furniture and Other	420,000	420,000			
		\$ 4,507,609	\$ 4,865,241			
	Monthly Lease Payment		60,204			
	Maximum End of Term Buy-Out		1			
NPV	\$ 5,654,936	\$ 5,675,983				
Discount Rate	4.49%	4.49%				
Reinvestment Rate	1.90%	1.90%				
Payback in Years	2.5					
Modified Int Rate of Return	16.46%	32.06%				
Patients	300	300	300	300	300	300
Gross Patient Revenue	7,037,473	7,466,055	7,690,037	7,920,738	8,158,360	
Net Revenue ©	2,111,242	2,164,340	2,196,805	2,229,757	2,263,203	
Net Rev % of Gross	30.00%	28.99%	28.57%	28.15%	27.74%	
Incremental Expenses						
Total Labor Expense	100,000	108,160	112,486	116,986	121,665	
Non Labor Expense						
Maintenance/Biomed Contract**		325,461	333,597	341,937	350,486	
Supplies	2,880	3,115	3,240	3,369	3,504	
Marketing Expense		75,000	50,000	25,000	25,000	
Total Non-Labor Expense	2,880	403,576	386,837	370,307	378,990	
Net Incremental Cash		1,925,359	1,652,604	1,697,481	1,742,464	1,762,548
		(2,582,250)	(929,646)	767,835	2,510,300	4,272,848
				2.55		
	Cumulative Cash for Payback					
	Years for Payback					

Provided by AMAC

Financial Summary - Exhibit C1

Confidential

EXHIBIT C-1

Financial Summary

Ownership Summary	%	\$
NeoSpine	41.0%	-
Physician	39.0%	-
Hospital	20.0%	-
Total Equity Investment	100.0%	\$

Sources & Uses

Source of Funds	\$
NeoSpine Equity	-
Physician Equity	-
Hospital Equity	-
Tenant Improvement Loan	0
Equipment Loan	0
Total Investment	\$

Use of Funds	\$
Outgoing Cash	(71,232)
Tenant Improvement	-
Equipment	-
Pre-Operating Expenses	71,232
Development Fee	-
Total Investment	\$

Total Return	Year 1	Year 2	Year 3	Year 4	Year 5
RT Return (\$)	\$ 394,470	\$ 922,165	\$ 902,536	\$ 881,310	\$ 851,497
SRS Return (20%)	\$ 266,399	\$ 356,064	\$ 386,717	\$ 407,838	\$ 440,648
Cumulative Return	\$ 661,069	\$ 1,378,229	\$ 1,289,253	\$ 1,289,153	\$ 1,292,145

Date: 10/1/07

Palomar RT/SRS Forms - Exhibit C2

Palomar RT/SRS Pro Forma
 Std De Novo

EXHIBIT C-2

Detailed Income Statement

	YEAR 1	PRO. FORMA	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Utilization	3,000	3,240	3,499	3,674	3,674	3,668
Radiation Therapy Tx	3,150	3,402	3,499	3,674	3,674	3,658
Total Procedures	3,150	3,402	3,499	3,674	3,674	3,658
Total Case Volume	3,150	3,402	3,499	3,674	3,674	3,658
Net Revenue	\$ 1,800,000	\$ 1,848,800	\$ 1,894,817	\$ 1,890,080	\$ 1,890,080	\$ 1,885,355
Radiation Therapy Tx	1,800,000	1,848,800	1,894,817	1,890,080	1,890,080	1,885,355
Net Patient Revenue	375,000	405,000	437,400	469,270	469,270	462,234
Radiology Reimbursement	2,175,000	2,261,800	2,332,217	2,349,360	2,349,360	2,367,558
Bad Debt Expense	690	662	635	608	608	604
Adjusted Net revenue after Bad Debt	\$ 2,175,000	\$ 2,261,800	\$ 2,332,217	\$ 2,349,360	\$ 2,349,360	\$ 2,367,558
Operating Expenses	\$ 690	\$ 662	\$ 635	\$ 608	\$ 608	\$ 604
Salaries & Benefits	378,392	390,774	402,407	414,672	414,672	427,009
Total Clinical Salaries & Benefits	48,000	49,440	50,923	52,451	52,451	54,024
Total G&A Salaries & Benefits	427,392	440,214	453,420	467,023	467,023	481,033
Man-hours per Case	14.11	13.07	12.10	11.52	11.52	10.98
Expenses	56,712	61,249	66,149	69,450	69,450	72,929
Radiation Therapy Supplies	12,271	13,263	14,149	15,029	15,029	15,781
Transcription	9,421	10,175	10,985	11,638	11,638	12,115
RIS/PACS	14,025	15,029	16,368	17,178	17,178	18,035
Laundry & Linen	21,878	23,629	25,519	26,795	26,795	28,135
Counter	36	36	36	36	36	36
Fixed Direct Costs	114,308	123,462	133,328	139,988	139,988	146,988
Total Supply Expense	36	36	36	36	36	36
Supply Expense per Case	0.01	0.01	0.01	0.01	0.01	0.01
Other Expenses:	15,750	17,520	18,922	19,968	19,968	20,861
Other Clinical Services	15,750	17,520	18,922	19,968	19,968	20,861
Total Other Supply Expense:	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%
Ratio to Net revenue						
Building & Equipment Costs:	1,080,327	1,123,037	1,166,728	1,191,430	1,191,430	1,227,173
Block Lease - RT	1,080,327	1,123,037	1,166,728	1,191,430	1,191,430	1,227,173
Total Building & Equipment Expenses:	50%	50%	50%	51%	51%	52%
Ratio to Net revenue						
General & Administrative Costs:	9,450	10,206	11,022	11,674	11,674	12,162
Office/Misc Supplies	16,000	16,800	17,640	18,247	18,247	18,880
Accounting & Tax Svcs	16,104	17,012	17,920	18,684	18,684	19,374
State and Fed Lic Fees	22,000	23,040	24,120	24,840	24,840	25,560
City Bus Taxes/Lic Fees	15,450	16,314	17,208	17,883	17,883	18,589
Other Taxes/Lic Fees	7,210	7,426	7,649	7,878	7,878	8,115
Revenue Tax	0	0	0	0	0	0
Misc G&A Expense	43,316	44,616	45,958	47,333	47,333	48,763
Startup Cost Expense	0	0	0	0	0	0
Total General & Administrative Expenses	112,630	117,134	121,974	126,206	126,206	130,693
Ratio to Net revenue	5%	5%	5%	5%	5%	6%
Total Operating Expenses	1,352,915	1,381,143	1,430,602	1,477,488	1,477,488	1,528,622
Ratio to Net revenue	61%	61%	61%	63%	63%	64%
Total Operating Expense per Case	\$ 432,385	\$ 406,188	\$ 408,747	\$ 402,065	\$ 402,065	\$ 418,146
Center EBITDA	\$ 842,085	\$ 870,657	\$ 901,285	\$ 871,881	\$ 871,881	\$ 841,968
Ratio to Net revenue	39%	39%	38%	37%	37%	36%

Exhibit C3

Exhibit C-3

Other Operating Expenses	0	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0	0
Amortization	0	0	0	0	0	0	0
Amortization: Goodwill	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0
Organization Costs	0	0	0	0	0	0	0
Pre-operating Expenses	0	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Interest Income	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
Interest Expense	0	0	0	0	0	0	0
Other Expense	0	0	0	0	0	0	0
Total Other Operating Expenses	(6,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Net Operating Income	848,085	875,657	906,265	876,851	846,966		
Center Pre-Tax Income	848,085	875,657	906,265	876,851	846,966		
Ratio to Net revenue	39%	47%	50%	51%	51%		

This pro forma is based on certain assumptions; inevitably, there will be differences between the projections and actual results and those differences may be material.

Date: 10/1/2007

Palomar RT/SRS Pro Forms - Exhibit C4

Palomar RT/SRS Pro Forma
 Std De Novo

Pro Forma Cash Flow Statement

	Pre-Opening	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Cash Balance		\$ (71,231)	\$ 300,000	\$ 250,000	\$ 250,000	\$ 250,000
Cash from Operations	(71,232)	848,085	875,657	906,265	876,851	846,986
Center Pre-Tax Income						
Depreciation						
Amortization						
Organization Costs:						
Development Fee						
Syndication						
Organizational Fees						
Pre-opening Expenses		209,347	7,114	7,394	7,104	7,337
Increase/(Decrease) in Accounts Payable		(261,000)	(9,216)	(9,650)	(2,056)	(2,189)
(Increase)/Decrease in Accounts Receivable		(23,925)	(845)	(885)	(188)	(201)
(Increase)/Decrease in Other Assets		(6,805)	(544)	(588)	(397)	(417)
(Increase)/Decrease in Inventory						
Total Cash from Operations	(71,232)	765,702	872,165	902,536	881,314	851,497
Cash from Investing Activities						
Tenant Improvement						
Equipment						
Acquisition						
Total Cash from Investing Activities						
Cash from Financing Activities						
Debt						
Acquisition Loan						
Working Capital Loan						
Tenant Improvement Loan						
Building Loan						
Equipment Loan						
Principal Payments						
Acquisition Loan						
Working Capital Loan						
Tenant Improvement Loan						
Building Loan						
Equipment Loan						
Capital Contributions						
NeoSpine						
Surgeons						
Hospital						
Other	1					
Total Cash from Financing Activities	1					
Total Annual Cash Flow	(71,231)	765,702	872,165	902,536	881,314	851,497
Cash (Distribution)/Infusion		(394,471)	(922,165)	(902,536)	(881,314)	(851,497)
Ending Cash Balance	(71,231)	300,000	250,000	250,000	250,000	250,000
Return on Investment (%)		39447052%	92216514%	90253680%	88131438%	85149686%
Return on Investment (\$)		\$3,945	\$9,222	\$9,026	\$8,813	\$8,515
Return		394471%	922165%	902536%	881314%	851497%

Palomar RT/SRS Forms - Exhibit C5

Palomar RT/SRS Pro Forma
 Red De Novo

Pro Forma Balance Sheet

Assets

	Opening	Year 1	Year 2	Year 3	Year 4	Year 5
Current Assets						
Cash	\$ (71,237)	\$ 300,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Accounts Receivable	-	261,210	270,210	279,205	281,922	284,711
Inventory	-	6,805	7,250	7,694	8,138	8,582
Other Current Assets	-	7,250	7,694	8,138	8,582	9,026
Total Current Assets	\$ (71,237)	\$ 675,265	\$ 535,598	\$ 535,598	\$ 535,598	\$ 535,598
Property, Plant, Equipment						
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Toward Improvement	-	-	-	-	-	-
Accumulated Depreciation	-	-	-	-	-	-
Net Tenant Improvement	-	-	-	-	-	-
Building	-	-	-	-	-	-
Accumulated Depreciation	-	-	-	-	-	-
Net Building	-	-	-	-	-	-
Furniture and Fixtures	-	-	-	-	-	-
Accumulated Depreciation	-	-	-	-	-	-
Net Furniture and Fixtures	-	-	-	-	-	-
Equipment	-	-	-	-	-	-
Accumulated Depreciation	-	-	-	-	-	-
Net Equipment	-	-	-	-	-	-
Total Property, Plant, Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Assets						
Goodwill	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expense	-	-	-	-	-	-
Total Accumulated Amortization	-	-	-	-	-	-
Total Other Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Assets	\$ (71,237)	\$ 675,265	\$ 535,598	\$ 535,598	\$ 535,598	\$ 535,598
Liabilities & Partner's Equity						
Liabilities						
Current Liabilities	\$ -	\$ 200,347	\$ 210,460	\$ 220,574	\$ 230,688	\$ 236,795
Total Accounts Payable	-	-	-	-	-	-
Current Portion of Long Term Debt	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Total Current Liabilities	\$ -	\$ 200,347	\$ 210,460	\$ 220,574	\$ 230,688	\$ 236,795
Long Term Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition Loan	-	-	-	-	-	-
Working Capital Loan	-	-	-	-	-	-
Term Loan	-	-	-	-	-	-
Equipment Loan	-	-	-	-	-	-
Other Long Term Liabilities	-	-	-	-	-	-
Total Long Term Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	\$ -	\$ 200,347	\$ 210,460	\$ 220,574	\$ 230,688	\$ 236,795
Partner's Equity						
Needle	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hospital	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Partner's Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Retained Earnings	\$ (71,237)	\$ 778,863	\$ 1,062,510	\$ 2,668,776	\$ 4,284,024	\$ 4,202,802
Total Partner's Equity	\$ (71,237)	\$ 778,863	\$ 1,062,510	\$ 2,668,776	\$ 4,284,024	\$ 4,202,802
Total Partner's Equity	\$ (71,237)	\$ 778,863	\$ 1,062,510	\$ 2,668,776	\$ 4,284,024	\$ 4,202,802
Total Liabilities & Partner's Equity	\$ (71,237)	\$ 675,265	\$ 535,598	\$ 535,598	\$ 535,598	\$ 535,598

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U.S. Radiosurgery – Palomar Pro-forma - Exhibit D

US Radiosurgery, LLC
 Palomar, CA Pro-Forma
 Hospital/Ancillaries

Exhibit D

Ancillary Services to Hospital

	Facility Fee Gross Charge per Patient
PET Scan	\$ 5,000
MRI Scan	\$ 1,200
CT Scan	\$ 4,000
Diagnosic Biopsies	\$ 2,500
Radiation Therapy (1)	\$ 20,000
Tumor Debulking before Radiosurgery	\$ 80,000

	Patient Volume Assumptions (Annual)		Estimated Facility Fee Gross Charges	
	75	100	75	100
Cyberknife Annual number of Patients	75	100		150
Translates to:				
PET Scans (50% of Cyberknife Patients)	38	50	\$ 187,500	\$ 250,000
MRI Scans (50% of Cyberknife Patients)	38	50	\$ 45,000	\$ 60,000
CT Scans (All Patients get 3; Initial plus 2 follow-ups)	225	300	\$ 202,500	\$ 270,000
Fiducial Implants (35% of Cyberknife Patients)	26	35	\$ 105,000	\$ 140,000
Diagnosic Biopsies (30% of Cyberknife Patients)	23	30	\$ 57,500	\$ 75,000
Radiation Therapy (1) (3/Month)	20	20	\$ 500,000	\$ 600,000
Tumor Debulking before Radiosurgery (6.67% of Cyberknife Patients)	5	7	\$ 350,000	\$ 450,000
Total			\$ 1,429,200	\$ 1,725,000

	Patient Volume Assumptions (Annual)		Estimated Facility Fee Gross Charges	
	75	100	75	100
Cyberknife Annual number of Patients	75	100		150
Translates to:				
PET Scans (50% of Cyberknife Patients)	38	50	\$ 187,500	\$ 250,000
MRI Scans (50% of Cyberknife Patients)	38	50	\$ 45,000	\$ 60,000
CT Scans (All Patients get 3; Initial plus 2 follow-ups)	225	300	\$ 202,500	\$ 270,000
Fiducial Implants (35% of Cyberknife Patients)	26	35	\$ 105,000	\$ 140,000
Diagnosic Biopsies (30% of Cyberknife Patients)	23	30	\$ 57,500	\$ 75,000
Radiation Therapy (1) (3/Month)	20	20	\$ 500,000	\$ 600,000
Tumor Debulking before Radiosurgery (6.67% of Cyberknife Patients)	5	7	\$ 350,000	\$ 450,000
Total			\$ 1,429,200	\$ 1,725,000

	Patient Volume Assumptions (Annual)		Estimated Facility Fee Gross Charges		Net of "Discount"
	75	100	75	100	
Cyberknife Annual number of Patients	75	100		150	
Translates to:					
PET Scans (50% of Cyberknife Patients)	34	45	\$ 167,500	\$ 225,000	\$ 335,000
MRI Scans (50% of Cyberknife Patients)	34	45	\$ 40,200	\$ 54,000	\$ 84,400
CT Scans (All Patients get 3; Initial plus 2 follow-ups)	202	270	\$ 181,800	\$ 243,000	\$ 364,400
Fiducial Implants (35% of Cyberknife Patients)	22	29	\$ 83,000	\$ 124,000	\$ 190,000
Diagnosic Biopsies (30% of Cyberknife Patients)	21	27	\$ 52,500	\$ 70,000	\$ 112,500
Radiation Therapy (1) (3/Month)	18	18	\$ 450,000	\$ 540,000	\$ 810,000
Tumor Debulking before Radiosurgery (6.67% of Cyberknife Patients)	4	6	\$ 240,000	\$ 340,000	\$ 510,000
Total			\$ 1,213,200	\$ 1,533,000	\$ 2,149,600

(1) - That cannot be treated with Radiosurgery; this is assumed to be the direct benefit to the Hospital of the marketing effort of the Cyberknife partnership.
 (2) - This assumes that approximately 10% of this particular patient census is already captured by the Hospital and thus would not be "additive" to the Hospital should a Cyberknife facility be developed in Palomar, CA.
 NOTE: A benefit to the hospital that could increase patient census in a more indirect way than the assumed direct ancillary results estimated herein is by virtue of the fact that the Cyberknife partnership will spend an estimated \$400,000 annually in marketing and advertising of the Cyberknife and Cancer Center.

SERVICE AGREEMENT

This Service Agreement (the "Agreement") between SAN DIEGO RADIOSURGERY, LLC, a Delaware limited liability company ("Contractor") and PALOMAR POMERADO HEALTH a California health district, organized under Section 23 of the California Health and Safety Code ("PPH"), is made and entered into as of the latest date this Agreement is executed by any party as set forth on the signature page hereof.

WITNESSETH:

WHEREAS, Contractor leases from PPH approximately 1,500 square feet of space on PPH's Palomar Medical Center campus in Escondido, California (the "Site"), pursuant to the terms of that certain lease agreement to be executed between the PPH and Contractor; and

WHEREAS, Contractor will make tenant improvements to the Site; and

WHEREAS, Contractor desires to provide to PPH certain stereotactic radiosurgery and related medical equipment including real property improvements made to the Site to facilitate use of the equipment, as described more fully in Schedule A attached hereto (the "Equipment"); and

WHEREAS, PPH desires to serve its patients and the community more efficiently by using the Equipment and the Site in the provision of medical services it provides to its patients; and

WHEREAS, Contractor has the ability to provide the Equipment, the Site and related services necessary for the provision of PPH's medical services.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. PROVISION OF EQUIPMENT AND SITE

Contractor, for and in consideration of the Charges (as defined below) hereinafter required to be paid and of the covenants and agreements hereinafter mentioned, hereby agrees to provide the Equipment, the Site and other services identified in Section 4 hereof to PPH (in the aggregate, the "Services"), between the hours of 7:00 a.m. and 7:00 p.m., Monday through Friday, on an as needed basis during such times the Services are available (and not being used pursuant to the terms of the Block Lease Agreement between the parties hereto, of even date herewith), all on the terms and conditions set forth herein. All additions, improvements, upgrades and repairs made to the Equipment as provided in Section 7(b) hereof shall be deemed added to Schedule A and shall become a part of the Equipment. PPH shall use the Site and the Equipment to provide stereotactic radiosurgery services to its patients pursuant to the terms and conditions of this Agreement.

2. TERM

The initial term of this Agreement is ten (10) years, commencing on that date which is 30 days after PPH's receipt of a certificate of occupancy for the Site (the "Commencement Date") and ending on the day prior to the tenth (10th) anniversary of the Commencement Date, unless this Agreement is earlier terminated pursuant to Section 12 or Section 13 below. Notwithstanding the foregoing, in no event shall this Agreement be effective unless and until Contractor has consummated an offering to a minimum of six physicians, including radiation oncologists, or physician group(s) with at least such number of physicians. This Agreement may be extended for additional terms of two (2) years each, upon the terms and conditions set forth herein, upon the mutual agreement of the parties at least 30 days prior to the expiration date of the then current term.

3. METHOD OF PAYMENT

(a) Determination of Charges. Contractor shall provide the items and services described herein in exchange for a per tumor rate set forth in Schedule B attached hereto (the "Charges"). The Charges shall be reset to fair market value no sooner than twelve (12) months after the effective date of this Agreement and, thereafter, at any time upon the request of either party if they believe that the Charges do not reflect the fair market value of the items and services provided hereunder, but no more often than once every twelve months. The fair market value of the Charges shall be determined by an independent third party appraiser mutually acceptable to the parties. In the event the parties cannot agree upon an independent third party appraiser, each party shall select an independent third party appraiser and the average of the fair market value Charges as determined by the two independent third party appraisers shall be the fair market value of the Charges if such appraisals are within 15% of one another. If the two appraisals are not within 15% of one another, the appraisers shall select a third independent third party appraiser and the average of the two closest appraisals shall be the fair market value of the Charges. Each party shall bear the costs of the independent third party appraiser it selects. The party whose appraisal is not utilized in determining the fair market value shall bear the costs of the third independent third party appraiser. The amount determined by the third party appraiser shall be final and binding.

(b) Payment of Charges. Contractor shall send PPH an invoice for the Charges once per month, or at such other interval as mutually agreed to by the parties hereto. The Charges for a given invoice shall be due and payable within thirty (30) days of receipt by PPH of Contractor's invoice. Each month, the overall Charges due to Contractor shall be reduced by PPH's cost of employing the Technical Personnel pursuant to Section 5(a) below, which shall consist of the Technical Personnel's salary, wages, and benefits (the "Technical Personnel Expenses".) PPH shall provide Contractor with an itemized list of the Technical Personnel Expenses within five days of its receipt of Contractor's invoice for the Charges. All such payments shall be paid in immediately available funds to Contractor at the address designated in Section 16 hereof or such other place or places as Contractor may from time to time designate in writing. All Charges shall be paid without notice or demand. Charges due hereunder not made within 15 days after the due date therefor shall be delinquent. If PPH does not make any payment when due, PPH agrees to pay Contractor a late payment charge equal to 1% per month on the past due amounts. The payment by PPH of the Charges shall be the sole compensation to Contractor, and Contractor shall not

bill patients or third party payors for any additional amounts for any items or services provided to PPH pursuant to this Agreement.

4. CONTRACTOR'S RESPONSIBILITIES

(a) Delivery of Equipment. Contractor shall coordinate with the manufacturer of the Equipment (the "Manufacturer") and PPH to have the Equipment delivered to the Site on or prior to the Commencement Date. Contractor shall be responsible for paying all costs and expenses associated with the delivery and installation of the Equipment at the Site and any additional furnishing and build-out of the Site, as necessary for PPH's use of the Site. Notwithstanding the foregoing, Contractor makes no representations or warranties, express or implied, concerning delivery of the Equipment to the Site or the actual date thereof.

(b) Maintenance and Repairs. At its sole cost and expense, Contractor will perform, or cause to be performed, all necessary preventive and other routine maintenance on the Equipment, and will make, or cause to be made, all repairs to and replacements of the Equipment of any kind in such manner as to maintain the Equipment in good condition and repair and in compliance with the requirements of Manufacturer. All such maintenance, whenever possible, shall not affect patient scheduling. In addition, except as set forth in Section 5(g) below, Contractor shall, at Contractor's sole expense, maintain the Site in good repair and in good condition suitable for PPH's permitted use.

(c) No Warranties by Contractor with Respect to the Equipment. OTHER THAN THE MAINTENANCE OBLIGATIONS ASSUMED UNDER SECTION 4(b) ABOVE, CONTRACTOR, NOT BEING THE MANUFACTURER OF THE EQUIPMENT, MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, DESIGN, CONDITION, DURABILITY, CAPACITY, MATERIAL OR WORKMANSHIP OF THE EQUIPMENT OR AS TO PATENT INFRINGEMENT OR THE LIKE. As between Contractor and PPH, PPH shall bear all risks with respect to the foregoing warranties. PPH expressly waives any right to hold Contractor liable hereunder for any claims, demands and liabilities arising out of or in connection with the design or manufacture of the Equipment, including injury to persons or property resulting from the failure of, defective or faulty design, condition or suitability of the Equipment ("Warranty Claims"). Contractor agrees (i) that PPH may, in Contractor's name, but at PPH's sole cost and expense, enforce all warranties, agreements or representations, if any, which may have been made by Manufacturer or manufacturers, suppliers or other third parties regarding the Equipment ("Warranties") which might cover any Warranty Claims and (ii) to cooperate with PPH in bringing such claims as may be necessary to enforce such Warranties and obtain the benefit thereof for PPH. Contractor hereby assigns to PPH, to the extent permissible, the benefits of any and all Warranties with respect to Warranty Claims and to the extent such Warranties are not assignable, agrees to cooperate, at PPH's cost, to ensure that PPH obtains the benefits of such Warranties.

(d) **Required Licenses and Approvals.** Except as to the Radioactive License, which PPH shall maintain in accordance with Section 5(f) below, Contractor shall procure and maintain all necessary and applicable licenses and permits required for the installation, use and operation of the Equipment and the provision of the Services, whether from any federal, state or local governmental agency or other regulatory body.

(e) **Compliance with Applicable Laws and Standards.** Contractor agrees to perform the Services in material compliance with all applicable standards set forth by law or ordinance or established by the rules and regulations of any federal, state or local agency, department, commission, association or other pertinent governing, accrediting or advisory body, including The Joint Commission, having authority to set standards for PPHs and health care facilities. In addition, Contractor shall perform the Services in material accordance with all of PPH's rules, regulations, procedures, policies and bylaws of general applicability; provided, however, that PPH will consider Contractor's reasonable suggestions with respect to policies specific to the Services. The parties agree that they intend for this Agreement to comply with the federal Physician Self-Referral Law (commonly referred to as Stark) and other applicable federal and state fraud and abuse laws, including the federal Anti-kickback Statute.

(f) **Quality Assurance.** As part of PPH's overall quality assurance and utilization review programs, Contractor shall establish procedures to ensure the consistency and quality of all items and services it provides pursuant to this Agreement and shall additionally participate in the overall quality assurance and utilization review programs of the PPH's Committee in accordance with the PPH's bylaws and rules.

(g) **Records and Reports.** In a timely manner, Contractor shall prepare or cause to be submitted to PPH a record of each use of the Equipment rendered pursuant to this Agreement. Contractor shall prepare and file such additional or supplementary reports as PPH may reasonably request and be prepared to analyze and interpret such reports upon the request of PPH.

(h) **PPH's Provider-Based Status.** Contractor will take reasonable actions to assist PPH in maintaining the PPH's provider-based status with respect to the use of the Equipment in accordance with Medicare standards and regulations, including 42 C.F.R. § 413.65.

(i) **PPH's Licenses and Accreditations.** Contractor will take reasonable actions to assist the PPH in maintaining the PPH's licenses and accreditations that are necessary to operate a PPH, or to participate in the Medicare, Medicaid or any other state or federal health care program.

(j) **Medical Director.** Upon the request of PPH, Contractor shall make available a medical director, who shall be a board-certified radiation oncologist or neurosurgeon. Such medical director will execute a separate medical director contract with Contractor, which shall provide for a fair market value hourly fee to be paid to the medical director for documented hours of service.

(k) **Representations and Warranties of Contractor.** Contractor represents and warrants to PPH on the Commencement Date and while this Agreement is in effect, as follows:

(i) Neither Contractor nor any of Contractor's physician owners have been suspended, excluded, barred from or sanctioned under the federal health care programs as defined in 42 U.S.C. § 1320a-7b(f) (the "Federal Health Care Programs"), nor have they ever been convicted of a criminal offense related to the provisions of health care items or services but not yet suspended, excluded, barred from or sanctioned under the Federal Health Care Programs; and

(ii) Neither Contractor nor, to Contractor's knowledge, any of Contractor's physician owners are the subject of any investigation, and Contractor is not otherwise aware of any circumstances which may result in Contractor or any of its physician owners being excluded from participation in the Federal Health Care Programs.

The foregoing representations and warranties shall be ongoing representations and warranties during the term of this Agreement, and Contractor shall immediately notify PPH of any change in the status of the foregoing representations and warranties. Contractor shall have thirty (30) days following a change in the status of the foregoing to cure any breach of the foregoing representations or warranties. Upon any such cure being effected, Contractor will not be in breach of this Agreement for any purpose.

(l) **PPH Policies and Procedures.** Contractor will comply with all applicable policies and procedures of PPH.

5. **PPH'S RESPONSIBILITIES**

(a) **Technical Personnel.** All technical personnel necessary to perform procedures with the Equipment (the "Technical Personnel"), and any other staff involved in the delivery of patient care related to the Equipment, are, and at all times shall remain employees of PPH. The parties acknowledge and agree that the Technical Personnel shall consist of the number and types of employees identified on Schedule C, attached hereto, and that the maximum annual salaries of such Technical Personnel shall be as listed in such Schedule. PPH shall have the sole authority to recruit, fire, train, promote, assign, supervise, discharge and set the compensation level for all Technical Personnel (as long as the salaries set by PPH are less than or equal to the maximum salaries listed in Schedule C, with any salary in excess of such maximum amount requiring the consent of Contractor to amend such maximum amounts in Schedule C). Notwithstanding the foregoing, annual salaries are subject to adjustment on a periodic basis for changes in, including but not limited to, market conditions, merit awards, cost of living adjustments consistent with PPH's overall pay practices which Contractor acknowledges and agrees shall constitute an adjustment to Schedule C. In addition, notwithstanding the foregoing, all Technical Personnel must be reasonably acceptable to Contractor, and PPH shall reduce or increase the number of Technical Personnel upon Contractor's request. All Technical Personnel who provide services pursuant to this Agreement shall be duly licensed and qualified to provide such services.

(b) **Consumables.** PPH shall provide, at its sole cost and expense, all supplies and other items necessary for the use and operation of the Equipment and delivery of procedures utilizing the Equipment.

(c) **Transportation.** PPH shall provide transportation from the PPH to the Site and back for PPH's patients receiving the Services, upon the request of patients.

(d) **Patient Scheduling, Registration and Reception.** PPH shall provide necessary registration and reception services for PPH's patients receiving the Services in accordance with its standard policies. PPH shall provide necessary scheduling services for PPH's patients receiving the Services in accordance with its standard policies, subject to the reasonable review and approval of Contractor.

(e) **Billing and Collection.** PPH shall have the sole right to bill and collect from patients and third party payors for all technical fees for stereotactic radiosurgery and related services provided to PPH patients, as well as all billable items and supplies provided to PPH's patients and shall bill for such items and services in its name and using its Medicare and other provider numbers. Contractor shall not bill or collect any amounts from patients or third party payors for any items or services Contractor will provide to PPH pursuant to this Agreement.

(f) **Medical Records.** PPH shall cause to be maintained complete and timely medical records for each patient treated by the Equipment, which medical records must include, but not be limited to, diagnoses, medical history, physician's orders and progress notes related to the services received, in accordance with its medical records policy. Such records shall be the property of PPH.

(g) **Radioactive License.** Before the Commencement Date, PPH shall add the Site to its existing radioactive license issued by the State of California (the "Radioactive License"). PPH agrees to pay all fees applicable to PPH's holding of the Radioactive License.

(h) **PPH's Maintenance of Site.** PPH shall be responsible for any damage caused by PPH to the Site, reasonable wear and tear excepted. PPH shall not permit undue accumulations of its garbage, trash, rubbish or other refuse within the Site and shall keep all refuse in proper containers until disposal of such refuse.

(i) **PPH's Professional Responsibility for Services Rendered.** PPH shall exercise professional responsibility over the arrangement for the Services. PPH shall accept, admit and process patients treated by the Equipment in accordance with its standard PPH admission policies. PPH shall apply the same quality controls (including medical necessity and utilization reviews) to stereotactic services provided by PPH at the Site as it applies to stereotactic radiosurgery services otherwise provided by PPH. PPH shall maintain a liaison with each patient's attending physician regarding the progress of the patient and the need for revised orders.

(j) **Representations and Warranties of PPH.** PPH represents and warrants to Contractor on the Commencement Date and while this Agreement is in effect, as follows:

(i) To PPH's knowledge, no license or certification to provide services in the State of California, or in any other jurisdiction, of any Technical Personnel has

ever been denied, suspended, revoked, terminated, voluntarily relinquished under threat of disciplinary action or restricted in any way;

(ii) No medical staff privileges at any health care facility of any Technical Personnel have, to PPH's knowledge, ever been denied, suspended, revoked, terminated, voluntarily relinquished under threat of disciplinary action or made subject to terms of probation or any other restriction;

(iii) Neither PPH nor, to PPH's knowledge, any Technical Personnel has ever been suspended, excluded, barred from or sanctioned under the Federal Health Care Programs, nor have they ever been convicted of a criminal offense related to the provision of health care items or services but not yet suspended, excluded, barred from or sanctioned under the Federal Health Care Programs; and

(iv) Neither PPH nor, to PPH's knowledge, any Technical Personnel, are the subject of any investigation, and PPH is not otherwise aware of any circumstances which may result in PPH or any Technical Personnel being excluded from participation in the Federal Health Care Programs.

The foregoing representations and warranties shall be ongoing representations and warranties during the term of this Agreement, and PPH shall immediately notify Contractor of any change in the status of the foregoing representations and warranties. PPH shall have thirty (30) days following a change in the status of the foregoing to cure any breach of the foregoing representations or warranties, which cure may include, without limitation, the discharge of any Technical Personnel who cause the representations and warranties to be incorrect. Notwithstanding the foregoing, if PPH learns that any Technical Personnel have been convicted of a criminal offense related to health care, or listed by a federal agency as debarred, excluded or otherwise ineligible for Federal Health Care Program participation, PPH agrees to discharge such Technical Personnel as soon as reasonably practicable, not to exceed three business days from when PPH has received conclusive evidence of such conviction or other ineligibility. Upon any such cure being effected, PPH will not be in breach of this Agreement for any purpose.

6. ASSIGNMENT AND SUBLETTING

Except in connection with (i) the sale of all or substantially all of either party's assets, or (ii) the assignment of this Agreement to an affiliate of either party, neither Contractor nor PPH, except to a successor entity of PPH, may assign this Agreement or any interest herein without the written consent of the other party hereto. Any consent to assignment shall not be deemed a consent to any subsequent assignment. Contractor may only assign this Agreement on terms and conditions consistent with Contractor's Operating Agreement and Space Lease Agreement with PPH of even Date. Contractor may pledge, mortgage or grant a security interest in the Equipment only and not the real property improvements. Any such pledge, mortgage or security interest shall be subject to the terms and conditions hereof, including but not limited to the right to the use of the Equipment by PPH as set forth herein. PPH, by reason of such pledge, mortgage or security interest, shall not be relieved of any of its obligations hereunder.

7. EQUIPMENT

(a) **Title to Equipment.** The title to the Equipment shall be and remain in Contractor, subject only to PPH's right of use in the normal operation of the Site. The Equipment is and shall remain the personal property of Contractor even if installed or embedded in, permanently resting on or attached in any manner to real property or improvements thereon. Nothing herein shall be construed as conveying to PPH any right, title or interest in or to the Equipment except the express rights of PPH with respect to use of the Equipment, as described herein. At PPH's sole cost and expense, PPH shall: (i) protect and defend Contractor's ownership of and title to the Equipment from and against all persons claiming against or through PPH; (ii) at all times keep the Equipment free from any and all liens, encumbrances, attachments, levies, executions, burdens, charges or legal processes imposed against PPH; (iii) give Contractor immediate written notice of any claim against the Equipment or any other matter described in clause (ii) after PPH becomes aware thereof; (iv) execute any agreements, documents, acknowledgments and certifications (including but not limited to "landlord's waivers") as Contractor shall request from time to time in the course of Contractor's business to evidence that PPH (A) holds no interest (legal or beneficial) in the Equipment, and (B) will permit any lender (or its assigns) to Contractor to remove at no cost to such lender or its assigns the Equipment pursuant to any agreement with Contractor, and (v) in the manner described in Section 14, indemnify and hold Contractor harmless from and against any loss, damage, fine, cost and expense (including reasonable attorney's fees) with respect to any of the foregoing.

(b) **Additions to Equipment.** Contractor shall advise PPH with respect to the selection of additional and replacement equipment, which shall be provided by Contractor at Contractor's sole expense. All replacement parts, modifications, repairs, alterations, additions, accessories and operating controls incorporated in or affixed to the Equipment (herein collectively called the "additions" and included in the definition of "Equipment"), whether before or after the commencement of the term of this Agreement, shall become the sole and exclusive property of Contractor upon being incorporated or affixed, and shall be returned to Contractor upon the termination of this Agreement.

8. LOSS OR DAMAGE

(a) **Risk of Loss.** Contractor assumes and shall bear the entire risk of loss, damage, theft or destruction of the Equipment, or any portion thereof, from any and every cause whatsoever. PPH shall promptly notify Contractor in writing of any loss, damage, theft or destruction of any item of the Equipment after PPH becomes aware thereof.

(b) **Repair or Replacement.** In the event of any such loss, damage, theft or destruction of the Equipment (a "Loss Event"), Contractor, at the option of Contractor, shall (i) promptly place, at Contractor's expense, the Equipment in good repair, condition and working order to the satisfaction of Contractor; or (ii) promptly replace, at Contractor's expense, the Equipment with like equipment of the same or a later model and specifications, with the same additions, in good repair, condition and working order in accordance with manufacturer standards.

9. INSURANCE

(a) **By Contractor.** During the term of this Agreement (including any renewal terms), Contractor shall maintain in full force and effect the following minimum insurance coverages:

(i) a policy of property damage insurance and fire and extended coverage insurance insuring the Equipment and the real property improvements made to the Site against loss from fire or other casualty normally included within "all risk" or "ISO Special Form of Loss" coverages for not less than the full replacement value thereof. Contractor shall further name PPH as an additional insured and loss payee as its interest may appear.

(ii) commercial liability insurance for bodily injury, death and property loss and damage (including coverages for product liability, contractual liability and personal injury liability) covering Contractor for claims, lawsuits or damages arising out of its performance under this Agreement, and any negligent or otherwise wrongful acts or omissions by Contractor or any officer, director, employee, contractor or agent of Contractor, with PPH listed as an additional insured. All such policies of insurance may be provided on either an occurrence or claims-made basis, and shall provide limits of liability in amounts not less than three million dollars (\$3,000,000) per occurrence with a minimum annual aggregate of five million dollars (\$5,000,000). If such coverage is provided on a claims-made basis, such insurance shall continue throughout the term of the Agreement and, upon the termination of this Agreement, or the expiration or cancellation of the insurance, Contractor shall purchase or arrange for the purchase of, either an unlimited reporting endorsement ("Tail" Coverage) or "Prior Acts" coverage from the subsequent insurer, with a retroactive date on or prior to the Commencement Date.

Contractor shall be liable for any deductible portions of all such insurance. On or prior to the Commencement Date and thereafter at PPH's request, Contractor, or Contractor's agent, shall provide PPH with a copy of all such policies and/or certificates of insurance satisfactory to PPH, evidencing the existence of all coverage required hereunder. Contractor shall provide, or shall require its insurance carriers or agents to provide, PPH with not less than thirty (30) days prior written notice in the event of a change in the liability policies of Contractor. Contractor represents and warrants that it is not aware of any claims pending against any of the insurance coverages described above, any reservation of rights or other policy disputes concerning any such coverage or any notification that any such coverage is subject to not being renewed or otherwise terminated. Contractor will immediately notify PPH if it learns of any of the foregoing circumstances.

(b) **By PPH.** During the term of this Agreement (including any renewal terms), PPH shall maintain in full force and effect professional liability coverage covering the Site and the use or operation of the Equipment. The PPH professional liability coverage shall provide limits of liability in the minimum amount of three million dollars (\$3,000,000) per occurrence with a minimum annual aggregate of five million dollars (\$5,000,000). Such policies shall name Contractor as an additional insured party. If such coverage is provided on a claims-made basis, such insurance shall continue throughout the term of the

Agreement and, upon the termination of this Agreement, or the expiration or cancellation of the insurance, PPH shall purchase or arrange for the purchase of, either an unlimited reporting endorsement ("Tail" Coverage) or "Prior Acts" coverage from the subsequent insurer, with a retroactive date on or prior to the Commencement Date. PPH shall also maintain in effect worker's compensation and disability insurance for the Technical Personnel in compliance with applicable state and local laws and regulations and employer liability insurance in an amount consistent with PPH's personnel practices as afforded to all of its personnel. On or prior to the Commencement Date and thereafter at Contractor's request, PPH or PPH's agent shall provide Contractor with certificates of insurance satisfactory to Contractor, evidencing the existence of all required coverage hereunder. PPH shall be liable for any deductible portions of all such insurance. PPH shall provide, or shall require its insurance carriers or agents to provide, Contractor with not less than thirty (30) days prior written notice in the event of a change in the liability policies of PPH. PPH represents and warrants that it is not aware of any notification that any such coverage is subject to not being renewed or otherwise terminated. PPH will immediately notify Contractor if it learns of such nonrenewal or termination.

10. TAXES AND OTHER FEES

All taxes, assessments, licenses and other charges (including, without limitation, all rental, sales, use, excise, ad valorem, stamp, documentary and personal property taxes or other similar taxes and penalties and interest on such taxes), if any, imposed, levied or assessed on the ownership, possession, rental or use of the Equipment during the term of this Agreement or any other fee or payment due under this Agreement shall be paid by Contractor before the same shall become delinquent, whether such taxes are assessed or would ordinarily be assessed against Contractor or PPH. PPH agrees to cooperate with Contractor in filing all such returns and in obtaining any available exemption.

11. EVENTS OF DEFAULT

An event of default ("Event of Default") shall occur hereunder: (i) by PPH, if PPH, without Contractor's written consent, fails to pay any Charges or other payment required hereunder within ten (10) business days from the date such payment is due; (ii) by Contractor, if Contractor, without PPH's written consent, fails to pay any Technical Personnel Expenses or other payment required hereunder within ten (10) business days from the date such payment is due; (iii) by either Contractor or PPH, if the other party fails to perform or observe any other material covenant, condition or agreement to be performed or observed by it hereunder or breaches a representation or warranty set forth herein, and such failure or breach shall continue unremedied for a period of thirty (30) days after being provided written notice of such breach by the other party; or (iv) by either Contractor or PPH, if the other party makes an assignment for the benefit of creditors, whether voluntary or involuntary, or if a petition is filed by or against such party under any bankruptcy, insolvency or other consumer legislation, unless such petition is set aside, withdrawn or ceases to be in effect within ninety (90) days of the date of filing. If, upon expiration of the applicable cure period described in (ii) above, the breaching party is still diligently pursuing effectuation of such a cure, or has diligently attempted to effect such a cure but cannot complete such cure because of the failure of a third party (such as a governmental agency) to act within such cure period, then, at the option of the non-breaching party, the breaching party shall have a reasonable time beyond such cure period (but no later than sixty (60)

days following the date written notice of such breach is provided) to complete its cure of the alleged event of default.

12. REMEDIES/TERMINATION

(a) **Upon Event of Default.** Upon the occurrence of any Event of Default, the non-breaching party may, in its sole discretion, do any one or more of the following: (i) upon notice to the breaching party, if the breaching party fails to cure such default within the applicable cure period (if any) described in Section 11 above, terminate this Agreement; (ii) exercise any other right or remedy which may be available to it under this Agreement, the Uniform Commercial Code or any other applicable law; (iii) proceed by appropriate court action, to enforce the terms hereof or to recover damages for the breach hereof; or (iv) pursue any other remedy at law or in equity. In addition, the breaching party shall be liable for all reasonable legal fees and other costs and expenses reasonably resulting from the foregoing defaults or the exercise of the non-breaching party's remedies. No remedy referred to in this Section is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to the non-breaching party at law or in equity. Notwithstanding the foregoing, in no event shall either party be entitled to punitive damages.

(b) **Immediate Termination by PPH.** PPH may terminate this Agreement immediately by written notice to Contractor upon the occurrence of any of the following events:

(i) Contractor's failure to make a timely disclosure required pursuant to Section 4(k) or Section 34 hereof;

(ii) Contractor's failure to maintain the insurance required under this Agreement;

(iii) Contractor's conviction of a criminal offense related to health care, or Contractor's listing by a Federal Health Care Program as being debarred, excluded, suspended or otherwise ineligible for Federal Health Care Program participation; or

(iv) Contractor's failure to obtain within one hundred twenty (120) days of the Commencement Date, or maintain, any licensure or regulatory approvals necessary to operate the Site under federal, state or local law.

(c) **Immediate Termination by Contractor.** Contractor may terminate this Agreement immediately by written notice to PPH upon the occurrence of any of the following events:

(i) PPH's failure to make a timely disclosure required pursuant to Section 5(j) or Section 34 hereof;

(ii) PPH's failure to obtain, or maintain, unrestricted licenses or accreditation necessary to operate a PPH, or to participate in the Medicare, Medicaid or any other state or federal health care program;

(iii) PPH's failure to maintain the insurance required under this Agreement; or

(iv) PPH's conviction of a criminal offense related to health care, or PPH's listing by a Federal Health Care Program as being debarred, excluded, suspended or otherwise ineligible for Federal Health Care Program participation.

(d) **Effect of Termination.** Except as provided in Section 13(d) below, in the event of termination of this Agreement, neither party shall have any further obligation hereunder, except for obligations accruing prior to the date of termination and obligations by their nature extending beyond the date of termination. The expiration or earlier termination of this Agreement will not affect the rights of either party to damages based on any breach by the other party prior to such expiration or termination, or indemnification pursuant to the provisions of Section 14.

13. **ADVERSE OUTCOME**

(a) **Legal Event; Consequences.** Notwithstanding any other provision of this Agreement, if the governmental agencies that administer the Medicare, Medicaid or other federally funded programs (or their representatives or agents), or any other federal, state or local governmental or non-governmental agency, or any court or administrative tribunal passes, issues or promulgates any law, rule, regulation, standard, interpretation, guidance, order, opinion, decision or judgment, including, but not limited to, those relating to any regulations pursuant to state or federal anti-kickback or self-referral statutes (collectively or individually, a "Legal Event"), which, in the good faith judgment of one party (the "Noticing Party"), will cause this Agreement or the arrangement contemplated hereby to materially and adversely affect either party's licensure, accreditation, certification, tax exempt status in the case of the PPH or ability to refer, to accept any referral, to bill, to claim, to present a bill or claim, or to receive payment or reimbursement from any federal, state or local governmental or non-governmental payor, or which subjects the Noticing Party to a risk of prosecution or civil monetary penalty or which shall have the effect of limiting reimbursement of health care costs through government or other payor programs or otherwise materially and adversely affects the manner in which either party shall operate their business (an "Adverse Outcome"), then the Noticing Party may give the other party notice of intent to amend or terminate this Agreement in accordance with Section 13(b) below.

(b) **Notice Requirements.** The Noticing Party shall give notice to the other party together with an opinion of counsel setting forth the following information: (i) the Legal Event(s) giving rise to the notice; (ii) the Adverse Outcome resulting from the Legal Event(s) as to the Noticing Party and legal counsel's opinion that it is more likely than not that such Adverse Outcome will result; (iii) the Noticing Party's proposed amendment(s), if applicable and (iv) the Noticing Party's request for commencement of the Renegotiation Period (as defined below).

(c) **Renegotiation Period; Termination**. The parties hereto agree to use their commercially reasonable efforts to restructure their relationship to avoid the Adverse Outcome resulting from the Legal Event and, to the extent possible, to preserve the existing financial and business relationships between Contractor and PPH. If, despite their commercially reasonable efforts, after a period of ninety (90) days during which the parties have in good faith attempted but have been unable to restructure their relationship (the "Renegotiation Period"), then either party may terminate this Agreement on any future date by giving 30 days' written notice to the other party.

14. **INDEMNITY**

Each party shall indemnify and hold harmless the other party (which, for purposes of this paragraph only, shall include all of its agents, directors, officers, employees and contractors) from and against any and all claims, losses, damages, causes of action, liabilities and expenses, including, without limitation, attorney's fees, relating to or arising out of, directly or indirectly, any injury, death or other loss or damage that results from or arises out of or in connection with, in whole or part, directly or indirectly, (i) any breach by the indemnifying party of any provision of this Agreement or (ii) negligence or willful misconduct by the indemnifying party. Neither party assumes any liability or responsibility for the negligence of the other. Each party understands and agrees that this indemnity provision is in no way intended to reduce or eliminate any insurance coverage maintained by either party. The obligations set forth in this Section 14 shall survive the expiration or earlier termination of this Agreement.

15. **COVENANTS TO RUN TO SUCCESSORS**

Subject to the restrictions set forth in Section 6 hereof, it is hereby covenanted and agreed between the parties hereto that all covenants, conditions, agreements and undertakings contained in this Agreement shall extend to and be binding upon the respective successors and assigns of the respective parties hereto to the same extent as if they were in every case named and expressed.

16. **NOTICES**

All notices required or permitted under this Agreement shall, unless otherwise specifically provided herein, be in writing, and shall be deemed effective (i) when actually delivered to the following addresses, (ii) three (3) days after deposit in the U.S. mail, prepaid and certified, to the following addresses or (iii) when sent by facsimile transmission to the following facsimile telephone numbers:

Contractor: San Diego Radiosurgery, LLC
c/o NeoSpine, LLC
40 Burton Hills Boulevard, Suite 320
Nashville, Tennessee 37215
Attention: Gregory E. Spurlock
Fax: (615) 665-8228

with a copy to: Waller Lansden Dortch & Davis, LLP
511 Union Street, Suite 2700
Nashville, Tennessee 37219
Attention: Joseph A. Sowell, III, Esq.
Fax: (615) 244-6804

PPH: Palomar Pomerado Health
15255 Innovation Drive
San Diego, California 92128
Attention: Chief Legal Counsel
Fax: (858) 675-5460

Either party may change its address to which notices shall be sent by a notice similarly sent.

17. ATTORNEY'S FEES

If any action at law or in equity is brought to enforce any of the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief.

18. ENTIRE AGREEMENT; AMENDMENTS

This Agreement constitutes the entire agreement between the parties with respect to the services described herein and supersedes any and all prior agreements, either oral or written, between the parties with respect to the subject matter hereof. This Agreement may be amended or modified only in writing signed by each of the parties hereto.

19. ENFORCEABILITY

In the event that any of the provisions of this Agreement are held to be invalid or unenforceable by any court of competent jurisdiction, the remaining provisions hereof shall not be affected thereby. The parties further agree that if any provision contained herein is, to any extent, held invalid or unenforceable in any respect under the laws governing the Agreement, they will take any actions necessary to render the remaining provisions of this Agreement valid and enforceable to the fullest extent permitted by law and, to the extent necessary, will amend or otherwise modify this Agreement to replace any provision contained herein that is held invalid or unenforceable with a valid and enforceable provision giving effect to the intent of the parties.

20. CONSTRUCTION

Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in the masculine, the feminine or the neuter gender shall include the masculine, feminine and neuter. The term "person" means any individual, corporation, partnership, limited liability company, trust or other entity. Every covenant, term and provision of this Agreement shall

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be construed simply according to its fair meaning and not strictly for or against either party.

21. CAPTIONS

Captions contained in this Agreement are inserted only as a matter of convenience and in no way define, limit or extend the scope or intent of this Agreement or any provision hereof.

22. COUNTERPART EXECUTION; FACSIMILE EXECUTION

Separate copies of this Agreement may be executed by the parties hereto, with the same effect as though all parties had signed the same copy of this Agreement. Signatures on this Agreement transmitted by facsimile shall be accepted as original signatures.

23. WEEKENDS AND HOLIDAYS

If any due date contained herein falls on a Saturday, Sunday or bank holiday, the due date shall be deemed to be the following business day.

24. WAIVER

Failure by either party to enforce any of the provisions hereof for any length of time shall not be deemed a waiver of its rights set forth in this Agreement. Such a waiver may be made only by an instrument in writing signed by the party sought to be charged with the waiver. No waiver of any condition or covenant of this Agreement shall be deemed to imply or constitute a further waiver of the same or any other condition or covenant, and nothing contained in this Agreement shall be construed to be a waiver on the part of the parties of any right or remedy at law or in equity or otherwise.

25. TIME

Time is of the essence with respect to all provisions of this Agreement.

26. WAIVER OF JURY TRIAL

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO DEMAND THAT ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE RELATIONSHIPS OF THE PARTIES HERETO BE TRIED BY JURY. THIS WAIVER EXTENDS TO ANY AND ALL RIGHTS TO DEMAND A TRIAL BY JURY ARISING FROM ANY SOURCE INCLUDING, BUT NOT LIMITED TO, THE CONSTITUTION OF THE UNITED STATES OR ANY STATE THEREIN, COMMON LAW OR ANY APPLICABLE STATUTE OR REGULATIONS. EACH PARTY HERETO ACKNOWLEDGES THAT IT IS KNOWINGLY AND VOLUNTARILY WAIVING ITS RIGHT TO DEMAND TRIAL BY JURY.

27. REGULATORY REQUIREMENTS

The parties expressly agree that nothing contained in this Agreement shall require either party, its owners, affiliates, agents or employees to refer any patients to the other party or any affiliate of the other party, to use the Equipment or to otherwise generate business for the other party. The parties further acknowledge that Contractor, Technical Personnel and Contractor's owner physicians are not restricted from establishing staff privileges at, referring any patient to, or otherwise generating any business for, any other PPH or facility of their choosing. Further, no provision in this Agreement nor any consideration paid in connection with this Agreement is intended to induce, encourage, solicit, arrange for or reimburse the referral of any patients or business, including any patients or business funded in whole or in part by state or federal health care programs (including, but not limited to, Medicare, Medicaid and TriCare). The parties acknowledge and agree that there is no requirement under this Agreement or any other agreement between PPH and Contractor that either PPH or Contractor, or any of their respective owners, employees, agents or affiliates, refer patients to each other or any of their respective owners or affiliates. The parties further agree that the benefits under this Agreement do not require, are not payment for and are not in any way contingent upon the admission, referral or other arrangement for the provision of any item or service reimbursed in whole or in part by any state or federal health care program. Notwithstanding any unanticipated effect of any provision of this Agreement, neither party will knowingly or intentionally conduct itself in such a manner as to violate any applicable state, local and federal laws, including without limitation the Medicare/Medicaid Anti-fraud and Abuse Amendments and Section 1877 of the Social Security Act.

28. NO THIRD-PARTY BENEFICIARIES

This Agreement is not intended to benefit, does not benefit and may not be enforced by any person or entity other than the parties hereto.

29. GOVERNING LAW

This Agreement is made under, and shall be interpreted and enforced in accordance with, the laws of the State of California, without giving effect to those principles of conflict of laws which might otherwise require the application of the laws of another jurisdiction.

30. FORCE MAJEURE

Neither party shall be liable to the other for nonperformance or defective or late performance of any of its obligations under this Agreement to the extent and for such periods of time as such nonperformance, defective performance or late performance is due to acts of God, fire, flood, strikes, industrial disturbances, accidents, war (declared or undeclared), riots, acts of terrorism, revolution, explosions, sabotage, nuclear incidents, lightning, weather, earthquakes storms, sinkholes, epidemics, action of any governmental authority or other causes beyond the reasonable control of the pertinent party, so long as such performance is commenced as soon as reasonably possible after the cessation of the cause of the failure to perform.

31. CONFIDENTIALITY OF INFORMATION

To the extent permissible by law, each party to this Agreement will hold in confidence, and not use to the detriment of the other party, and will cause its representatives to hold in confidence, and not use to the detriment of the other party or its affiliates, any confidential or proprietary information ("Confidential Information") it receives regarding such party or its affiliates arising out of or in connection with this Agreement. Failure to mark information as confidential or proprietary will not affect its status as Confidential Information. Each party shall not, at any time, discuss or disclose any of the Confidential Information to any third party or take any action that could compromise the confidentiality of the Confidential Information without the written consent of the other party. The obligations of the parties with respect to Confidential Information will not apply to the extent that (i) any such information was already known to such party or other others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, or (ii) the disclosure of such information is required by applicable law, provided, however, that prior to disclosing such Confidential Information, a party must notify the other party thereof, which notice will include the basis upon which such party believes the information is required to be disclosed. Upon termination of this Agreement, the restrictions on the parties' use of Confidential Information as provided herein will continue in effect, and neither party will take or retain, without prior written authorization from the other party, any papers, patients lists, fee schedules, patient records, files or other documents or copies thereof or other Confidential Information of any kind belonging to the other party. Except for disclosure to the other party's legal counsel, accountant or financial advisors, neither party shall disclose the terms of this Agreement to any person who is not a party or signatory to this Agreement, unless disclosure thereof is required by law or otherwise authorized by this Agreement or consented to by the other party. The parties acknowledge and agree that each party would be damaged irreparably in the event of a breach of this Section 31 and that any such breach could not be adequately compensated by monetary damages. Accordingly, each party agrees that, in addition to any other right or remedy to which the parties may be entitled, at law or in equity, each party will be entitled to enforce this Section 31 by temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of this Section 31, without posting any bond or other undertaking.

32. HIPAA

The parties shall only use or disclose Protected Health Information (as such term is defined by the Standards for Privacy of Individually Identifiable Health Information, 45 C.F.R. Part 160 and Subparts A and E of Part 164 (the "Privacy Standards"), as promulgated by the Department of Health and Human Services pursuant to the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996) in compliance with the Privacy Standards and other applicable law and shall reasonably safeguard the confidentiality, integrity and availability of Protected Health Information as required by the Privacy Standards and the Security Standards (45 C.F.F. Part 160 and Subparts A and E of Part 164). In the event that Protected Health Information is disclosed by a party or its agents to the other party, its employees, contractors, subcontractors or agents, such other party agrees to take reasonable steps to maintain, and to require its employees, contractors, subcontractors and agents to maintain, the privacy and confidentiality of such Protected Health Information

consistent with applicable law. Upon request of PPH, Contractor shall execute a business associate agreement with PPH in a form reasonably acceptable to PPH.

33. ACCESS TO RECORDS.

As and to the extent required by law, upon the written request of the Secretary of Health and Human Services, the Comptroller General or any of their duly authorized representatives, each party shall make available those contracts, books, documents and records necessary to verify the nature and extent of the costs of providing services under this Agreement. Such inspection shall be available for up to four (4) years after the rendering of such services. If either party is requested to disclose books, documents or records pursuant to this Section for any purpose, the disclosing party shall notify the other party of the nature and scope of such request, and the disclosing party shall make available, upon written request of the other party, all such books, documents or records. Each party shall indemnify and hold harmless the other party if any amount of reimbursement is denied or disallowed because of a party's failure to comply with the obligations set forth in this Section. Such indemnity shall include, but not be limited to, the amount of reimbursement denied, plus any interest, penalties and legal costs. If either party carries out any of the duties of this Agreement through a subcontract with a value of \$10,000.00 or more over a twelve (12) month period with a related individual or organization, such party agrees to include this requirement in any such subcontract. This Section is included pursuant to and is governed by the requirements of 42 USC §1395x(v)(1) and the regulations related thereto. No attorney-client, accountant-client or other legal privilege will be deemed to have been waived by either party by virtue of this Agreement.

34. REQUIRED DISCLOSURES

Each party shall notify the other party in writing within three (3) days after any of the following events occur: (i) an event occurs that substantially interrupts all or a portion of such party's operations or that materially adversely affects a party's ability to perform its obligations hereunder; or (ii) such party's, or its owners or employees, conviction of a criminal offense related to health care or such party's, or its owners or employees, listing by a federal agency as being debarred, excluded or otherwise ineligible for participation in a Federal Health Care Program.

35. INDEPENDENT ORGANIZATIONS.

PPH and Contractor intend to act and perform as independent contractors pursuant to this Agreement. The relationship between PPH and Contractor is solely that of two independent parties contracting with each other at arm's-length for the purpose of effectuating the terms of this Agreement. None of the provisions of this Agreement are intended to create or shall be deemed or construed to create, any other relationship. Except as specifically set forth in this Agreement, neither party nor its agents, employees or representatives shall be deemed the agent, employee or representative of the other party, and no joint venture or partnership shall result from this Agreement. Each party shall be responsible for and shall comply with all state and federal laws pertaining to employment taxes, income withholding, unemployment compensation contributions and other employment-related statutes applicable to that party. Contractor shall have no authority, or represent that it has authority, to act on behalf of PPH. Contractor shall act at all times

under this Agreement as an independent contractor. The provisions of this Section shall survive expiration or other termination of this Agreement, regardless of the cause of such expiration or termination.

[Signature page follows.]

IN WITNESS WHEREOF, Contractor and PPH have executed this Agreement as of the latest date this Agreement is executed by any party as set forth on the signature page below.

CONTRACTOR:

San Diego Radiosurgery, LLC

By: _____

Title: _____

Date: _____

PPH:

PALOMAR POMERADO HEALTH

By: _____

Title: _____

Date: _____

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Schedule A

Equipment

[Insert description of Trilogy system] including a description of the real property improvements made.

Schedule B

Charges

\$ _____ per patient per tumor

Schedule C

Technical Personnel

Number

Position Type

Maximum Annual Salary

THE MEMBERSHIP INTERESTS CREATED BY THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAW. EXCEPT AS SPECIFICALLY OTHERWISE PROVIDED IN THIS AGREEMENT, THE INTERESTS MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT REGISTRATION UNDER SUCH ACTS OR AN OPINION OF COUNSEL THAT SUCH TRANSFER MAY BE LEGALLY EFFECTED WITHOUT SUCH REGISTRATION. ADDITIONAL RESTRICTIONS ON TRANSFER AND SALE ARE SET FORTH IN THIS AGREEMENT.

OPERATING AGREEMENT

OF

_____, LLC

(a Delaware Limited Liability Company)

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OPERATING AGREEMENT

OF

_____, LLC
(a Delaware Limited Liability Company)

THIS OPERATING AGREEMENT ("Agreement") is entered into and shall be effective as of the ____ day of _____, 2007 (the "Effective Date"), by and among each person named as a Member on Exhibit A attached hereto and all other persons who may hereafter become Members under the terms of this Agreement.

WITNESSETH:

WHEREAS, the Company was formed on _____, 2007 as a limited liability company under and pursuant to the Delaware Limited Liability Company Act; and

WHEREAS, the Members desire to set forth herein their respective relationships, rights, obligations and agreements with respect to the Company and the governance thereof.

NOW, THEREFORE, in consideration of the mutual promises, covenants and undertakings hereinafter contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

1. **DEFINITIONS.**

As used herein the following terms have the following meanings:

1.1. "**Act**" means the Delaware Limited Liability Company Act, 6 De. C. § 18-101, *et seq.*, as amended from time to time.

1.2. "**Adjusted Capital Contribution**" shall mean the Capital Contribution (as defined below) of a Member reduced, but not below zero, by cash distributions to such Member and tax losses allocated to such Member. A substitute Member shall succeed to the Adjusted Capital Contribution of his predecessor.

1.3. "**Affiliate**" means, with respect to any Person, (i) any person directly or indirectly controlling, controlled by or under common control with such Person; (ii) any person owning or controlling ten percent (10%) or more of the outstanding voting securities of such Person; (iii) any officer, director, member or partner of such Person; (iv) any company in which such Person is an officer, director, member or partner; and (v) in the case of a Class A Member, also includes (a) a Family Member of such Class A Member; (b) any trust for the benefit of a Class A Member; (c) any Affiliate of a Family Member of such Class A Member; and (d) any professional corporation, professional association, professional limited liability company or other professional entity through or on behalf of which the Class A Member provides medical services.

1.4. "**Agreement**" means this Operating Agreement of _____, LLC, including all Exhibits hereto, as such Agreement or Exhibits may be amended from time to time pursuant to Section 16.2 hereof.

1.5. **“Approval of the Governing Board,”** **“Approved by the Governing Board”** and similar expressions mean approval given by not less than a majority of the total number of Governors; provided, however, that in the event of a deadlock (two-to-two vote), the Class B Governors shall have the right to cast the deciding vote.

1.6. **“Approval of the Members”** or **“Approved by the Members”** means the approval of the holders of each of (i) a majority of the Class A Units and (ii) a majority of the Class B Units.

1.7. **“Bankruptcy”** means, as to any Member, the Member’s taking or acquiescing to the taking of any action seeking relief under, or advantage of, any applicable debtor relief, liquidation, receivership, conservatorship, bankruptcy, moratorium, rearrangement, insolvency, reorganization or similar law affecting the rights or remedies of creditors generally, as in effect from time to time. For the purpose of this definition, the term “acquiescing” shall include, without limitation, the failure to file within the time specified by law, an answer or opposition to any proceeding against such Member under any such law and a failure to file, within thirty (30) days after its entry, a petition, answer or motion to vacate or to discharge any order, judgment or decree providing for any relief under any such law.

1.8. **“Capital Account”** means, as to each Member, an account which is increased by his Capital Contribution and allocations of Net Profit and items thereof to him and decreased by distributions and allocations of Net Loss and items thereof to him and otherwise maintained in accordance with the Code and Treasury Regulation Section 1.704-1(b) as determined necessary by the Managing Member so that such allocations in Article 5 of this Agreement are respected for federal income tax purposes.

1.9. **“Capital Contribution”** means of, or in respect of, any Member, the amount of all cash, notes, and the fair market value of other property, tangible or intangible, contributed by such Member to the capital of the Company.

1.10. **“Cash Available for Distribution”** means all cash funds of the Company on hand or in bank accounts beneficially owned by the Company, other than proceeds received from the sale of Units on or after the date hereof, less the sum of the following to the extent paid or set aside, in such amounts and for such time periods as the Managing Member reasonably determines to be appropriate, by the Company:

(a) All regularly scheduled principal and interest payments on indebtedness of the Company and all other sums paid to lenders;

(b) All cash expenditures incurred incidental to the operation of the Company’s business pursuant to the Company’s operating and capital budgets; and

(c) The Reserve.

1.11. **“Certificate of Formation”** means the Certificate of Formation of the Company filed with the Delaware Secretary of State, as amended or restated from time to time.

1.12. "**Class A Governors**" means the members of the Governing Board elected or appointed from time to time by the Class A Members holding a majority of the Class A Units, the number of which shall be determined pursuant to Section 12.1.

1.13. "**Class A Member**" means any Member who is not a Class B Member.

1.14. "**Class A Percentage Interest**" means, as to each Class A Member, the percentage obtained by dividing the number of Class A Units then owned by such Class A Member by the total number of Class A Units then owned by all Class A Members.

1.15. "**Class B Governors**" means the members of the Governing Board elected or appointed from time to time by the Class B Member, the number of which shall be determined pursuant to Section 12.1.

1.16. "**Class B Member**" means U.S. Radiosurgery of San Diego, LLC and/or any Affiliate thereof which holds any Units.

1.17. "**Code**" means the Internal Revenue Code of 1986, as amended from time to time. All references herein to Sections of the Code shall include any provision or any corresponding provisions of succeeding law.

1.18. "**Company**" means _____, LLC, a Delaware limited liability company, the business and affairs of which are governed by this Agreement.

1.19. "**Competing Business**" means any stereotactic radiosurgery program; provided, however, that nothing in this definition is intended to prevent any Class A Member from being a member of the medical staff of, or referring patients to, performing surgery at or generating business for another facility.

1.20. "**Confidential Information**" has the meaning set forth in Section 16.19.

1.21. "**Covered Persons**" has the meaning set forth in Section 12.8.

1.22. "**Defaulting Member**" has the meaning set forth in Section 10.2.1.

1.23. "**EBITDA**" means, with respect to any fiscal period, the sum of consolidated (i) net income before interest expense and taxes for such period (excluding extraordinary gains and losses and, to the extent not extraordinary, gains from the sale or other disposition of capital assets), plus (ii) depreciation and amortization expense for such period, all as determined by the Class B Member in good faith in accordance with GAAP.

1.24. "**Effective Date**" has the meaning set forth in the first paragraph of this Agreement.

1.25. "**Equipment**" means the Trilogy equipment [insert more detailed description] owned by the Company.

1.26. "**Family Member**" means a person's siblings, ancestors and lineal descendants, as well as the spouse of each, and such person's spouse.

1.27. "**Fiscal Year**" means (a) the period commencing on the Effective Date and ending on December 31, (b) any subsequent twelve (12) month period commencing on

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January 1 and ending on December 31 or (c) any portion of the period described in clause (b) for which the Company is required to allocate Net Profits, Net Losses and other items of Company income, gain, loss or deduction pursuant to Article 5 hereof.

1.28. "**Formula Value**" means the positive difference, if any, of (x) three (3) times Trailing EBITDA minus (y) the Company's long-term debt, including the current portion of long-term debt outstanding.

1.29. "**GAAP**" means generally accepted accounting principles, as determined by the Managing Member, applied on a consistent basis.

1.30. "**Governing Board**" has the meaning set forth in Section 12.1.

1.31. "**Governors**" means the Class A Governors and the Class B Governors.

1.32. "**Hospital**" means Palomar Medical Center, Escondido, California.

1.33. "**Liability**" or "**Liabilities**" means any and all indebtedness, liabilities, obligations, claims, demands, damages, losses, causes of action, litigation, judgments, costs and expenses, including reasonable attorneys' fees.

1.34. "**Managing Member**" means the Class B Member or any replacement managing member of the Company Approved by the Governing Board in accordance herewith.

1.35. "**Member**" means any Class A Member or Class B Member or Substituted Member as set forth on Exhibit A as amended from time to time (but excludes any Person who ceases to be a Member of the Company pursuant to this Agreement), and "**Members**" means all such Persons collectively.

1.36. "**Membership Interest**" shall mean a Member's entire ownership interest in the Company, including the Member's interest in Distributions, Net Profits and Net Losses, and the Member's right to vote on or participate in governance or management of the Company, pursuant to the terms set forth herein.

1.37. "**NeoSpine**" means NeoSpine, LLC, a Delaware limited liability company.

1.38. "**Net Profits**" and "**Net Losses**" means, for each Fiscal Year, an amount equal to the Company's taxable income or loss for such Fiscal Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(i) any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Profits or Net Losses shall be added to such taxable income or loss;

(ii) any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in

computing Net Profits or Net Losses shall be subtracted from such taxable income or loss;

(iii) if the book value of property is adjusted pursuant to Treasury Regulation Sections 1.704-1(b)(2)(iv)(f) or (e), such adjustment shall be taken into account as gain or loss from the disposition of an asset and, in lieu of depreciation as calculated for federal income tax purposes, subsequently such deductions shall be computed in accordance with Treasury Regulation Sections 1.704-1(b)(2)(iv)(g)(3) or 1.704-3(d)(2), as the case may be, and subsequent calculations of gain or loss resulting from the disposition of an asset for federal income tax purposes shall be computed by reference to its book value as reflected in Members' Capital Accounts rather than its adjusted tax basis;

(iv) to the extent an adjustment to the tax basis of any Company asset pursuant to Code Section 734(b) of Code Section 743(b) is required pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decrease the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Net Profits and Net Losses; and

(v) any items which are specially allocated pursuant to Section 5.2 hereof shall not be taken into account in computing Net Profits or Net Losses.

The amount of items of Company income, gain, loss or deduction available to be specially allocated pursuant to Sections 5.1(b), 5.3, 5.4 and 5.6 shall be determined by applying rules analogous to those set forth in paragraphs (i) through (iv).

1.39. "**Owner**" shall mean any shareholder, partner or member of, or any other holder of a direct or indirect interest in an entity.

1.40. "**Owner Restriction Agreement**" shall mean a written agreement between Owner and the Company in the form and substance of Exhibit B hereto.

1.41. "**Owner Terminating Event**" has the meaning set forth in Section 10.2.1.

1.42. "**Person**" means any individual, partnership, corporation, trust, limited liability company, association, joint venture, investment fund, joint stock company, organization, business, trust or any other entity or organization, including a government or any department, agency or political subdivision thereof.

1.43. "**Physician Entity**" shall mean any entity which is wholly-owned by Physician Investors.

1.44. "**Physician Investors**" means licensed radiation oncologists and surgeons actively practicing full-time clinical medicine in the State of California who have active staff privileges at the Hospital and who are credentialed to use the Equipment, who personally perform procedures on a substantial portion of the patients they refer for a procedure to be performed with the Equipment, who inform all patients referred for a

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procedure to be performed with the Equipment of their ownership interest in the Company and who meet such other reasonable requirements as the Governing Board shall determine are necessary to comply with applicable law.

1.45. **“Property”** means any or all property and assets of the Company, real and personal, tangible and intangible, all income from such property and assets, and all proceeds from the sale, exchange, refinancing or other disposition of the property and assets of the Company.

1.46. **“Purchase Right”** has the meaning set forth in Section 10.2.1.

1.47. **“Purposes”** has the meaning set forth in Section 3.1.

1.48. **“Regulations”** means, except as expressly provided to the contrary herein, the regulations promulgated by the United States Department of the Treasury pursuant to and in respect of provisions of the Code. Unless otherwise provided herein and subject to applicable transition rules, if any, all references to sections of the Regulations shall include any corresponding provision or provisions of succeeding, substitute, proposed, or final Regulations the effective dates of which are applicable to the Company.

1.49. **“Reserve”** means a cash reserve equal to sixty (60) days of the Company’s operating expenses plus sixty (60) days of the Company’s debt service payments, or such other amount as determined by the Managing Member, in its reasonable discretion.

1.50. **“Restricted Area”** has the meaning set forth in Section 10.3.

1.51. **“Service Agreement”** means that certain Service Agreement by and between the Company and the Hospital.

1.52. **“Sharing Percentage”** means, as to a Member, the percentage obtained by dividing the number of Units then owned by such Member by the total number of Units then owned by all Members. The Members hereby agree that their Sharing Percentages shall constitute their “interests in the Company profits” for purposes of determining their respective shares of the Company’s “excess non-recourse liabilities” (within the meaning of Section 1.752-3(a)(3) of the Regulations).

1.53. **“Site”** shall mean the location of the Equipment in Escondido, California.

1.54. **“Substituted Member”** means any Person admitted to the Company as a Member pursuant to Section 13.2.

1.55. **“Super-Majority Approval of the Governing Board, Super-Majority Approved by the Governing Board”** and similar expressions mean approval given by not less than three of the four total members of the Governing Board.

1.56. **“Terminating Event”** means any of the following:

(i) A Class A Member has breached the terms and conditions of this Agreement as determined in the reasonable discretion of the Governing Board, including without limitation, violating the restrictions with respect to ownership of

an interest in a Competing Business or a breach of the Transfer restrictions set forth in Article 10;

(ii) A Class A Member has disrupted the affairs of the Company or has acted adversely to the best interests of the Company, as determined in the reasonable discretion of the Governing Board;

(iii) A Class A Member (A) who is a natural person ceases to qualify as a Physician Investor, as determined by the Governing Board, or fails to certify to the Company upon the Company's request that he qualifies as a Physician Investor, (B) that is an entity ceases to qualify as a Physician Entity, as determined by the Governing Board, or fails to certify to the Company upon the Company's request that it qualifies as a Physician Entity or (C) is a Physician Entity and has any Owner on the date it becomes a Class A Member who has not executed the Owner Restriction Agreement or admits any Owner thereafter who does not execute the Owner Restriction Agreement and deliver it to the Company within thirty (30) days following his admission as or otherwise becoming an Owner;

(iv) Bankruptcy of a Class A Member;

(v) Death or disability (as such disability is determined in the reasonable discretion of the Governing Board) or retirement or relocation of a Class A Member outside of San Diego County, California;

(vi) A Class A Member is involved in a divorce proceeding or matrimonial dissolution that becomes final and in which an involuntary transfer of any of his or her Class A Units is ordered;

(vii) As to a Class A Member that is an entity, has any Owner who:

(A) breaches the terms and conditions of an Owner Restriction Agreement as determined in the reasonable discretion of the Governing Board;

(B) disrupts the affairs of the Company or acts adversely to the best interests of the Company, as determined in the reasonable discretion of the Governing Board;

(C) ceases to qualify as a Physician Investor, as determined by the Governing Board, or fails to certify to the Company upon the Company's request that he qualifies as a Physician Investor;

(D) experiences an event of Bankruptcy;

(E) dies or becomes disabled (as such disability is determined in the reasonable discretion of the Governing Board) or retires or relocates outside of San Diego County, California; or

(F) is involved in a divorce proceeding or matrimonial dissolution that becomes final and in which an involuntary transfer of any of his or her ownership in the entity.

1.57. "Termination Notice" has the meaning set forth in Section 10.2.1.

1.58. "Trailing EBITDA" means the earnings of the Company (exclusive of extraordinary items) before depreciation, interest, taxes and amortization for the most recently ended Fiscal Year, all of which components shall be determined by the Managing Member in accordance with GAAP.

1.59. "Transfer" means any involuntary or voluntary sale, lease, pledge, assignment, grant of a security interest, subcontract, dividend, merger, consolidation, gift or other disposition, direct or indirect, by operation of law or otherwise. A change in ownership of the Class B Member or NeoSpine or their respective successors, including a change of control, or a sale by the Class B Member or NeoSpine or their successors of all or substantially all of their assets shall not be treated as a Transfer of the Class B Member's Units.

1.60. "Units" means all of the issued and outstanding Member Interests in the Company. "Unit" means any one of the Units. "Class A Units" or "Class B Units" means Units held by Class A Members and Class B Members, respectively. Units of one Class acquired by Members of another Class shall automatically become Units of the other Class already held by the acquiring Member.

The definitions in this Article 1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes," and "including" shall be deemed to be followed by the phrase "without limitation." All references to Articles and Sections shall be deemed references to Articles and Sections of this Agreement, unless the context shall otherwise require. All references herein to Schedule shall be deemed to be references to the Schedule(s) attached to this Agreement. The terms "this Agreement," "hereof," "hereunder" and similar expressions refer to this Agreement as a whole and not to any particular Article or Section or other portion hereof and include any agreement supplemental hereto. The conjunction "or" shall be understood in its inclusive sense (and/or).

2. ORGANIZATION

2.1. Formation. The Company was formed pursuant to the Act by causing the Certificate of Formation to be filed with the Delaware Secretary of State. By execution of this Agreement, each of the Members hereby adopts and ratifies the Certificate of Formation. Except as stated in this Agreement, the Act and the Certificate of Formation shall govern the rights and liabilities of the Members. The Members acknowledge and agree that (i) the Class B Member shall not be obligated to fund its capital contributions prior to the closing of an initial offering of Units to Class A Members, and (ii) such an offering will close only if the Company receives duly completed subscription materials from a minimum of six Physician Investors (including radiation oncologists) or a combination of Physician Investors and Owners of Physician Entities resulting in an aggregate of at least six Physician Investors (including radiation oncologists). All obligations of the Class B Member set forth herein are conditioned upon the closing of such initial offering of Units to Class A Members.

2.2. **Name.** The name of the Company is “ _____, LLC.” The business of the Company shall be conducted under that name or such other name or names as may be Approved by the Governing Board from time to time.

2.3. **Principal Office.** The principal place of business of the Company shall be at such place or places as determined by the Governing Board from time to time.

2.4. **Term.** The Company was formed on _____, 2007, the date the Certificate of Formation was filed with the Delaware Secretary of State, and shall continue until the date on which the Company is dissolved pursuant to Article 14 and thereafter, to the extent provided for by applicable law, until wound up and terminated pursuant to Article 15 hereof.

2.5. **Registered Agent and Office.** The Company’s registered office within the State of Delaware and its registered agent as such address shall be as determined by the Governing Board from time to time.

2.6. **No State Law Partnership.** The Members intend that the Company not be a partnership or joint venture and that no Member be a partner or joint venturer of any other Member as a result of being Members, for any purposes other than federal and state tax purposes, and this Agreement shall not be construed to suggest otherwise.

3. **PURPOSES AND POWERS OF THE COMPANY; NATURE OF THE BUSINESS OF THE COMPANY**

3.1. **Purposes.** The purposes of the Company are (i) to own and/or lease the Equipment, provide certain employees, provide the Site and provide certain other healthcare related services and businesses; (ii) to acquire (through asset acquisition, stock acquisition, lease or otherwise) and develop other property, both real and personal, in connection with the foregoing; (iii) to enter into, from time to time, such financial arrangements as may be necessary, appropriate or advisable, including, without limitation, borrowing money and issuing evidences of indebtedness and securing the same by mortgage, deed of trust, security interest or other encumbrance upon one or more or all of the Company’s assets; (iv) to sell, assign, lease, exchange or otherwise dispose of, or refinance or additionally finance, one or more or all of the Company’s assets; and (v) generally to engage in such other business and activities and to do any and all other acts and things in furtherance of the purposes of the Company as set forth in clauses (i) through (iv) of this Section 3.1 (subject to the provisions of this Agreement) (collectively, the “Purposes”).

3.2. **Powers.** The Company shall have any and all powers which are necessary or desirable to carry out the purposes and business of the Company, to the extent the same may be legally exercised by limited liability companies under the Act. Subject to the limitations contained in this Agreement and in the Act, the purposes of the Company may be accomplished by the Governing Board or, to the extent specifically set forth herein or delegated by the Governing Board, to the Managing Member.

4. CAPITAL CONTRIBUTIONS AND CAPITAL ACCOUNTS

4.1. Ownership Interests.

(a) As of the Effective Date, the Company has outstanding the Units set forth on Exhibit A, which Units are held by the persons identified thereon. Units issued after the date hereof shall be issued in accordance with Section 10.1 and at such price as is determined by the Governing Board. Exhibit A shall be amended to reflect all issuances and transfers of Units.

(b) The holder of a Class B Unit may, in its discretion, agree to allow the Company to redeem from it a Class B Unit contemporaneously with the issuance by the Company of each new Class A Unit. Unless otherwise agreed by the Company and such Class B Member whose Class B Unit(s) are being redeemed, the redemption price per Class B Unit shall be equal to the gross amount received by the Company for each Class A Unit which issuance gives rise to the redemption hereunder. The Company shall pay all reasonable costs directly incurred in connection with the offering of such Class A Units as necessary to cause such offering to comply with applicable law. For tax purposes only, any such transaction shall be treated as the purchase of the redeemed Class B Unit by the Class A Member whose purchase of a Class A Unit gives rise to the redemption.

4.2. Additional Contributions. No Member shall be required to make any additional Capital Contributions to the Company.

4.3. No Interest or Right to Withdraw. No Member shall have the right to demand the return of, or otherwise withdraw, his contribution or to receive any specific property of the Company except as specifically provided in this Agreement. No Member shall have the right to demand and receive property other than cash in return for his contributions. No interest shall be paid on Capital Contributions or on balances in the Capital Accounts.

4.4. Capital Accounts. The Company will maintain a Capital Account for each Member.

4.5. Effect of Transfer of Units. Upon the Transfer by any Member of any or all of its interest in the Units, or any fraction thereof, pursuant to the provisions of this Agreement, the proportionate amount of its respective Capital Account balance, shall be transferred to the transferee of such Unit; provided, however, that no Transfer of any Unit shall, in and of itself, relieve the transferor of any of its obligations to the Company.

4.6. No Negative Capital Account Make-up. Notwithstanding any other provision in this Agreement or any inference from any provision in this Agreement, no Member shall have an obligation to the Company, to the other Members or to third parties to restore a negative Capital Account balance during the existence of the Company or upon the dissolution or termination of the Company.

4.7. No Third Party Beneficiaries. The foregoing provisions of this Article 4 are not intended to be for the benefit of any creditor or other Person to which any debts, liabilities or obligations are owed by the Company or the Members (or that otherwise has any claim against the Company or the Members), and no creditor or other Person shall

obtain any right under any of the foregoing provisions or shall by reason of any of the foregoing provisions make any claim in respect of any debt, liability or obligation (or otherwise) against the Company or any of the Members.

4.8. **Authority to Borrow.** The Company may from time to time borrow such amounts from such Persons (including the Members pursuant to Section 4.9 below) on such security and payable on such terms as may be Approved by the Members. Unless otherwise unanimously approved by the Members, the obligations of the Company to repay any such loans shall be limited to the assets of the Company, all such loans shall be nonrecourse to the Members and the Members shall have no individual liability under such loans.

4.9. **Loans from Members.** No Member shall make any loan to the Company or advance money on behalf of the Company without the prior Approval of the Members. The amount of any approved loan or advance shall not increase the Capital Account of the lending Member nor entitle the lending Member to any increase in such Member's Units. The amount of any such loan or advance shall be a debt due from the Company to such lending Member, payable upon such terms and conditions and bearing interest at such rates as shall be agreed upon by the lending Member and Approved by the Members. Except as otherwise provided in this Agreement, no Member shall be under any obligation to make any loans to the Company or advance any monies on behalf of the Company.

5. ALLOCATION OF INCOME AND LOSS

5.1. **Allocation of Net Profit and Net Loss.**

(a) Except as otherwise set forth herein, all Net Profit or Net Loss of the Company, except those arising on the Company's liquidation or the sale of all or substantially all of its assets, and all items of income, gain, deduction and loss entering into the determination of such Net Profit or Net Loss shall be allocated among the Members in accordance with their Sharing Percentage.

(b) Upon the Company's liquidation, or sale of all, or substantially all of its assets, all items of gain, income, deduction and loss will be specifically allocated among the Members so as to cause each Member's ending Capital Account balance, as a percentage of all Capital Accounts balance, to equal his Sharing Percentage.

5.2. **Curative Allocations.** If any special allocation of gain, income, loss or deduction is made pursuant to Treasury Regulation Sections 1.704-1(b) or 1.704-2 (the "Regulatory Allocations") with respect to one or more Members, then gross income, gain, loss and deduction shall be allocated by the Managing Member to the extent permitted by Treasury Regulation Section 1.704-1 and Code Section 704 and related provisions, in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if no Regulatory Allocations were made.

5.3. **Code Section 704(c) Allocations.** Income, gain, loss and deduction as computed for income tax purposes with respect to Company property subject to Code Section 704(c) and/or Treasury Regulation Sections 1.704-1(b)(2)(iv)(f) shall be allocated in accordance with said Code Section and/or Treasury Regulation Sections 1.704-1(b)(4)(i), as the case may be, using any reasonable method permitted or Treasury Regulation Sections

1.704-3 that is selected by the Managing Member. Allocations made pursuant to this paragraph shall not affect the Capital Account of the Members.

5.4. **Allocations in Case of Transfers.** Except as provided below, Net Profit, Net Loss, and items of income, gain, deduction and loss allocable to any Member whose Units have been transferred, in whole or in part, during any Fiscal Year shall be allocated among the persons who were the holders of such Units during such year in proportion to their respective holding periods, without separate determination of the results of Company operations during such periods. Net Profit, Net Loss, and items of income, gain, deduction and loss, attributable to a sale or other disposition of all or any portion of the assets of the Company shall be allocated to those Members who were Members at the time of the occurrence of the disposition giving rise to such Net Profit, Net Loss and items of income, gain and loss.

5.5. **Interpretation.** The provisions of this Article 5 are intended to comply with Treasury Regulation Sections 1.704-1(b), 1.704-2 and 1.704-3 and any successor regulations and shall be defined and interpreted consistently with this intention and the Managing Member shall make such special allocations determined necessary by the Managing Member for the allocations of income and loss to be respected for federal income tax purposes pursuant to Treasury Regulation Section 1.704-1(b) and 1.704-2 (i.e., loss limitations, qualified income offset, minimum gain charge-backs, and non-recourse deductions)

5.6. **Allocations Relating to Taxable Issuance of Company Interests.** Any income, gain, loss or deduction realized as a direct or indirect result of the issuance of an interest in the Company to a Member (the "Issuance Items") shall be allocated among the Members so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Member, shall be equal to the net amount that would have been allocated to each such Member if the Issuance Items had not been realized.

5.7. **Modification.** The Managing Member may modify the provisions of this Article 5 or any other provisions of this Agreement without the consent of the Members if, after consultation with counsel to the Company, the Managing Member determines that such modification is necessary to (a) cause the allocations contained in this Article 5 to have substantial economic effect or otherwise be respected for federal income tax purposes under Section 704 of the Code; (b) cause the allocation of Net Profits and Net Losses or items thereof under Section 5.1 to conform, in accordance with the requirements of Section 704 of the Code, to the distributions provided in Section 6.1; or (c) cause the provisions of the Agreement to comply with any applicable legislation, regulation or rule enacted or promulgated after the date of this Agreement, which change is necessary to enable the Company to carry out its purposes in the manner contemplated by this Agreement. Any such amendment shall be so as to cause the least significant deviation from the provisions of this Agreement as originally set forth.

6. DISTRIBUTIONS

6.1. **Distribution of Cash Available for Distribution.** The Managing Member shall determine in its reasonable judgment the Company's Cash Available for Distribution. Except as provided in Article 15, the Company shall distribute quarterly its Cash Available for Distribution to the Members, *pro rata* in accordance with their respective Sharing

Percentages, unless the distribution of a smaller amount is required under the Act or Approved by the Governing Board. In addition, the Company shall, to the extent it has cash available, make a distribution to the Members on or before April 1 of each year in an amount equal to the federal income tax that would be due and payable by the Members with respect to the Company's taxable income for the preceding year, with such tax calculated at the highest marginal federal income tax rate for individuals reduced by the aggregate of the cash distributions previously made to the Members with respect to the tax year for which the taxable income has been calculated. Notwithstanding the foregoing, nothing in this Agreement shall be construed as requiring the Company to make distributions in contravention of any limitation in Delaware law on the payment of distributions.

6.2. **Compensation or Reimbursement Not a Distribution.** Authorized amounts payable as compensation or reimbursement to any Person other than in its capacity as a Member in the Company, such as for services rendered, goods purchased or money borrowed, shall not be treated as a distribution for purposes of this Article 6.

6.3. **Consequences of Distributions.** Upon the determination to distribute funds in any manner expressly provided in this Agreement, made in good faith, no Covered Person (as defined in Article 12) shall incur any liability on account of such distribution, even though such distribution may have resulted in the Company retaining insufficient funds for the operation of its business which insufficiency resulted in loss to the Company or necessitated the borrowing of funds by the Company.

6.4. **Withholding.** The Company may withhold distributions or portions thereof if it is required to do so by any applicable rule, regulation, or law, and each Member hereby authorizes the Company to withhold from or pay on behalf of or with respect to such Member any amount of federal, state, local or foreign taxes that the Managing Member reasonably determines that the Company is required to withhold or pay with respect to any amount distributable or allocable to such Member pursuant to this Agreement. Any amount paid on behalf of or with respect to a Member pursuant to this Section 6.4 shall be treated as having been distributed to such Member as an advance against the next Distributions that would otherwise be made to such Member, and such amount shall be satisfied by offset from such next Distributions. Each Member will furnish the Managing Member with such information as may reasonably be requested by the Managing Member from time to time to determine whether withholding is required, and each Member will promptly notify the Managing Member if such Member determines at any time that it is subject to withholding.

7. BOOKS OF ACCOUNT, TAX COMPLIANCE AND FISCAL YEAR

7.1. **Books and Records.** The Managing Member shall keep books of account and records relative to the Company's business. The books shall be prepared in accordance with GAAP using the accrual method of accounting. The Company's books and records shall at all times be maintained at the principal business office of the Company or its accountants (and, to the extent required by the Act, at the registered office of the Company) and shall be available for inspection by the Members or their duly authorized representatives during reasonable business hours.

7.2. **Determination of Net Profit and Net Loss; Financial Statements.** All items of Company income, expense, gain, loss, deduction and credit shall be determined

with respect to, and allocated in accordance with, this Agreement for each Member for each Fiscal Year, except as otherwise required by the Code and/or the Regulations. Within thirty (30) days after the end of each month, and within ninety (90) days after the end of each Fiscal Year, or as soon thereafter as is practicable, the Managing Member shall cause to be prepared, at Company expense, unaudited financial statements of the Company for the preceding month or Fiscal Year, as applicable, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, prepared in accordance with the terms of this Agreement and GAAP consistently applied with prior periods. These financial statements shall be available for inspection and copying during ordinary business hours at the reasonable request of any Member.

7.3. **Tax Returns and Information.** The Members intend for the Company to be treated as a partnership for tax purposes, but not for any other purposes. The Tax Matters Member shall, at Company expense, prepare or cause to be prepared all federal, state and local income and other tax returns which the Company is required to file and shall furnish such returns to the Members, together with a copy of each Member's Schedule K-1 and any other information which any Member may reasonably request relating to such returns, within ninety (90) days after the end of each Fiscal Year of the Company.

7.4. **Tax Audits.** The Managing Member shall be the "tax matters member" of the Company under Section 6231(a)(7) of the Code (the "Tax Matters Member"). The Tax Matters Member shall represent the Company in all administrative and judicial proceedings involving federal income tax matters as the "Tax Matters Member." In connection therewith, the powers of the Tax Matters Member shall include, but are not limited to, the power to:

(a) appoint an attorney-in-fact to represent the Company in such proceeding;

(b) engage in any activities enumerated in Subchapter C of Chapter 63 of the Internal Revenue Code;

(c) employ attorneys, accountants, appraisers, consultants, and such other persons as deemed appropriate;

(d) make any and all elections for federal, state, and local tax purposes, including, without limitation, any election if permitted by applicable law: (i) to adjust the basis of Company assets pursuant to Code Sections 754, 734(b) and 743(b), or comparable provisions of state or local law; and (ii) to extend the statute of limitations for assessment of tax deficiencies against Members with respect to adjustments to the Company's federal, state or local tax returns; and

(e) represent the Company and Members before taxing authorities or courts of competent jurisdiction in tax matters affecting the Company and Members in their capacity as Members, and to execute any agreements or other documents relating to or affecting such tax matters including agreements or other documents that bind the Members with respect to such tax matters or otherwise affect the rights of the Company or Members.

The Tax Matters Member shall provide all Members affected by a Company-level proceeding before the Internal Revenue Service with such notice of the proceeding as is

required by the Code. The preceding sentence shall be deemed to be satisfied by mailing such notice to each Member's last known address. The Company shall indemnify and reimburse the Tax Matters Member for all expenses, including legal and accounting fees, claims, liabilities, losses and damages incurred in connection with any administrative or judicial proceeding with respect to the tax liability of the Members and against any and all loss, liability, cost or expense, including judgments, fines, amounts paid in settlement and attorneys fees and expenses, incurred by the Tax Matters Member in any civil, criminal or investigative proceeding in which the Tax Matters Member is involved or threatened to be involved solely by virtue of being Tax Matters Member, except such loss, liability, cost or expense arising by virtue of the Tax Matters Member's gross negligence, fraud, malfeasance, breach of fiduciary duty or intentional misconduct. The payment of all such expenses shall be made before any distributions are made to any Member. No Member, nor any other Person shall have any obligation to provide funds for such purpose.

7.5. **Fiscal Year.** The Company's fiscal year shall be the Fiscal Year.

8. POWERS OF MANAGING MEMBER

8.1. **Appointment, Rights and Powers of Managing Member.** The Members hereby designate U.S. Radiosurgery of San Diego, LLC as the Managing Member. The Governing Board may appoint a replacement Managing Member by Approval of the Governing Board. The Managing Member shall possess all of the rights and powers delegated to the Managing Member hereunder and by the Governing Board. Subject to the direction and control of the Governing Board described herein, the Managing Member shall have the authority to bind the Company as an agent in the ordinary course of business. The Managing Member shall be reimbursed for all direct out-of-pocket expenses incurred by it in performing its duties hereunder, excluding any corporate overhead expenses of the Managing Member and its Affiliates.

8.2. **Right to Rely on Managing Member.** No Person or governmental body dealing with the Company shall be required to inquire into, or to obtain any other documentation as to, the authority of the Managing Member to take any action permitted by this Agreement. Furthermore, any Person or governmental body dealing with the Company may rely upon a certificate signed by the Managing Member as to the following:

- (a) the identity of the Managing Member or any Member;
- (b) the existence or nonexistence of any fact or facts that constitute a condition precedent to acts by the Managing Member or which are in any other manner germane to the affairs of the Company;
- (c) the Persons who are authorized to execute and deliver any instrument or document of the Company; or
- (d) any act or failure to act by the Company on any other matter whatsoever involving the Company or any Member.

8.3. **Appointment as Attorney-in-Fact.** Each Member hereby makes, constitutes and appoints the Managing Member, and any officer thereof, with full power of substitution and resubstitution, his agent and attorney-in-fact to file for record, and to sign, execute, certify, acknowledge, and file for record any other instruments, approved in accordance with

the terms of this Agreement, which may be required of the Company or of the Members by law, including, but not limited to, amendments to or cancellations of this Agreement or of the Certificate. Subject to the terms of this Agreement, each Member authorizes such attorney-in-fact to take any further action which such attorney-in-fact shall consider necessary or advisable in connection with the foregoing, hereby giving such attorney-in-fact full power and authority to act to the same extent as if such Member were himself personally present, and hereby ratifying and confirming all that such attorney-in-fact shall lawfully do or cause to be done by virtue hereof.

8.4. **Effect of Power of Attorney.** The power of attorney granted pursuant to Section 8.3 of this Agreement:

(a) is a special power of attorney coupled with an interest, is irrevocable, and shall survive the death, dissolution, insanity, or incapacity of the granting Member;

(b) may be exercised by such attorney-in-fact for each Member by listing all of the Members executing any agreement, certificate, instrument or document with the single signature of such attorney-in-fact as attorney-in-fact for all of them; and

(c) shall survive the delivery of an assignment by a Member of the whole or a portion of his interest in the Company, except that where the purchaser, transferee or assignee thereof is to be admitted as a Substituted Member, the power of attorney shall survive the delivery of such assignment for the sole purpose of enabling such attorney-in-fact to execute, acknowledge and file any agreement, certificate, instrument, or document necessary to effect such substitution.

9. RIGHTS AND STATUS OF MEMBERS

9.1. **General.** Except to the extent expressly otherwise provided in this Agreement, the Members shall not take part in the management or control of the Company business, have voting rights or sign for or bind the Company, such powers being vested exclusively in the Governing Board and the Managing Member as provided for herein.

9.2. **Limitation of Liability.** No Member shall, solely by reason of its status as a Member of the Company, have any personal liability whatsoever, whether to the Company or any creditor of the Company, for the debts of the Company or any of its losses beyond the amount of the Member's Capital Contribution to the Company. In the event that any Member shall, by reason of its conduct within the scope of this Agreement, be subject to personal liability to a third party by being a Member of the Company, then such Member shall be entitled to the same rights of indemnification by the Company as that afforded to the Covered Persons under Section 12.8 of this Agreement.

10. ADMISSION AND WITHDRAWAL OF MEMBERS AND CERTAIN TRANSFERS OF COMPANY INTERESTS

10.1. **Admission of New Members.** Subject to Section 4.1, Physician Investors and Physician Entities may be admitted as Members of the Company at such time and on such terms as may be deemed appropriate by the Governing Board. Further, to be admitted as a Member, a Person shall agree to be bound by this Agreement by executing an instrument satisfactory to the Managing Member, delivering same to the Managing

Member and the Managing Member accepting same on behalf of the Company. Members have no preemptive rights, except as expressly set forth in this Agreement.

10.2. Required Transfer of Member's Interest. Under the circumstances described in this Section 10.2 below, a Member may be required to transfer such Member's Unit(s), and under the circumstances described in this Section 10.2 below, the Company and/or the Class B Member may purchase a Member's Unit(s).

10.2.1 Terminating Event.

(a) If a Terminating Event occurs with respect to a Class A Member (a "Defaulting Member"), such Class A Member, or his successor, shall give written notice of the Terminating Event to the Managing Member and the other Members as soon as practicable, but in any event no later than fifteen (15) days after the occurrence of the Terminating Event; provided, however, that in the event of any Terminating Event pursuant to clauses (i), (ii) (vii)(A) or (vii)(B) of the definition thereof, any such written notice will be provided by the Managing Member to the Class A Member in respect of which such Terminating Event occurs (any such notice, whether delivered by the Class A Member or the Managing Member, as set forth above, the "Termination Notice").

(b) The Company shall have the right (the "Purchase Right"), but not the obligation, to purchase any or all of the Units of a Defaulting Member any time from the occurrence of the Terminating Event (and if the Company does not exercise such right, the Class B Member shall have the right) until 60 days after the Company's receipt of the Termination Notice; provided, however, if a Terminating Event described in Section 1.56(vii) occurs with respect to a Physician Entity (an "Owner Terminating Event"), the Purchase Right shall be limited to the product of (x) the number of Units held by such Physician Entity multiplied by (y) the percentage ownership in the Physician Entity held immediately prior to the Owner Terminating Event by the Owner who is responsible for the occurrence of the Owner Terminating Event (the "Responsible Owner") (excluding from the calculation of such percentage any Owners of a Physician Entity who did not qualify as Physician Investors immediately prior to the Terminating Event); provided, further, there shall be no Purchase Right with respect to an Owner Terminating Event described in Section 1.56(vii) if, on the sixtieth (60th) day immediately following such event, (A) there remain at least that number of Owners (other than the Responsible Owner(s)) in such Physician Entity as existed on the date such Physician Entity last purchased Class A Units, and (B) all of the interests of the Responsible Owner(s) in the Physician Entity shall have been acquired by the Physician Entity or another Owner therein.

The purchase price for Units purchased pursuant to the Purchase Right will be:

(i) the lesser of (A) the Formula Value as of the date of the Terminating Event times the Class A Member's Sharing Percentage and (B) 10% of the Class A Member's Adjusted Capital Contribution as of the date of the Terminating Event, if the Terminating Event is for a breach of Section 10.3 hereof (Restriction on Ownership Provision), breach of this Agreement or the Owner Restriction Agreement; or

(ii) the lesser of (A) the Formula Value as of the date of the Terminating Event times the Class A Member's Sharing Percentage and (B) the

Class A Member's Adjusted Capital Contribution as of the date of the Terminating Event, if the Terminating Event is an event described in Section 1.57(ii) or Section 1.56(vii)(B) hereof; or

(iii) the greater of (A) the Formula Value as of the date of the Terminating Event times the Class A Member's Sharing Percentage and (B) such Member's Adjusted Capital Contribution as of the date of the Terminating Event, if the Terminating Event is not an event described in clauses (i) or (ii) above or clause (c) below.

Upon any purchase of Unit(s) pursuant to the terms set forth above, the Class A Member shall transfer good and marketable title to the purchaser of the Units, free and clear from all liens and encumbrances. The Company shall, however, complete the transfer of the Units by amending this Agreement pursuant to Article 13 regardless of whether the Class A Member executes documents of transfer required to effect such transaction.

(c) In addition, if a Terminating Event pursuant to Section 1.56(viii) occurs with respect to any Member, the Company shall have the right, but not the obligation, to purchase any or all of the Units of such Member, by providing written notice thereof to such Member, for a purchase price equal to the lesser of (A) the Formula Value as of the date of the Terminating Event times the Member's Sharing Percentage and (B) 10% of the Member's Adjusted Capital Contribution as of the date of the Terminating Event. Upon any purchase of Unit(s) pursuant to the terms set forth above, the Member shall transfer good and marketable title to the purchaser of the Units, free and clear from all liens and encumbrances. The Company shall, however, complete the transfer of the Units by amending this Agreement pursuant to Article 13 regardless of whether the Member executes documents of transfer required to effect such transaction.

10.2.2 Subsequent Legislation. If counsel reasonably acceptable to the Members determines that any Class A Member is prohibited from owning an interest in the Company as a result of the enactment of any statute, regulation or other law or the judicial or administrative interpretation of any existing or future statute, regulation or other, the Members shall attempt to restructure the Company in order to comply with such enactment or interpretation. If any Class A Member shall be so prohibited from owning an interest in the Company and the Company cannot be so restructured, the Class B Member at its option may, and if not exercised by the Class B Member, then the Company shall purchase such Class A Member's interests in the Company on the terms provided in Section 10.4. If the number of Class A Members whose interest is required to be purchased pursuant to the preceding sentence is, in the opinion of the Class B Member, substantial, the Class B Member, in its sole and absolute discretion, shall have the option to purchase or, if such purchase option is not exercised by the Class B Member, the Company will have the right to purchase all of the Class A Members' interests in the Company on the terms provided in Section 10.4. The purchase price for such Units purchased under this Section 10.2.2 shall be the Formula Value as of the date of the purchase multiplied by the Sharing Percentage represented by such purchased Units. Notwithstanding anything contained herein to the contrary, the Managing Member may, upon the Super-Majority Approval of the Governing Board and the Approval of the Members, in lieu of effecting the purchase rights set forth in this Section 10.2.2, elect to dissolve the Company pursuant to Section 14.1(a) in the event of the occurrence of any event set forth in this Section 10.2.2.

10.3. **Restriction on Ownership.** Each Class A Member agrees that while he, she or it is a Member and for a period of two years thereafter, neither he, she or it nor any of his, her or its Affiliates shall, directly or indirectly, own an interest in, lease, manage, joint venture with or be employed by a Competing Business that is located in San Diego County, California (the "Restricted Area"). In addition, each Class B Member agrees that, while it is a Member, it shall not, directly or indirectly, own an interest in, lease, manage, joint venture with or be employed by a Competing Business that is located within the Restricted Area. A violation of this Section 10.3 by a Class A Member shall be treated as a Terminating Event pursuant to Section 10.2.1 above. Upon a violation of this Section 10.3 by the Class B Member, the Company shall have the right, but not the obligation, to purchase any or all of the Units of such Class B Member at a purchase price equal to the lesser of (A) the Formula Value as of the date of such breach times the Class B Member's Sharing Percentage and (B) 10% of the Class B Member's Adjusted Capital Contribution as of the date of breach, by providing written notice thereof to the Class B Member within sixty (60) days of the date on which the Company becomes aware of such breach.

Each Member agrees that the restrictions contained in this Section 10.3 are reasonable and necessary to protect the legitimate interests of the Company and that any violation of this provision would result in damages to the Company which cannot be compensated by money alone. Each Member agrees that the Company will be entitled to injunctive relief without proving actual damages or posting any bond. If a court shall hold that the duration and/or scope (geographic or otherwise) of the agreement contained in this Section 10.3 is unreasonable, then, to the extent permitted by law, the court may prescribe a duration and/or scope (geographic or otherwise) that is reasonable and judicially enforceable. The parties agree to accept such determination, subject to their rights of appeal, which the parties hereto agree shall be substituted in place of any and every offensive part of this Section 10.3, and as so modified, this Section 10.3 shall be as fully enforceable as if set forth herein by the parties in the modified form.

10.4. **Payment of Purchase Price for Member's Interest.** If the interest of a Member in the Company is being purchased pursuant to Section 10.2 or 10.3, the purchase price for the interest shall be determined as set forth above and payable in the manner hereinafter set forth:

10.4.1 All obligations, if any, of the selling Member to the Company shall become immediately due and payable upon purchase of the interest. To the extent not previously taken into account pursuant to this Section 10.4, the purchase price shall be reduced by the amount of any such obligations and the purchaser shall pay to the Company an amount equal to any such reduction in the purchase price.

10.4.2 No payment other than those specifically provided for herein shall be due or payable with respect to the interest of the Member whose interest in the Company is being purchased. Any debt due by the Company to the Member shall be payable according to its terms.

10.4.3 The closing of the purchase of the interest in the Company pursuant to this Section 10.4 shall be held at the principal office of the Company on the later of (i) 30 days following the giving of written notice to the Member of the election to purchase such interest or (ii) 15 days following the date the purchase price is determined (or such earlier date as mutually agreed to by the Company and the selling Member). At the closing, the purchaser shall pay, upon the terms specified hereinabove, the purchase price of such

Member's interest in the Company to the Member after receiving executed copies of appropriate releases and satisfactions.

10.4.4 In the case of any purchase made pursuant to Section 10.2 or Section 10.3, the purchase price may, at the election of the purchaser, be paid by delivery of a promissory note. The note shall be payable in equal monthly installments of principal and interest over the Applicable Term (as defined below) with interest accruing on the unpaid balance at the lesser of the prime rate or LIBOR (each as published in The Wall Street Journal on the date of such purchase). The first such installment shall be paid to such Member on the first day of the month after thirty (30) days have expired since the Member's interest was acquired under such sections, with subsequent installments paid on the first day of each successive month thereafter until paid in full. The purchaser may pre-pay in whole or in part the amount owed without penalty. Such loan shall be subordinate to the purchaser's senior lenders. The note shall be nonrecourse and secured by the Units purchased. The "Applicable Term" shall be not greater than:

(a) sixty (60) months for purchases made pursuant to Section 10.2.1(b)(i) or Section 10.3; and

(b) thirty six (36) months for purchases made pursuant to Section 10.2.1(b)(ii), Section 10.2.1(b)(iii), Section 10.2.1(c) or Section 10.2.2.

11. MEETINGS AND MEANS OF VOTING.

11.1. Meetings of the Members. Meetings of the Members may be called by either (a) the Class B Member or (b) a majority in ownership of the Class A Members. The notice of a meeting shall state the nature of the business to be transacted at such meeting, and actions taken at any such meeting shall be limited to those matters specified in the notice of the meeting. Notice of any meeting shall be given to all Members not less than five (5) and not more than sixty (60) days prior to the date of the meeting. A waiver of notice signed by a Member entitled to notice, whether before, at or after the meeting, shall be the equivalent of notice. The presence of any Member at a meeting shall constitute a waiver of notice of the meeting with respect to such Member. Members may vote in person or by proxy at such meeting. All meetings shall be held in Escondido, California, unless another location is Approved by the Members.

Except as otherwise expressly provided in this Agreement or required by the express provisions of the Act, the requisite vote of the Members on any matter for which the vote of the Members is required hereunder or by law shall be by Approval of the Members, which vote shall control all decisions for which the vote of the Members is required hereunder or by law. Each Member's voting rights shall be the same as that Member's Sharing Percentage at the time of the vote. A quorum shall consist of those Members whose vote is necessary to constitute Approval of the Members pursuant to the terms set forth herein. The Members may, at their election, participate in any regular or special meeting by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other. A Member's participation in a meeting pursuant to the preceding sentence shall constitute presence in person at such meeting for all purposes of this Agreement.

11.2. Vote By Proxy. Each Member may authorize any Person to act on the Member's behalf by proxy on all matters in which a Member is entitled to participate,

including waiving notice of any meeting or voting or participating at a meeting. Every proxy must be signed by the Member authorizing such proxy or such Member's attorney-in-fact. No proxy shall be valid after the expiration of eleven (11) months after the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Member executing it.

11.3. **Conduct of Meeting.** Each meeting of the Members shall be conducted by the Chairman of the Governing Board (who shall be designated by a majority of the Governors) or by an individual appointed by the Chairman of the Governing Board. The meeting shall be conducted pursuant to such reasonable rules as may be adopted by the Governing Board. Minutes shall be taken by a person appointed by the Chairman of the Governing Board and all minutes shall be Approved by the Governing Board.

11.4. **Action Without a Meeting.** Notwithstanding anything to the contrary in this Agreement, any action that may be taken at a meeting of the Members may be taken without a meeting if a written consent setting forth the action so taken is executed by the Members (or class of Members) whose approval would be needed to take such action at a meeting, which consent may be executed in multiple counterparts. In the event any action is taken pursuant to this Section 11.4, the Company shall give written notice of the action taken without a meeting to each Member promptly after the Company shall have been notified of such action. For purposes of obtaining a vote of the Members under this Agreement, the Governing Board may require a written response of the Members within a specified time, but not less than 15 days nor more than 45 days, and provide that failure to respond in such time shall constitute a vote which is consistent with the Governing Board's recommendation, if made, with respect to the proposal.

11.5. **Closing of Transfer Record; Record Date.** For the purpose of determining the Members entitled to notice of or to vote at any meeting of Members, any reconvening thereof, or to act by consent, the Governing Board may provide that the transfer record shall be closed for at least ten (10) days immediately preceding such meeting (or such shorter time as may be reasonable in light of the period of the notice) or the first solicitation of consents in writing. If the transfer record is not closed and if no record date is fixed for determining the Members entitled to notice of or to vote at a meeting of Members or by consent, the date on which the notice of the meeting is mailed or a copy of the first written consent is received by the Governing Board shall be the record date for such determination.

12. GOVERNING BOARD.

12.1. Governing Board.

(a) Effective for all purposes on the date of this Agreement, the Members shall form a Governing Board of the Company consisting of four (4) members (the "Governing Board") by appointing thereto the Class A Governors and the Class B Governors. The Class A Members shall be entitled to elect or appoint two (2) Class A Governors by the affirmative vote of Class A Members having a Class A Percentage Interest in excess of fifty percent (50%), with such election to be held at such time and in such manner as determined by the Managing Member. The Class B Member(s) shall be entitled to elect or appoint two (2) Class B Governors.

(b) The Governing Board shall be created and operate to consider all matters pertaining to the business of the Company. Each individual selected to serve on the Governing Board shall serve for a term of one (1) year and thereafter until his successor is appointed or elected, unless he sooner resigns or is removed. A member of the Governing Board may be removed with or without cause, only by the Members who had the right to vote for his initial appointment. The unexpired term of a member of the Governing Board who resigns or is removed shall be filled by an individual appointed by those Members who had the right to vote on such Governing Board member's initial appointment to the Governing Board. The Chairman of the Governing Board shall be selected annually from the members of the Governing Board.

12.2. **Powers of the Governing Board.** In addition to the powers granted to any Governing Board under the Act and the powers granted to the Governing Board pursuant to other provisions of this Agreement, the Governing Board shall have the exclusive right and power to manage the business and the affairs of the Company with all powers necessary, advisable, or convenient to manage, control, administer and operate the business and affairs of the Company for the purposes herein stated, to make all decisions affecting such business and affairs, and to do all things which are necessary or desirable in the conduct of the business and affairs of the Company. The rights and powers of the Governing Board shall include, without limitation, the power to borrow money and, if security is required therefor, to mortgage or subject to any other security device, any portion of the Company assets, to obtain replacements of any mortgage, security deed or other security device, and to prepay, in whole or in part, refinance, increase, modify, consolidate, or extend any mortgage, security deed or other device, all of the foregoing at such terms and in such amount as it deems to be in the best interest of the Company. Notwithstanding the foregoing, the Governing Board shall not possess the rights and powers delegated to the Managing Member herein, and the Managing Member shall have the exclusive right to exercise the rights and powers delegated to Managing Member herein.

12.3. **Manner of Exercise of Governing Board's Authority.** All responsibilities granted to the Governing Board under this Agreement shall be exercised by the Governing Board as a body, and no member of the Governing Board, acting alone, shall have the authority to act on behalf of the Governing Board. Except as provided herein, all Governing Board action shall require the Approval of the Governing Board.

Notwithstanding anything contained herein to the contrary, the following actions shall require Super-Majority Approval of the Governing Board:

- (a) dissolution of the Company;
- (b) continuing the business of the Company after the occurrence of an event which would otherwise cause dissolution;
- (c) extending the term of the Company;
- (d) a sale or transfer of all or substantially all of the Company's assets or ownership interests, or a merger or consolidation of the Company with another entity; and
- (e) any material change in the business of the Company.

12.4. **Meetings of the Governing Board.** The Governing Board shall hold regular meetings on a quarterly basis or on such other periodic basis as the Governing Board shall determine from time to time. Special meetings of the Governing Board shall be held at the call of the Chairman of the Governing Board, or any two members of the Governing Board requesting such meeting through such Chairman, upon not less than five (5) business days written or telephonic notice to the members of the Governing Board, such notice specifying all matters to come before the Governing Board for action at such meeting. Meetings may be held at any place in or outside of California. The presence of any member of the Governing Board at a meeting shall constitute a waiver of notice of the meeting with respect to such member. The members of the Governing Board may, at their election, participate in any regular or special meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. A member of the Governing Board's participation in a meeting pursuant to the preceding sentence shall constitute presence in person at such meeting for all purposes of this Agreement. Minutes shall be taken by a person appointed by the Chairman of the Governing Board and all minutes shall be Approved by the Governing Board.

12.5. **Quorum.** A quorum of the Governing Board shall consist of those Governors whose vote is necessary to constitute Approval of the Governing Board or Super-Majority Approval of the Governing Board, as applicable, pursuant to the terms set forth herein.

12.6. **Vote By Proxy.** Each Governor may authorize any individual to act on the Governor's behalf by proxy on all matters in which a Governor is entitled to participate, whether by waiving notice of any meeting or by voting or participating at a meeting. Every proxy must be signed by the Governor authorizing such proxy or such Governor's attorney-in-fact. No proxy shall be valid after the expiration of eleven (11) months after the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Governor executing it.

12.7. **Action Without a Meeting.** Notwithstanding anything to the contrary in this Agreement, any action that may be taken at a meeting of the Governors may be taken without a meeting by the consent of the Governors. Such consent shall be in writing, shall set forth the action so taken and shall be signed by the number of Governors whose vote would be necessary to authorize such action at a meeting of the Governing Board. The consent may be executed in multiple counterparts.

12.8. **Liability of Covered Persons for Actions.**

(a) Notwithstanding any provision of this Agreement, common law or the Act, no member of the Governing Board, the Managing Member, principal officer of the Company or the Tax Matters Member (the "Covered Persons") shall be liable to the Members or to the Company for any loss suffered which arises out of an act or omission of such Person, if, in good faith, it was determined by such Persons that such act or omission was in the best interests of the Company and such act or omission did not constitute gross negligence or fraud. A Covered Person shall be indemnified by the Company against any and all claims, demands and losses incurred by such Covered Person by reason of the fact that such Covered Person was serving in any position set forth in the preceding sentence if such Covered Person (i) conducted itself in good faith; (ii) derived no improper personal benefit; and (iii) reasonably believed (A) in the case of conduct in its official capacity with the Company, that its conduct was in its best interests and (B) in all other cases, that its

conduct was at least not opposed to its best interests; and (iv) in the case of any criminal proceeding, had no reasonable cause to believe its conduct was unlawful; provided, the right to indemnification and payment of expenses shall exist unless and until it is determined in a final disposition that such indemnification and/or expense payment was not required hereunder, in which case the indemnitee shall repay all such indemnified and reimbursed amounts. The payment of any amounts for indemnification shall be made before any Distributions are made by the Company. No Member shall have any obligation to provide funds for any indemnification obligation hereunder.

(b) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article 12 shall not be exclusive of any other right which any Person may have or hereafter acquire under any applicable law, provision of the Certificate of Formation, provision of this Agreement, vote of Members or otherwise.

(c) The Company may maintain insurance, at its expense, to protect itself and any Member, the Governing Board, Governing Board committees, officer, employee or agent of the Company against any expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under Delaware law.

(d) Any amendment, repeal or modification of any provision of this Section 12.8 shall not adversely affect any right or protection of a Member, the Governing Board, Governing Board committee, officer, employee or agent of the Company existing at the time of such amendment, repeal or modification.

13. TRANSFER OF RIGHTS

13.1. Transfers by Members. Except as otherwise set forth in this Article 13, a Member may not Transfer all or any part of its Units without the Approval of the Governing Board, unless the transferee of Class B Units is then an entity controlling, controlled by or under common control with the Class B Member. If a Member receives the required approval described above, a Member may transfer its interest in the Company if the following conditions are satisfied:

(a) the Member and its transferee execute, acknowledge and deliver to the Company such instruments of transfer and assignment with respect to such transaction as are in form and substance Approved by the Governing Board;

(b) unless waived by Approval of the Governing Board, the Member delivers to the Company an opinion of counsel Approved by the Governing Board, covering such securities and tax laws and other aspects of the proposed Transfer as the Governing Board may reasonably request; and

(c) the Member pays the Company a transfer fee that is sufficient to pay all reasonable expenses of the Company in connection with such transaction.

Any Member who thereafter Transfers all or any portion of its Units shall promptly notify the Company of such Transfer and shall furnish to the Company the name and

address of the transferee and such other information as may be required under Section 6050K of the Code and the Regulations thereunder.

In the event a court of competent jurisdiction holds this restriction on Transfer to be unenforceable, the Company shall have a right of first refusal to purchase Units with respect to any proposed Transfer thereof by a Member which may be exercised by the Company by giving written notice thereof to the Member during the period of ninety (90) days immediately following the date that a court of competent jurisdiction determines such restriction to be unenforceable. The purchase price pursuant to the right of first refusal shall be an amount equal to the lesser of (a) the Formula Value of the Units held by such Member as of the date of such Transfer, multiplied by the Sharing Percentage represented by the Units which are the subject of the proposed Transfer, and (b) the amount offered by the third party to acquire such Units. In the event the third party offer includes consideration, other than cash, the value of the consideration will be determined by the Governing Board in good faith. The purchase price may be paid, at the option of the Company, on the same terms and conditions as set forth in the third party offer or by delivery of twenty percent (20%) of the purchase price in cash at closing and the balance by the delivery of a non-recourse promissory note secured by the interest purchased (the "Note"). The Note will be payable in forty-eight (48) equal monthly installments of principal and interest and will bear interest at the prime rate (as published in *The Wall Street Journal*). The Company may prepay the Note in whole or in part without penalty. The closing shall occur at the Company's principal place of business as soon as reasonably practicable and in any event within thirty (30) days following exercise of such right of first refusal. Any Transfer in violation of this provision shall be void.

13.2. **Substituted Member.** No Person taking or acquiring, by whatever means, the Units of any Member, other than pursuant to any Transfer pursuant to Section 13.1, shall be admitted as a Substituted Member without the Approval of the Governing Board, which Approval of the Governing Board may be unreasonably withheld, and unless such Person:

(a) elects to become a Substituted Member by delivering notice of such election to the Company;

(b) executes, acknowledges and delivers to the Company such other instruments as the Governing Board may deem necessary or advisable to effect the admission of such Person as a Substituted Member, including, without limitation, the written acceptance and adoption by such Person of the provisions of this Agreement; and

(c) pays a Transfer fee to the Company in an amount sufficient to cover all reasonable expenses connected with the admission of such Person as a Substituted Member.

13.3. **Basis Adjustment.** Upon the Transfer of all or any portion of the Units owned by a Member, at the request of the transferee of such Units, the Tax Matters Member may, in its sole discretion, cause the Company to elect, pursuant to Section 754 of the Code or the corresponding provisions of subsequent law, to adjust the basis of the Company's assets as provided by Sections 734 and 743 of the Code.

13.4. **Transfer Procedures.** The Managing Member shall establish a transfer procedure consistent with this Article 13 to ensure that all conditions precedent to the admission of a Substituted Member have been complied with, and shall, upon the written request of any Member, deliver to such Member a copy thereof.

13.5. **Invalid Transfer.** No Transfer of any Unit that is in violation of this Article 13 shall be valid or effective, and the Company shall not recognize any improper Transfer for the purposes of making allocations, payments of profits, return of capital contributions or other distributions with respect to such Unit. The Company may enforce the provisions of this Article 13 either directly or indirectly or through its agents by entering an appropriate stop transfer order on its books or otherwise refusing to register or transfer or permit the registration or transfer on its books of any proposed Transfers not in accordance with this Article 13.

13.6. **Additional Requirements for Admission to Company.** No Person shall be admitted as a Member if such admission would have the effect of causing the Company to be reclassified for federal income tax purposes as an association (taxable as a corporation under the Code), would violate any Medicare or other healthcare law, rule or regulation, or would violate applicable exemptions from securities registration and securities disclosure provisions under federal and state securities laws.

13.7. **Amendment to Exhibit A.** The Governing Board shall direct that Exhibit A attached hereto be amended from time to time to reflect the admission of any Substituted Member, the termination of any Member's interest in the Company or the modification of any other information set forth in Exhibit A.

14. DISSOLUTION

14.1. **Causes.** Each Member expressly waives any right which he or it might otherwise have to dissolve the Company except as set forth in this Article 14. The Company shall be dissolved upon the first to occur of the following:

- (a) the Super-Majority Approval of the Governing Board and the Approval of the Members;
- (b) the dissolution of the Company by judicial decree; and
- (c) the occurrence of any other event causing dissolution of the Company under the Act.

Nothing contained in this Section 14.1 is intended to grant to any Member the right to dissolve the Company at will (by retirement, resignation, withdrawal or otherwise), or to exonerate any Member from liability to the Company and the remaining Members if it dissolves the Company at will. Any dissolution at will of the Company, including dissolution caused under Section 14.1(b), shall be in contravention of this Agreement for purposes of the Act. Dissolution of the Company under Section 14.1(b) shall not constitute a dissolution at will. The Company shall not be dissolved by the replacement of the Governing Board or the Managing Member.

14.2. **Reconstitution.** If the Company is dissolved as a result of an event described in Section 14.1(b) or 14.1(c), the Company may be reconstituted and its business

continued if, within ninety (90) days after the date of dissolution, upon Approval of the Board. If the Company is reconstituted, an amendment to this Agreement shall be executed, and if and to the extent required by the Act, a Certificate of Amendment to the Certificate of Formation shall be filed with the Delaware Secretary of State.

15. WINDING UP AND TERMINATION

15.1. **Sale of Assets.** Unless otherwise Approved by the Members, at the time of liquidation, any property owned by the Company shall be sold for cash, and each Member shall have the right to bid competitively for any such asset being sold. Any cash received from the sale of the Company's assets shall be used first to pay the Company's debts to creditors other than the Members; provided, however, for this purpose, a Member which is owed money for goods or services provided to the Company or is entitled to indemnification pursuant to Article 12 shall be deemed an unrelated creditor. Any cash remaining after payments to creditors, other than the Members, shall be used to repay other debts to Members. Once all Member debt is repaid, the remaining cash received from the sale of the Company's assets shall be distributed to the Members in proportion to their positive Capital Account balances (after giving effect to adjustments to Capital Accounts through the date of distribution).

15.2. **Distributions in Accordance with Capital Accounts.** In the event the Company is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made in all cases, in accordance with the Members' positive Capital Account balances determined after all adjustments to the Members' Capital Accounts for the taxable year. Such distribution shall be made within the time periods required by Treasury Regulation Section 1.704-1(b). In the discretion of the Managing Member, a pro rata portion of the distributions that would otherwise be made to the Members may be:

(a) distributed to a trust established for the benefit of the Members for the purpose of liquidating Company assets, collecting amounts owed to the Company, and paying any contingent or unforeseen liabilities in connection with the Company or of the Class B Member arising out of or in connection with the Company. The assets of any such trust shall be distributed to the Members from time to time, in the reasonable discretion of the Managing Member, in the same proportions as the amount distributed to such trust by the Company would otherwise have been distributed the Members under this Agreement; and

(b) withheld to provide a reasonable reserve for Company liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Company, provided that such withheld amounts shall be distributed to the Members as soon as practicable in the same proportions as such amounts would otherwise have been distributed to the Members under this Article XV.

15.3. **Deemed Contribution and Distribution.** Notwithstanding any other provisions of this Article 15, in the event the Company is liquidated within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but the Company is not required to be dissolved and wound up pursuant to Section 14.1, the assets of the Company shall not be liquidated, the Company's liabilities shall not be discharged, and the Company's affairs shall not be wound up. Instead, solely for federal income tax purposes, the Company shall

be deemed to have contributed the assets and liabilities of the Company in kind to a new Company in exchange for an interest in the new Company. Immediately thereafter, the Company shall be deemed to have distributed interests in the new Company to the Members in proportion to their respective interests in the Company.

16. MISCELLANEOUS

16.1. Notices. All notices, requests and demands given pursuant to this Agreement shall be in writing and shall be deemed effective (a) on the date of delivery when personally delivered or delivered by overnight courier, telegram or facsimile (with receipt confirmed), or (b) three (3) business days after mailing if mailed by first-class United States mail, registered or certified with return receipt requested, with postage prepaid, to the Member at the Member's address set forth in the business records of the Company or such other address as may be designated from time to time in writing by a Member to the Company and all other Members. For purposes of notice, the addresses of the Members in the business records of the Company shall be as stated under their names on the attached Exhibit A until changed by the Members in a written notice to the Company and its other Members.

16.2. Amendments. Except as otherwise expressly provided in Section 13.7, in this Section 16.2 and in Section 16.3, amendments or modifications may be made to this Agreement only by setting forth such amendments or modifications in a document Approved by the Members, and any alleged amendment or modification herein which is not so documented shall not be effective as to any Member. The Governing Board may amend any provision of this Agreement and, through the Managing Member, execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith to reflect:

(a) a change in the location of the principal place of business of the Company, or a change in the registered office or the registered agent of the Company;

(b) qualification of the Company as a limited liability company under the laws of any state or that is necessary or advisable in the opinion of the Governing Board to ensure that the Company will not be treated as an association taxable as a corporation for federal income tax purposes, provided, in either case, such action shall not adversely affect any Member;

(c) a change (i) that is of an inconsequential nature and does not adversely affect the Members in any material respect; (ii) that is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or contained in any federal or state statute, compliance with which the Governing Board deems to be in the best interest of the Company and the Members and which does not materially affect the interest of any Member in the capital, profits or losses of, or distributions or allocations of the Company, or a Member's rights of voting or approval as to the business of, or the right to appoint to boards or committees of the Company; or (iii) that is required or contemplated by this Agreement; or

(e) an amendment required pursuant to Section 16.3.

16.3 **Consolidation.** It is the intention of the Members that the Class B Member shall have such rights as are necessary for NeoSpine to be able to consolidate the financial results of operations and financial condition of the Company with the financial results of operations and financial condition of NeoSpine under applicable requirements of GAAP, as such may change from time to time. Notwithstanding any provision in this Agreement to the contrary, the Class B Member may amend this Agreement without the approval of any other Member as necessary from time to time to add, amend or delete such provisions as necessary in the reasonable opinion of NeoSpine's independent certified accountants to permit NeoSpine to report the results of operations of the Company on the consolidation method of accounting under applicable GAAP in the future.

16.4. **Exhibits.** Each Exhibit to this Agreement is incorporated herein for all purposes.

16.5. **Entire Agreement.** This Agreement supersedes all previous operating agreements, and constitutes the entire agreement of whatsoever kind or nature existing between or among the Members respecting the subject matter contained herein and no Member shall be entitled to benefits other than those specified herein. As between or among the Members, no oral statements not specifically incorporated herein shall be of any force and effect. This Agreement may be executed in two or more counterparts, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

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

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

16.8. **Severability.** In the event any provision of this Agreement is held to be invalid, illegal or unenforceable for any reason and in any respect, such invalidity, illegality, or unenforceability shall in no event affect, prejudice or disturb the validity of the remainder of this Agreement, which shall be and remain in full force and effect, enforceable in accordance with its terms. The Members further agree that, if any provision contained herein is, to any extent, held invalid or unenforceable in any respect under the laws governing this Agreement, they will take any reasonable actions necessary to render the remaining provisions of this Agreement valid and enforceable to the fullest extent permitted by law and, to the extent reasonably necessary, will amend or otherwise modify this Agreement to replace any provision contained herein that is held invalid or unenforceable with a valid and enforceable provision giving effect to the intent of the parties.

16.9. **Governing Law.** This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without regard to its principles of conflicts of laws.

16.10. **Benefit/Assignment.** Subject to provisions herein to the contrary, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives, successors and assigns; provided, however, that nothing

contained herein shall negate or diminish the restrictions set forth in Articles 10 or 13 hereof. This Agreement is intended solely for the benefit of the parties hereto and is not intended to, and shall not, create any enforceable third party beneficiary rights.

16.11. Waiver. Failure by any party to enforce any of the provisions hereof for any length of time shall not be deemed a waiver of its rights set forth in this Agreement. Such a waiver may be made only by an instrument in writing signed by the party sought to be charged with the waiver. No waiver of any condition or covenant of this Agreement shall be deemed to imply or constitute a further waiver of the same or any other condition or covenant, and nothing contained in this Agreement shall be construed to be a waiver on the part of the parties of any right or remedy at law or in equity or otherwise.

16.12. Attorneys' Fees. In the event a party elects to incur legal expenses to enforce, defend or interpret any provision of this Agreement by judicial proceedings, the prevailing party will be entitled to recover such legal expenses, including, without limitation, reasonable attorneys' fees, costs and necessary disbursements at all court levels, in addition to any other relief to which such party shall be entitled.

16.13. Time. Time is of the essence with respect to all provisions of this Agreement.

16.14. Business Day. Should any due date hereunder fall on a Saturday, Sunday or legal holiday, then such due date shall be deemed timely if given on the first business day following such Saturday, Sunday or legal holiday.

16.15. Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO DEMAND THAT ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE RELATIONSHIPS OF THE PARTIES HERETO BE TRIED BY JURY. THIS WAIVER EXTENDS TO ANY AND ALL RIGHTS TO DEMAND A TRIAL BY JURY ARISING FROM ANY SOURCE INCLUDING, BUT NOT LIMITED TO, THE CONSTITUTION OF THE UNITED STATES OR ANY STATE THEREIN, COMMON LAW OR ANY APPLICABLE STATUTE OR REGULATIONS. EACH PARTY HERETO ACKNOWLEDGES THAT IT IS KNOWINGLY AND VOLUNTARILY WAIVING ITS RIGHT TO DEMAND TRIAL BY JURY.

16.16. Construction. This Agreement has been negotiated at arms length and each Member has been given the opportunity to be represented by independent legal counsel, and to the extent a Member has deemed it necessary to do so, the Member has consulted with independent counsel. Accordingly, any rule of law or legal decision that would require interpretation of any ambiguities in this Agreement against the party drafting it is not applicable and is waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intent of the parties and the purposes of this Agreement.

16.17. Waiver of Partition. Notwithstanding any statute or principle of law to the contrary, each Member hereby agrees that, during the term of the Company, it shall have no right (and hereby waives any right that it might otherwise have had) to cause any Company asset to be partitioned and/or distributed in kind.

16.18. Additional Documents. Each Member agrees to perform all further acts and execute, acknowledge and deliver any documents that may be reasonably necessary, appropriate or desirable to carry out the provisions of this Agreement.

16.19. Confidentiality. Each Member will hold in confidence, and not use to the detriment of the other Members or the Company, and will cause its representatives to hold in confidence, and not use to the detriment of the other Members or the Company, any confidential or proprietary information it receives regarding the Company, any other Member or any of the Affiliates thereof (the "Confidential Information"). Failure to mark information as confidential or proprietary will not adversely affect its status as Confidential Information. Each Member shall not, at any time, discuss or disclose any of the Confidential Information to any third party or take any action that could compromise the confidentiality of the Confidential Information without the written consent of the Company or the other Member to which such Confidential Information relates, as applicable. The obligations of the Members hereunder will not apply to the extent that (i) any such information was already known to such Member or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such Member, or (ii) the disclosure of such information is required by applicable law; provided, however, that prior to disclosing such Confidential Information, a Member must notify the Company or other Member to which such Confidential Information relates, as applicable, which notice will include the basis upon which such Member believes the information is required to be disclosed. In the event a Member ceases to be a member of the Company for any reason, the restrictions on such Member's use of the Confidential Information as provided herein will continue in effect and, upon the request of the Company or other Member to which the Confidential Information relates, such Member will promptly return to the Company and/or such other Member any Confidential Information with respect to the Company or such other Member that it has in its possession. The Members acknowledge and agree that any aggrieved party would be damaged irreparably in the event of a breach of this Section 16.19 and that any such breach could not be adequately compensated by monetary damages. Accordingly, each Member agrees that, in addition to any other right or remedy to which the Company or any aggrieved Member may be entitled, at law or in equity, the Company or any aggrieved Member will be entitled to enforce this Section 16.19 by temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of this Section 16.19, without posting any bond or other undertaking. Notwithstanding the foregoing, the Managing Member shall have the right to use any technical or business expertise obtained during the course of its ownership hereunder in connection with its management of any other stereotactic radiosurgery or radiation therapy operation.

IN WITNESS WHEREOF, the Members have executed this Operating Agreement as of the date first above written.

MEMBERS:

**Initial Class B Member and on behalf of
all Class A Members (as Power of
Attorney):**

**US. RADIOSURGERY OF SAN DIEGO,
LLC**

By: _____

Name: _____

Title: _____

EXHIBIT A

MEMBERS' OWNERSHIP INTERESTS

	# of Units	Capital Contribution
CLASS B MEMBERS		
U.S. Radiosurgery of San Diego, LLC c/o NeoSpine, LLC 40 Burton Hills Boulevard, Suite 320 Nashville, Tennessee 37215 Attention: Gregory E. Spurlock Fax No.: (615) 665-8228		
with a copy of any notice given hereunder to:		
Waller Lansden Dortch & Davis, LLP 511 Union Street, Suite 2700 Nashville, Tennessee 37219-1760 Attention: Joseph A. Sowell, III, Esq. Fax No.: (615) 244-6804		
CLASS A MEMBERS		
TOTAL:		

RESTRICTION ON OWNERSHIP AGREEMENT

THIS RESTRICTION ON OWNERSHIP AGREEMENT ("Agreement") is entered into as of _____, 200__, by and between _____, LLC, a Delaware limited liability company (the "Company"), and _____ ("Owner"), an individual residing in the State of California and an Owner of _____, a _____ ("Physician Entity"), with reference to the following facts and objectives:

RECITALS:

WHEREAS, Physician Entity is a Member in the Company;

WHEREAS, each of the Members in the Company is subject to certain negative covenants contained in Section 10.3 of the Operating Agreement, as the same may be amended from time to time (the "Operating Agreement");

WHEREAS, Owner will realize a substantial benefit from the Physician Entity being a Member in the Company; and

WHEREAS, the Company would not have admitted the Physician Entity as a Member without Owner's execution of this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein set forth, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Terms capitalized herein and not defined will have the same identical meaning as set forth in the Operating Agreement unless the context otherwise requires.

2. Restriction on Ownership Provision.

2.1 Each Owner agrees that while the Physician Entity is a Member and for a period of two years thereafter, neither he nor any of his Affiliates shall, directly or indirectly, own an interest in, lease, manage, joint venture with or be employed by a Competing Business that is located in San Diego County, California (the "Restricted Area"). Nothing in this Section 2.1 is intended to prevent Owner from performing surgery at another facility. A violation of this Section 2.1 by Owner shall be treated as a Terminating Event under the Operating Agreement.

2.2 Each Owner agrees that the restrictions contained in Section 2.1 are reasonable and necessary to protect the legitimate interests of the Company and that any violation of this provision would result in damages to the Company which cannot be compensated by money alone. Each Owner agrees that the Company will be entitled to injunctive relief without proving actual damages or posting any bond. If a court shall hold that the duration and/or scope (geographic or otherwise) of the agreement contained in Section 2.1 is unreasonable, then, to the extent permitted by law, the court may prescribe a

duration and/or scope (geographic or otherwise) that is reasonable and judicially enforceable. The parties agree to accept such determination, subject to their rights of appeal, which the parties hereto agree shall be substituted in place of any and every offensive part of Section 2.1, and as so modified, Section 2.1 shall be as fully enforceable as if set forth herein by the parties in the modified form.

3. Transfer. Owner agrees that he will not Transfer his ownership interest in Physician Entity, other than to the Physician Entity or a Physician Investor, without the approval of the Company.

4. Specific Enforcement. Owner acknowledges and agrees that any violation of the provisions of Section 2.1 or Section 3 hereof will result in irreparable injury to the Company, that the remedy at law for any violation or threatened violation of such Section will be inadequate and that, in the event of any such breach, the Company, in addition to any other remedies or damages available to it at law or in equity, shall be entitled to temporary injunctive relief before trial from any court of competent jurisdiction as a matter of course and to permanent injunctive relief without the necessity of posting bond or proving actual damages.

5. Assignment. This Agreement may not be assigned by the Company except to an Affiliate of the Company; provided, however, that if the Company shall merge or effect a share exchange with or into, or sell or otherwise transfer substantially all its assets to, another corporation, the Company may assign its rights hereunder to that corporation.

6. Notices. Any notice or other communications under this Agreement shall be in writing, signed by the party making the same, and shall be delivered personally or sent by certified or registered mail, postage prepaid, addressed as follows:

If to Owner:

Telephone No.: _____
Facsimile No.: _____

If to the Company:

_____, LLC
c/o NeoSpine, LLC
40 Burton Hills Boulevard, Suite 320
Nashville, Tennessee 37215
Telephone No.: (615) 665-8220
Facsimile No.: (615) 665-8228
Attention: President

With a copy to:

Waller Lansden Dortch & Davis, LLP
511 Union Street, Suite 2700
Nashville, Tennessee 37219
Telephone No.: (615) 244-6380
Facsimile No.: (615) 244-6804
Attention: Joseph A. Sowell, III, Esq.

or to such other address as may hereafter be designated by either party hereto. All such notices shall be deemed given on the date personally delivered or mailed.

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7. Governing Law; Waiver of Jury Trial. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware without regard to its principles of conflicts of laws. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO DEMAND THAT ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE RELATIONSHIPS OF THE PARTIES HERETO BE TRIED BY JURY. THIS WAIVER EXTENDS TO ANY AND ALL RIGHTS TO DEMAND A TRIAL BY JURY ARISING FROM ANY SOURCE INCLUDING, BUT NOT LIMITED TO, THE CONSTITUTION OF THE UNITED STATES OR ANY STATE THEREIN, COMMON LAW OR ANY APPLICABLE STATUTE OR REGULATIONS. EACH PARTY HERETO ACKNOWLEDGES THAT IS KNOWINGLY AND VOLUNTARILY WAIVING ITS RIGHTS TO DEMAND TRIAL BY JURY.

8. Legal Fees and Costs. In the event a party elects to incur legal expenses to enforce, defend or interpret any provision of this Agreement by judicial proceedings, the prevailing party will be entitled to recover such legal expenses, including, without limitation, reasonable attorneys' fees, costs and necessary disbursements at all court levels, in addition to any other relief to which such party shall be entitled.

9. Modification. No modification of this Agreement or waiver of any covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith and no evidence of any waiver or modification shall be offered or received in evidence of any proceeding, arbitration or litigation between the parties hereunder, unless such waiver or modification is in writing, duly executed as aforesaid and the parties further agree that the provisions of this Section may not be waived except as herein set forth.

10. Entire Agreement. This Agreement contains the entire agreement of the parties hereto with respect to the subject matter contained herein. There are no restrictions, promises, covenants or undertakings, other than those expressly set forth herein. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter. This Agreement may not be changed except by a writing executed by the parties.

11. Term. This Agreement shall terminate upon the date that the Physician Entity disposes of its entire Membership Interest in the Company.

12. Conflicts. Nothing herein contained shall in any way conflict, directly or indirectly, with the provisions of the Operating Agreement. In the event of any such direct or indirect conflict, the conflicting provisions of the Operating Agreement shall prevail in each and every respect.

Remainder of page intentionally left blank.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the day and year first above written.

_____, LLC

By: _____
Name: _____
Title: _____

OWNER:

Print Name: _____

LEASE

by and between

PALOMAR POMERADO HEALTH

a California Health District, organized under Section 23 of the California Health and Safety Code,

as Landlord,

and

SAN DIEGO CYBER KNIFE, LLC,
a Delaware limited liability company,

as Tenant

555 E. Valley Parkway,

Escondido, California

LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease") is made and entered into effective as of the 1st day of January, 2008 (the "Effective Date"), by and between PALOMAR POMERADO HEALTH a California health district, organized under Section 23 of the California Health and Safety Code, as landlord ("Landlord"), and SAN DIEGO RADIOSURGERY, LLC, a Delaware limited liability company, as tenant ("Tenant").

1. **PREMISES.** Landlord is the fee owner of that certain tract of real property situated at 555 E. Valley Parkway, Escondido, California, and more particularly described in Exhibit A attached hereto and incorporated herein (the "Property"), and all improvements located thereon, including a hospital building (the "Hospital Building"). Landlord operates and acute care hospital known as Palomar Medical Center (the "Hospital") on the Property. Landlord hereby leases to Tenant, and Tenant leases from Landlord, upon the terms and conditions herein set forth, that certain space located within the Property consisting of approximately 1,500 square feet of shelled space within which Tenant, at its sole cost and obligation, will make certain real property improvements for placement of the Equipment pursuant to the Work Letter (as defined in Section 4 below) in the location shown on Exhibit B attached hereto and incorporated herein (the "Premises"). Tenant and its employees agents, customers, patients and invitees shall have the right to the non-exclusive use of such unreserved automobile parking spaces, driveways, sidewalks and walkways, elevators, stairwells, plazas, lobbies, hallways, public restrooms, general landscaping, and other facilities designated for common use within the Building (collectively, the "Common Areas"). The lease to Tenant of the Premises includes all appurtenances thereto. The parking areas, including any parking garage, shall be available for use 24 hours a day, every day of the year and shall be (i) illuminated at all times in at least such manner as shall be required by applicable laws and the reasonable safety of those using the facility and (ii) kept and maintained by Landlord in a clean, safe and first-class condition. Landlord shall also implement reasonable security procedures for any parking areas. So long as Tenant's parking rights are not adversely affected or parking availability is materially affected, Landlord shall have the right to restrict use of specific parking spaces, from time to time for the reserved, exclusive use of other tenants, occupants or users of the Building or such parking spaces.

2. **RENT.** Tenant agrees to pay to Landlord annual rent in the amount of _____ (\$ _____), which shall be payable in equal monthly installments of _____ (\$ _____) ("Rent") at such place as Landlord may designate from time to time (such change in location to be made at least thirty (30) days prior to the next due date), without prior demand therefore, without offset or deduction unless otherwise set forth herein and in advance on or before the first day of each calendar month during the Term, commencing on the Rental Commencement Date (as defined below). In the event the Rental Commencement Date occurs on a day other than the first day of a calendar month, then the Rent to be paid on the Rental Commencement Date shall include both the Rent for the first full calendar month occurring after the Rental Commencement Date, plus the Rent for the initial fractional calendar month prorated on a per-diem basis.

Rent hereunder is a "modified gross rent" rate and Landlord shall pay certain operating expenses relating to the Premises, including, without limitation (i) all real estate taxes and assessments with respect to the Building and the Property; (ii) the cost of the insurance maintained by Landlord insuring the Building or the Property but not the improvements and / or Equipment; (iii) the cost of all maintenance and repairs of the shell provided by Landlord pursuant to this Lease; and (iv) the cost of utilities provided by Landlord pursuant to this Lease.

Tenant's obligation to pay Rent hereunder shall commence on the date that is the earlier of (i) ten (10) days after completion of the T.I. Work (as defined in Section 4 below) and Tenant's receipt of a Certificate of Occupancy or (ii) the date Tenant opens for business in the Premises (the "**Rental Commencement Date**"). Within five (5) days after Landlord's or Tenant's request to do so, Landlord and Tenant shall execute a written Commencement Date Memo, in substantially the form attached hereto as Exhibit C attached hereto and incorporated herein, expressing the Rental Commencement Date and the termination date.

All payments of Rent, shall be made on a timely basis and shall be payable to Landlord or as Landlord may otherwise designate. All such payments shall be mailed, wired or delivered to Landlord's principal office set forth in Section 19, or at such other place as Landlord may designate from time to time in writing at least thirty (30) days before due. If mailed, all payments shall be mailed in sufficient time and with adequate postage thereon to be received by Landlord, or in Landlord's account if wired, by no later than the due date for such payment. If Tenant shall fail to pay any Rent any other amounts or charges when due, Tenant shall pay a late fee in the amount of \$50.00.

3. TERM; TERMINATION RIGHT. The initial term of this Lease (the "**Initial Term**") shall commence on the Rental Commencement Date and continue for ten (10) years thereafter. Tenant shall have the right to extend the Initial Term for three (3) consecutive periods of two (2) years each (each a "**Renewal Term**") by providing Landlord written notice of its intention to extend at least sixty (60) days prior to the end of the then current term. The Initial Term and Renewal Term(s), if applicable, shall be referred to collectively as the "**Term**". The period between the date Landlord actually delivers possession of the Premises ready for Tenant's T.I. Work and the commencement of the Term shall be designated as the "**Preliminary Term**" during which no Rent shall accrue. However, all other covenants and obligations of Tenant hereunder shall be in full force and effect.

Notwithstanding anything to the contrary contained herein, in the event that certain Service Agreement by and between Landlord and Tenant dated January 1, 2008 terminates for any reason, then Tenant shall have the option, in its sole discretion, to terminate this Lease upon thirty (30) days written notice to Landlord.

4. DELIVERY OF POSSESSION; CONSTRUCTION. On or before January 1, 2008 ("**Possession Date**"), Landlord shall deliver the Premises to Tenant with any work to be performed by Landlord, which shall include a vault used in connection with Tenant's business pursuant to the Work Letter (the "**Landlord Work**") completed and ready for Tenant to construct all tenant improvements in the space as deemed necessary by Tenant (collectively, the "**Tenant Improvements**") in accordance with Exhibit D attached hereto and incorporated herein (the "**Work Letter**"). Landlord shall have no initial construction obligation other than the

Landlord Work; instead Tenant shall construct the and install all Tenant Improvements as provided herein (collectively, the "T.I. Work"). For purposes of this Section, the Tenant Improvements may be made by Landlord for the benefit of and sole cost of the Tenant. Regardless of the constructing party, Landlord reserves the right to require any and all of the Tenant Improvements to be made in accordance with its specifications, including regulatory permits, approvals, choice of materials, and construction techniques and safeguards. All attachments to core systems, including, but not limited to electrical, water, gas, and HVAC, shall be the cost of the Tenant but under the strict direction and control of the Landlord.

Tenant agrees to furnish to Landlord with a complete and detailed set of plans and specifications drawn by Tenant's architect, reasonably acceptable to Landlord, setting forth and describing the T.I. Work in such detail as Landlord may reasonably require, unless this requirement be waived in writing by Landlord. If said plans and specifications are not so furnished by Tenant within thirty (30) days after the Effective Date of this Lease, then Landlord may notify Tenant thereof, and Tenant shall have an additional thirty (30) days to provide such plans, and if Tenant fails to provide such plans after such additional thirty (30) day period, then Landlord may, at its option, cancel this Lease at any time thereafter while such plans and specifications have not been so furnished. No material deviation from the final set of plans and specifications once submitted to and approved by Landlord, shall be made by Tenant without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed; provided, however that Landlord's consent shall not be required for changes required by any governmental authority or utility. Landlord shall have the right to approve Tenant's contractor to be used in performing T.I. Work, such approval not to be unreasonably withheld, conditioned or delayed, and the right to require and approve insurance or bonds provided by Tenant or such contractor.

Landlord reserves the right to construct other improvements on the Property from time to time, so long as the parking ratio adequate to meet local laws and ordinances is maintained and Tenant's use of the Premises, or access thereto, is not adversely affected.

5. USE OF PREMISES. Tenant shall use the Premises solely for the purpose of conducting a stereotactic radiosurgery center and related uses. Notwithstanding the foregoing, Tenant shall make the Premises available to the Landlord under the terms and conditions of that certain Block Lease Agreement of even date. Tenant shall not make any use of the Premises which might cause cancellation or an increase in the cost of any insurance policy covering the same, or caused to be used therein any article, item, or thing which is prohibited by the standard form of fire insurance policy. Tenant shall not commit any waste upon the Premises. Tenant shall not commit or suffer to be committed any waste upon the Premises, or any nuisance or other act or thing which may disturb the quit enjoyment of any other tenant in the Building.

Subject to Section 11 below, Tenant shall comply with and abide by all laws, ordinances, and regulations of all municipal, county, state, and federal authorities which are now in force or which may hereafter become effective with respect to use and occupancy of the Premises. Landlord represents and warrants that, to the best of its knowledge, the Building complies with all currently applicable laws, ordinances and regulations of municipal, county, state and federal authorities.

6. **HAZARDOUS SUBSTANCES.** Landlord shall remove any Hazardous Substances existing on the Premises prior to the Possession Date. Landlord represents and warrants to Tenant that there are no Hazardous Substances (as defined below) within the Premises as of the Effective Date and the Possession Date. Tenant shall not use, produce, store, release, dispose or handle in or about the Premises or transfer to or from the Premises (or permit any other party to do such acts) any Hazardous Substance except in compliance with all applicable Environmental Laws (as defined below). Tenant shall immediately notify Landlord of (i) the existence of any Hazardous Substance on or about the Premises that is actually known to Tenant and in Tenant's opinion may be in violation of any Environmental Law (regardless of whether Tenant is responsible for the existence of such Hazardous Substance), (ii) any proceeding or investigation by any governmental authority regarding the presence of any Hazardous Substance on the Premises of which Tenant has actual knowledge, (iii) all claims made or to Tenant's actual knowledge, threatened by any third party against Tenant relating to any loss or injury resulting from any Hazardous Substance, or (iv) Tenant's notification of the National Response Center of any release of a reportable quantity of a Hazardous Substance in or about the Premises. Landlord and Tenant acknowledge and agree that Hazardous Substances, including radiation, will be used and generated in connection with Tenant's business, and that Tenant shall comply will all applicable Environmental Laws.

As used herein, "**Hazardous Substance**" shall mean any substance that is (i) defined under any Environmental Law as a hazardous substance, hazardous waste, hazardous material, pollutant or contaminant, (ii) a petroleum hydrocarbon, including crude oil or any fraction or mixture thereof, (iii) hazardous, toxic, corrosive, flammable, explosive, infectious, radioactive, carcinogenic or a reproductive toxicant, or (iv) otherwise regulated pursuant to any Environmental Law. As used herein, "**Environmental Law**" shall mean any federal, state or local statute, ordinance, rule, regulation or guideline pertaining to health, industrial hygiene, or the environment, including without limitation, the federal Comprehensive Environmental Response, Compensation, and Liability Act.

If it is determined that any Hazardous Substance in violation of Environmental Laws exists on the Premises resulting from any act of Tenant or its employees, agents, contractors, licensees, subtenants or customers, then Tenant shall immediately take necessary action to cause the removal of said Hazardous Substance and shall remove such within ten (10) days after discovery. Notwithstanding the above, if the Hazardous Substance is of a nature that can not be reasonably removed within ten (10) days, then Tenant shall not be in default if Tenant has commenced to cause such removal and proceeds diligently thereafter to complete removal, except that in all cases, any Hazardous Substance must be removed within sixty (60) days after discovery thereof. Furthermore, notwithstanding the above, if in the good faith judgment of Landlord, the existence of such Hazardous Substance creates an emergency or is of a nature which may result in immediate physical danger to persons at the Property, Landlord may enter upon the Premises and remove such Hazardous Substances and charge the cost thereof to Tenant.

7. **COMMON AREAS.** All Common Areas shall at all times be subject to the exclusive control and management of Landlord. Landlord may from time to time establish, modify and enforce reasonable Rules and Regulations with respect to Common Areas and Tenant shall comply with such Rules and Regulations so long as a copy thereof is provided to Tenant and such Rules and Regulations are not inconsistent with the terms of this Lease.

Landlord shall have the right to construct, maintain and alter the Common Areas and to do and perform such other acts in and to said areas and improvements as, in the exercise of good business judgment, the Landlord shall determine to be advisable but in no event shall Tenant's access to the Premises be interrupted or shall Tenant's use of the Premises or Common Areas be adversely affected.

8. ALTERATIONS. After the T.I. Work is completed, Tenant shall not make or suffer to be made any alterations or additions to the Premises or any part thereof without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that minor interior alterations which do not affect the structural integrity of the Building or the Building systems, and cost less than \$40,000 each, may be performed without Landlord's consent. Any additions to, or alterations of the Premises except movable furniture, equipment and trade fixtures shall become a part of the realty and belong to Landlord upon the termination of this Lease or other termination or surrender of the Premises to Landlord.

9. SIGNS. Tenant shall not place or suffer to be placed or maintained on any exterior door, wall or window of the Premises, or elsewhere in the Building, any sign, without first obtaining Landlord's written approval; provided, however, that Tenant shall have the right to have appropriate banner and directional signage as allowed under state and local code. Tenant shall maintain such signage in good condition and repair at all times. Landlord may establish rules and regulations governing the size, type and design of all signs and Tenant agrees to abide by same so long as a copy thereof is delivered to Tenant and such rules and regulations are not inconsistent with the terms of this Lease.

10. UTILITIES; SERVICES. As a part of operating expenses, Landlord shall provide to the Premises:

(a) Air conditioning and heat at reasonable temperatures for Tenant's intended use, Monday through Friday from 7:00 a.m. - 7:00 p.m. At Tenant's request, Landlord may provide these or any other services at additional operating hours in excess of those listed above, however, Landlord reserves the right to charge Tenant reasonable costs for such excess services and such charge shall be payable as additional Rent.

(b) Electric power for Tenant's intended use, Monday through Friday from 7:00 a.m. - 7:00 p.m.

(c) Water sufficient for Tenant's intended use.

Tenant shall be responsible for all costs of telephone and information technology installations and service, which installations shall be subject to the prior approval of Landlord. Tenant covenants to use good faith efforts to reasonably conserve utilities by turning off lights and equipment when not in use and taking such other reasonable actions in accordance with sound standards for energy conservation. Landlord shall not be liable for and Tenant shall not be entitled to terminate this Lease or to effectuate any abatement or reduction of Rent by reason of Landlord's failure to provide or furnish any of the foregoing utilities or services if such failure was reasonably beyond the control of Landlord.

11. MAINTENANCE. (a) Landlord shall maintain and repair: (1) the areas outside the Premises including all Common Areas; (2) the Building structure including roof, exterior walls, and foundation; and (3) all plumbing, electrical, heating, air conditioning and other Building systems. However, if the need for such repairs or maintenance results from any wrongful or negligent act or omission of Tenant, Tenant shall pay the entire cost of any such repair or maintenance, to the extent not covered by Landlord's insurance. Landlord shall not be obligated to repair any damage or defect until receipt of written notice from Tenant of the need of such repair and Landlord shall have a reasonable time after receipt of such notice in which to make such repairs. Tenant shall give immediate notice to Landlord in case of fire or accidents in the Premises or of known defects therein or defects in any fixtures or equipment provided by Landlord. In the event Landlord fails to comply with its obligations hereunder, then Tenant may undertake to perform such covenant or agreement (but shall not have any obligation to do so) at Landlord's expense and Landlord shall reimburse Tenant within thirty (30) days after demand, or Tenant may off-set such amount against Rent coming due.

(b) Tenant, at its sole expense, shall provide its own janitorial service, or through Landlord's then existing provider of service, and keep and maintain the interior of the Premises, including the interior wall surfaces and windows, floors, floor coverings and ceilings, in a clean, sanitary and safe condition. Tenant shall comply with all requirements of law affecting said Premises; provided, however, that if the Premises are in compliance with all laws as of the Rental Commencement Date, but subsequent thereto a change, alteration, or correction to the Premises shall be required by any governmental authority, then Landlord shall cause such change, alteration or correction to be made at its sole cost unless required due to Tenant's specific use of the Premises. Tenant shall pay, when due, all valid claims for labor or material furnished to or for Tenant at or for use in the Premises, and shall bond such work if reasonably required by Landlord to prevent assertion of claims against Landlord.

12. SURRENDER AND RIGHTS UPON TERMINATION.

This Lease and the tenancy hereby created shall cease and terminate at the end of the Term, without the necessity of any notice from either Landlord or Tenant to terminate the same, and Tenant hereby waives notice to vacate the Premises and agrees that Landlord shall be entitled to the benefit of all provisions of law respecting summary recovery of possession of Premises from a Tenant holding over to the same extent as if statutory notice has been given. Upon termination of this Lease at any time and for any reason whatsoever, Tenant shall surrender and deliver up the Premises, including the Tenant Improvements intact subject to Landlord's sole discretion and election, to Landlord in substantially as good a condition and repair as on the Possession Date, ordinary wear and tear and casualty excepted. Upon request of Landlord, Tenant shall promptly remove all personal property from the Premises and repair any damage caused by such removal. Personal Property not removed upon surrender shall inure to the Landlord without an encumbrance to title.

13. INSURANCE; WAIVER OF SUBROGATION. (a) Tenant shall, at its expense, maintain during the Term, commercial general liability insurance, including contractual liability insurance and property damage insurance under policies issued by insurers of recognized responsibility and reasonably approved by Landlord, with limits of not less than Three Million Dollars (\$3,000,000.00) for personal injury, bodily injury, death, or for any damage or injury to

or destruction of property (including the loss of use thereof) for any one occurrence. Tenant's liability policies shall name Landlord, as additional insured. Tenant shall also maintain worker's compensation insurance for all of its employees in statutory limits in the State of California and employers liability insurance, which affords not less than Five Hundred Thousand Dollars (\$500,000) for each coverage. Tenant shall maintain Special Form Causes of Loss property insurance for all of Tenant's personal property, improvements, fixtures and equipment in the Premises in an amount as Tenant may desire or require in respect to Tenant's personal property, improvements, fixtures and equipment and Landlord shall have no obligation in respect to such insurance or losses. All property kept or stored on the Premises by Tenant or with Tenant's permission shall be so done at Tenant's sole risk.

(b) Landlord shall maintain at all times during the Term, at its expense, (i) standard "Special Form" property insurance covering the Building and all systems and facilities, in amounts consistent with all its Buildings, systems and facilities (excluding Tenant Improvements) at the time in question, (ii) commercial general liability insurance, including contractual liability, in respect of the Property, the Building and all systems and facilities and the conduct or operation of business therein and thereon, with Tenant as additional insured, with limits consistent with coverage maintained for its other business affairs.

(c) Tenant will not permit said Premises to be used for any purpose which would render the insurance thereon void or cause cancellation thereof or increase the insurance risk or increase the insurance premiums in effect prior to the Possession Date. Tenant agrees to pay the total amount of any increase in the insurance premium of Landlord over that in effect prior to the Possession Date resulting from Tenant's use of the Premises.

(d) All of Tenant's and Landlord's insurance shall be primary insurance in customary form and substance and written by companies licensed to do business in the State in which the Building is located and reasonably acceptable to Landlord and Tenant (respectively) and shall specifically provide that such policies shall not be subject to cancellation or other change or amendment except after at least thirty (30) days prior written notice to Landlord and Tenant (respectively). Copies of certificates evidencing the policies and any endorsements thereto shall be deposited with Landlord and Tenant (respectively) on or prior to the Possession Date and upon each renewal of such policies, which renewal shall be effected not less than thirty (30) days prior to the expiration date of the term of such coverage.

(e) To the extent that the Tenant carries hazard insurance on any of its property in the Premises and to the extent that the Landlord carries hazard insurance on the Property or Building, each policy of insurance shall contain, if obtainable from the insurer selected by the Tenant or the Landlord, as the case may be, without additional expense, a provision waiving subrogation against the other party to this Lease. If such provision can be obtained only at additional expense, the obligation to obtain such provision shall continue if the other party, on notice shall pay the amount of such additional expense. Each of the parties hereto hereby releases the other with respect to any liability which the other may have for any damage by fire or other casualty with respect to which the party against whom such release is claimed shall be insured under a policy or policies of insurance maintained or required to be maintained hereunder, containing such provision waiving subrogation. Nothing contained in this paragraph shall be

deemed to relieve either party of any duty imposed elsewhere in this Lease to repair, restore or rebuild or to nullify any abatement or rents provided for elsewhere in this Lease.

14. INDEMINIFICATION. (a) Tenant agrees to indemnify, defend and hold Landlord and Landlord's officers, directors, members, managers, employees and lenders (the "**Landlord's Indemnified Parties**") harmless from and against any and all claims, costs, expenses, liability, expense and damage resulting, directly or indirectly from (i) any occurrence in, on or about the Premises unless arising from an act or omission of any of the Landlord's Indemnified Parties, (ii) any breach of this Lease by Tenant, or (iii) any negligent or willful act of Tenant and its agents, contractors, employees, subtenants, licensees, officer, directors, members and managers which occurs on the Premises, in the Building or on the Property during the Term; provided, however, that Tenant's obligations under this paragraph shall not be effective to the extent such claims, costs, expenses, liability, and damages related to losses covered by casualty insurance maintained by Landlord with respect to the Premises, or were caused by or resulted from a defect in the construction of the Building.

(b) Landlord agrees to indemnify, defend and hold Tenant and Tenant's officers, directors, members, managers, employees and lenders (the "**Tenant's Indemnified Parties**") harmless from and against any and all claims, costs, expenses, liability, expense and damage resulting, directly or indirectly from (i) any negligent or willful act of Landlord and its agents, contractors, employees, subtenants, licensees, officer, directors, members and managers which occurs on the Premises, in the Building or on the Property during the Term, or (ii) any breach of this Lease by Landlord; provided, however, that Landlord's obligations under this paragraph shall not be effective to the extent such claims, costs, expenses, liability, and damages related to losses covered by casualty insurance maintained by Tenant.

15. ESTOPPEL STATEMENT. Landlord and Tenant agree, within ten (10) business days after request therefore by either party, to execute and deliver to the other party a statement in writing, certifying (i) that this Lease is in full force and effect, (ii) the date of commencement of the Term of this Lease, (iii) that Rent is paid currently without any off-set or defense thereto, and the date to which paid; (iv) the amount of Rent, if any paid in advance, and (v) that there are no uncured defaults by the other party or stating those claimed.

16. ATTORNMENT. Tenant shall, in the event any proceedings are brought for the foreclosure of, or in the event of exercise of the power of sale under any mortgage or deed of trust made by Landlord covering the Premises, attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Landlord under this Lease.

17. SUBORDINATION. Tenant agrees that this Lease shall, at the request of Landlord, be subordinate to any first mortgages, deeds of trust, revenue bond covenants, and general obligation bond covenants that may hereafter be placed upon said Premises and to any and all advances to be made there under, and to the interest thereon, and all renewals, replacements and extensions thereof, provided the mortgagees or trustees named in said mortgages or deeds of trust shall agree in writing, in form and substance reasonably acceptable to Tenant, to recognize this Lease and Tenant's interest in the Premises in the event of foreclosure, so long as Tenant is not in default of this Lease beyond applicable cure periods. Such non-disturbance agreement shall provide that (i) Tenant will not be named or joined in any

proceeding to enforce the deed of trust or mortgage unless such be required by law in order to perfect the proceeding, (ii) enforcement of any deed of trust or mortgage shall not terminate this Lease or disturb Tenant in the possession and use of the Premises (except in the case where Tenant is in default beyond the applicable cure period), (iii) any party succeeding to the interest of Landlord as a result of the enforcement of any deed of trust or mortgage shall be bound to Tenant, and Tenant shall be bound to it, under all the terms, covenants, and conditions of this Lease, for the balance of the term of this Lease, including renewal, termination or expansion rights, (iv) insurance proceeds and condemnation awards shall be first applied as provided in this Lease and (v) wherever any provision of the deed of trust or mortgage purports to limit the rights or increase the obligations of Tenant under this Lease, the provisions of this Lease shall govern.

Landlord represents and warrants that it is the fee owner of the Property and that there is no present deed of trust, mortgage or ground lease or other lien or encumbrance (except for the lien for real estate taxes and assessments not yet due and payable) which is senior or superior to this Lease or which could result in the termination of this Lease if enforced. Landlord shall obtain and deliver to Tenant, within thirty (30) days after the Effective Date, a nondisturbance agreement, in recordable form, from such lender complying with this Section. Tenant shall have the right to terminate this Lease upon written notice to Landlord in the event Landlord fails to obtain and deliver to Tenant the aforementioned nondisturbance agreement within such thirty (30) day period.

18. ASSIGNMENT. (a) Except as otherwise provided below, Tenant agrees not to assign this Lease in whole or in part, nor sublet all or any part of Premises, (an "Assignment") without the prior written consent of Landlord, which consent may not be withheld, conditioned or delayed unreasonably. Any Assignment by operation of law or if the Tenant be a corporation, unincorporated association or partnership, the transfer, assignment or hypothecation of any stock or interest in such corporation, association or partnership in the aggregate in excess of 50% shall be deemed an Assignment within the meaning of this Section. An Assignment consummated in violation of the provisions of this Section shall be null and void and of no force or effect. Should consent to assignment be required and granted by Landlord, Tenant shall cause the assignee to execute an agreement undertaking to be bound by all the terms, covenants and conditions contained in the Lease as though such assignee had originally executed this Lease as Tenant. Notwithstanding the above, Landlord consent is not required for (i) any Assignment to a parent company, subsidiary, affiliate, or successor entity acquiring all or substantially all of the assets of Tenant, or (ii) any pledge of Tenant's leasehold interest to any institutional mortgagee as security for debt owed by Tenant. Notwithstanding anything to the contrary contained herein, (a) Landlord hereby consents to the financing by Tenant of certain tenant improvements and equipment which shall be secured by an assignment of Tenant's interest in this Lease, and Landlord agrees to execute a Collateral Assignment of Tenant's Rights in Premises Lease, an Equipment Disclaimer, and any other similar document in connection with such financing.

(b) Neither the consent of Landlord nor any otherwise permitted Assignment shall relieve Tenant from continuing liability under this Lease. Whether the documentation of any Assignment shall be prepared by Tenant or by Landlord or its attorneys, all costs and reasonable attorneys' fees related to considering such Assignment shall be paid by Tenant, which fees payable to Landlord shall in no case be more than \$500.00 per Assignment considered, payable by Tenant upon demand as additional rent.

19. NOTICES. Any notice required or permitted hereunder to be given or transmitted between the parties shall be either personally delivered, or mailed postage prepaid by registered mail, return receipt requested, or sent by reputable overnight courier, addressed as follows:

TENANT: San Diego Cyber Knife, LLC
c/o NeoSpine, Inc.
40 Burton Hills Blvd., Suite 320
Nashville, TN 37215

LANDLORD: PALOMAR POMERADO HEALTH
15255 Innovation Drive
San Diego, California 92128
Attn: Chief Legal Counsel

Either party may, by notice to the other given as prescribed in this Section, change its above address for any future notices which are mailed under this Lease.

20. DESTRUCTION. (a) If the Premises are partially or totally destroyed by fire or other casualty insurable under insurance required to be maintained by Landlord pursuant to this Lease (i) so as to become partially or totally untenable, the same shall be repaired or rebuilt as speedily as practical under the circumstances at the expense of the Landlord, unless Landlord elects not to repair or rebuild as provided in Subsection (b) of this Section or unless Tenant elects to terminate this Lease as provided herein. During the period required for restoration, a just and proportionate part of Rent and other charges payable by Tenant hereunder shall be abated until the Premises are repaired or rebuilt.

(b) If the Premises are (i) rendered totally untenable by reason of an occurrence described in Subsection (a), or (ii) damaged or destroyed as a result of a risk which is not required to be insured under Landlord's fire insurance policies, or (iii) at least twenty percent (20%) damaged or destroyed during the last two years of the Term, or (iv) if the Building is damaged in whole or in part (whether or not the Premises are damaged), to such an extent that Tenant cannot practically use the Premises for its intended purpose, or (v) repair cannot be completed within 180 days from the date of damage, then either Tenant or Landlord may at its option terminate this Lease by notice in writing to the other party within sixty (60) days after the date of such occurrence. Unless Landlord or Tenant gives such notice, this Lease will remain in full force and effect and Landlord shall repair such damage at its expense as expeditiously as possible under the circumstances; provided, however, if repair is not complete within 180 days, Tenant may terminate upon notice to Landlord.

(c) If Landlord should elect or be obligated pursuant to Subsection (a) above to repair or rebuild because of any damage or destruction, Landlord's obligation shall be limited to the original Building and any other work or improvements which may have been originally performed or installed for Landlord or at Landlord's expense, including the shell of the Building Addition constructed for Landlord by Tenant. Tenant shall replace all other work and improvements in the interior of the Premises installed or performed by Tenant at its expense.

21. CONDEMNATION. As used in this Section the term "**Condemnation Proceeding**" means any action or proceeding in which any interest in the Premises or Building is taken for any public or quasi-public purpose by any lawful authority through exercise of the power of eminent domain or right of condemnation or by purchase or otherwise in lieu thereof. If the whole of the Premises is taken through Condemnation Proceedings, this Lease shall automatically terminate as of the date possession is taken by the condemning authority. If less than the whole of the Premises is taken, either party hereto shall have the option to terminate this Lease by giving the other written notice of such election at any time within thirty (30) days after the date of taking. If neither party exercises its option to terminate, this Lease shall remain in effect and the Rent payable hereunder from and after the date of taking shall be proportionately reduced in proportion to the ratio of: (i) the area contained in the Premises which is capable of occupancy after the taking; to (ii) the total area contained in the Premises which was capable of occupancy prior to the taking. In the event of any termination or rental reduction provided for in this Section, there shall be a pro-ration of the Rent payable under this Lease and Landlord shall refund any excess theretofore paid by Tenant. Whether or not this Lease is terminated pursuant to this Section, all damages or compensation awarded for a partial or total taking, including any sums compensating Tenant for diminution in the value of or deprivation of its leasehold estate, shall be the sole and exclusive property of Landlord, except that Tenant will be entitled to any awards intended to compensate Tenant for the TI Work and expenses of locating and moving Tenant's operations to a new space.

22. DEFAULT OF TENANT. (a) The occurrence of any one or more of the following events ("**Event of Default**") shall constitute a breach of this Lease by Tenant:

(i) Tenant fails to pay any Rent, or any additional rent or other amount of money or charge payable by Tenant hereunder as and when such Rent becomes due and payable and such failure continues for more than five (5) days after Tenant receives written notice thereof from Landlord; or

(ii) Tenant fails to perform or breaches any other agreement or covenant of this Lease to be performed or observed by Tenant as and when performance or observance is due and such failure or breach continues for more than thirty (30) days after Landlord gives written notice thereof to Tenant; provided, however, that if, by the nature of such agreement or covenant, such failure or breach cannot reasonably be cured within such period of thirty (30) days, an Event of Default shall not exist as long as Tenant commences with due diligence and dispatch the curing of such failure or breach within such period of thirty (30) days and, having so commenced, thereafter prosecutes with diligence and dispatch and completes the curing of such failure or breach within a reasonable time; or

(iii) Tenant (i) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction, (ii) makes an assignment for the benefit of its creditors, or (iii) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers of Tenant or of any substantial part of Tenant's property; or

(iv) Without consent by Tenant, a court or government authority enters an order, and such order is not vacated within thirty (30) days, (i) appointing a custodian, receiver, trustee or other officer with similar powers with respect to Tenant or with respect to any substantial part of Tenant's property, or (ii) constituting an order for relief or approving a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction, or (iii) ordering the dissolution, winding-up or liquidation of Tenant; or

(v) This Lease or any estate of Tenant hereunder is levied upon under any attachment or execution and such attachment or execution is not vacated within thirty (30) days.

(b) Upon any Event of Default Landlord shall have the following rights and remedies all of which are cumulative and not alternative and not to the exclusion of any other or additional rights and remedies in law or equity available to the Landlord by statute or otherwise:

(i) Landlord shall have the right to remedy or attempt to remedy any default of the Tenant, and in so doing to make any payments due or alleged to be due by the Tenant to third parties and to enter upon the Premises to do any work or other things therein, and in such event all reasonable expenses of the Landlord in remedying or attempting to remedy such default shall be payable by the Tenant to the Landlord on demand;

(ii) Landlord shall have the right with respect to unpaid overdue Rent or other amounts due, to the payment by the Tenant of the Rent or amount along with interest (which said interest shall be deemed included herein in the term "Rent") thereon at a rate equal to ten percent (10%);

(iii) Tenant hereby expressly waives any right of redemption and all notices (other than those notices specifically outlined in this Lease) to cure or vacate or to quit the Premises provided by current or future law;

(iv) Landlord shall have the right to enter the Premises as agent of the Tenant and as such agent to re let them and to receive the rent therefore and as the agent of the Tenant to take possession of any furniture or other property thereon and upon giving ten (10) days written notice to the Tenant to store the same at the expense and risk of the Tenant or to sell or otherwise dispose of the same at public or private sale without further notice and to apply the proceeds thereof and any rent derived from re-letting the Premises upon account of the Rent due and to become due under this Lease and the Tenant shall be liable to the Landlord for the deficiency if any;

(v) Landlord shall have the right of injunction and the right to invoke any remedy allowed at law or in equity, and mention in this Lease of any particular remedy shall not preclude the Landlord from any other remedy at law or in equity.

(vi) Notwithstanding the foregoing, to the extent Landlord shall be entitled to terminate this Lease as a result of a non-monetary default, Landlord shall not be entitled to exercise such right in the event Tenant is disputing in good faith the existence of the underlying default.

(c) Upon the giving by the Landlord of a notice in writing terminating this Lease or terminating Tenant's right to possession of the Premises, the Tenant shall remain liable for and shall pay on demand by the Landlord (i) the full amount of all Rent which accrues or which would have accrued until the date on which this Lease would have expired had termination not occurred, and any and all damages and expenses incurred by the Landlord in re-entering and repossessing the Premises in making good any default of the Tenant, in making any alterations, remodeling or new tenant finish to the Premises, and any and all expenses which the Landlord may incur during the occupancy of any new tenant, less (ii) the net proceeds of any re-letting of the Premises which has occurred at the time of the aforesaid demand by the Landlord to the Tenant. The Landlord shall be entitled to any excess with no credit to the Tenant. The Landlord may, in its sole discretion, make demand on the Tenant as aforesaid on any one or more occasions, and any suit brought by the Landlord to enforce collection of such difference for any subsequent month or months. In addition to the foregoing, and without regard to whether this Lease has been terminated, Tenant shall pay to Landlord all costs incurred by the Landlord, including reasonable attorneys' fees, with respect to any lawsuit or action instituted or taken by the Landlord to enforce the provisions of this Lease.

As an alternative to the remedy set forth in the preceding paragraph, at Landlord's election, the Tenant will pay to the Landlord on demand, damages for the Tenant's default calculated in accordance with this paragraph. Damages under this paragraph shall be an amount equal to the present value at a rate of eight percent (8%) per annum of the excess, if any, of (i) all Rent payable under this Lease for what would be the then unexpired Term in the absence of such termination over (ii) the then fair market rental value of the Premises. Upon termination of this Lease and the Term or termination of Tenant's right to possession, the Tenant shall immediately deliver up possession of the Premises to the Landlord, and the Landlord may forthwith re-enter and take possession of the same.

(d) The Tenant shall pay to the Landlord on demand the actual costs and expenses, including reasonable lawyers' fees, incurred by the Landlord in enforcing any of the obligations of the Tenant under this Lease.

(e) Any and all property which may be removed from the Premises by the Landlord pursuant to the authority of the Lease or of law, to which the Tenant is or may be entitled, may be handled, removed or stored by the Landlord at the risk, cost and expense of the Tenant, and the Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. The Tenant shall pay to the Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in the Landlord's possession or under the Landlord's control. Any such property of the Tenant not removed from the Premises or retaken from storage by the Tenant within thirty (30) days after the end of the Term or of the Tenant's right to possession of the Premises, however terminated, shall be conclusively deemed to have been forever abandoned by the Tenant and either may be retained by Landlord as its property or may be disposed of in such manner as Landlord may see fit.

(f) Tenant agrees that if it shall at any time fail to make any payment or perform any other act on its part to be made or performed under this Lease, Landlord may, but shall not be obligated to, and after reasonable notice or demand and without waiving, or releasing the Tenant

from, any obligation under this Lease, make such payment or perform such other act to the extent the Landlord may deem desirable, and in connection therewith to pay expenses and employ counsel. The Tenant agrees to pay a reasonable attorney's fee if legal action is required to enforce performance by Tenant of any condition, obligation or requirement hereunder. All sums so paid by the Landlord and all expenses in connection therewith, together with interest thereon at the rate of ten percent (10%) per annum, from the date of payment, shall be deemed additional rent hereunder and payable at the time of any installment of Rent thereafter becoming due and the Landlord shall have the same rights and remedies for the non-payment thereof, or of any other additional rent, as in the case of default in the payment of Rent.

23. DEFAULT BY LANDLORD. If Landlord fails to perform any of its obligations under this Lease within thirty (30) days after receipt of notice of such failure from Tenant (except in the event of an emergency, in which case only reasonable notice shall be required), then Tenant may, at Tenant's option: (1) cure such violation on Landlord's behalf and offset the cost thereof against the Rent due hereunder; or (2) seek and enforce any other lawful remedies to which it may be entitled.

24. LANDLORD ACCESS. Landlord or Landlord's agent shall have the right to enter the Premises at all reasonable times upon at least 24 hours notice to examine the same, or to show them to prospective purchasers of the Building, or to make all repairs, alterations, improvements or additions as Landlord may deem necessary or desirable, and Rent shall not abate while said repairs, alterations, improvements, or additions are being made, by reason of loss or interruption of business of Tenant, or otherwise unless Tenant is unable to use the Premises for its intended purpose for more than three (3) days. Notwithstanding the foregoing, Landlord shall use best efforts to minimize interference with Tenant's use of the Premises and shall in no event have access to patients' medical records.

25. HOLDING OVER. Any holding over after the expiration of the Term hereof shall be construed to be a tenancy at sufferance and all provisions of this Lease shall be and remain in effect except that the monthly rental shall be 150% of the amount of Rent payable for the last full calendar month of the Term including renewals or extensions.

26. SUCCESSORS. All rights and liabilities herein given to, or imposed upon, the respective parties hereto shall extend to and bind the several respective heirs, executors, administrators, successors and assigns of the said parties.

27. QUIET ENJOYMENT. Upon payment by the Tenant of the rents herein provided, and upon the observance and performance of all the covenants, terms and conditions on Tenant's part to be observed and performed (subject to applicable cure periods), Tenant shall peaceably and quietly hold and enjoy the Premises for the term hereby demised without hindrance or interruption.

28. WAIVER. No failure on the part of Landlord to enforce any covenant or provision of this Lease shall discharge or invalidate such covenant or provision or affect the right of Landlord to enforce the same in the event of any subsequent breach. One or more waivers of any covenant or condition by Landlord shall not be construed as a waiver of a subsequent breach of the same covenant or condition and the consent to or approval of any subsequent similar act

by Tenant. No breach of a covenant or condition of this Lease shall be deemed to have been waived by Landlord, unless such waiver be in writing signed by Landlord.

29. **ENTIRE AGREEMENT; AMENDMENT.** This Lease constitutes the entire agreement and understanding between the parties hereto and supersedes all prior discussions, understandings and agreements. This Lease may not be altered or amended except by a subsequent written agreement executed by all parties.

30. **FORCE MAJEURE.** Any failure to perform or delay in performance by either party of any obligation under this Lease, other than Tenant's obligation to pay Rent, shall be excused if such failure or delay is caused by any strike, lockout, governmental restriction or any similar cause beyond the control of the party so failing to perform, to the extent and for the period that such continues.

31. **SEVERABILITY.** If any term, covenant or condition of this Lease or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

32. **GOVERNING LAW.** This instrument shall be governed by and construed in accordance with the laws of the State wherein the Premises are located.

33. **REPRESENTATION REGARDING AUTHORITY.** The persons who have executed this Lease represent and warrant that they are duly authorized to execute this Lease in their individual or representative capacity as indicated.

34. **COUNTERPARTS.** This Lease may be signed in counterparts, each of which shall be deemed to be an original and all of which shall be deemed to be one and the same document.

35. **MISCELLANEOUS PROVISIONS.** This Lease shall not be recorded without the prior written consent of Tenant and Landlord; however, upon the request of either party hereto, the other party shall join in the execution of a memorandum or "short form" lease for recording purposes which memorandum shall describe the parties, the Premises, the Term and shall incorporate this Lease by reference, and may include other special provisions. The captions which precede the Sections of this Lease are for convenience only and shall in no way affect the manner in which any provisions hereof is construed. Words of any gender used in this Lease shall be held to include any other gender, and words in the singular number shall be held to include the plural when the sense requires. Time is of the essence of this Lease and every term, covenant and condition herein contained.

SIGNATURES ON FOLLOWING PAGE

IN WITNESS WHEREOF, Landlord and Tenant have executed and delivered this Lease as of the day and year first above written.

SIGNATURES:

LANDLORD:

**PALOMAR POMERADO HEALTH, a
California District Entity, organized under Section
23 of the California Health and Safety Code**

By: _____

Title: _____

Date: _____

TENANT:

**SAN DEIGO RADIOSURGERY, LLC,
a Delaware limited liability company**

By: _____

Title: _____

Date: _____

EXHIBIT A

Description of the Property

EXHIBIT B

Floor Plan of the Premises

EXHIBIT C

Form of Commencement Date Memo

Re: Lease Agreement, dated _____, 2006, between
_____, a _____,
("Landlord") and _____, LLC, a _____ limited
liability company ("Tenant")

Dear _____:

The purpose of this letter is to confirm the following:

(i) The Rental Commencement Date, as defined in Section 2 of the Lease is

_____.

(ii) The Initial Term of the Lease expires on
_____, subject to extension as provided in the Lease.

Please acknowledge your agreement with the provisions of this letter by signing the extra copy of this letter and returning the same to the undersigned.

Sincerely yours,

By: _____

Acknowledged and Agreed to By:

TENANT:

_____, LLC

By: _____

Print Name: _____

Print Title: _____

Date: _____

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EXHIBIT D

Work Letter

To Be Attached

Needs to address: cost, TI Allowance, Utilities to site, easements, definition of Landlord's Work, transfer at completion, etc.

BLOCK LEASE AGREEMENT

This Block Lease Agreement (the "Agreement"), between San Diego Radiosurgery, LLC, a Delaware limited liability company ("Lessor"), and Palomar Pomerado Health a California health district, organized under Section 23 of the California Health and Safety Code ("Lessee"), is made and entered into as of the latest date this Agreement is executed by any party as set forth on the signature page hereof.

WHEREAS, Lessor desires to provide to Lessee the right to use the space located at 555 E. Valley Parkway, Escondido, CA (the "Site") and certain medical equipment owned by Lessor, as described more fully in Schedule A attached hereto (the "Equipment") for certain time periods, as described herein; and

WHEREAS, Lessee desires to acquire the right to use the Site and the Equipment. for purposes of rendering radiation therapy services to its inpatients and outpatients.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. LEASE

Lessor, for and in consideration of the charges and other amounts hereinafter required to be paid and of the covenants and agreements hereinafter mentioned, hereby grants to Lessee permission to use the Site and the Equipment for the time periods set forth in Schedule B attached hereto (the "Use Periods"). The Use Periods shall not include New Years Day, the Fourth of July, Labor Day, Thanksgiving or Christmas, or any other holiday mutually recognized from time to time by Lessor and Lessee (each, a "Holiday"). Notwithstanding the forgoing, Lessee may request use of the Site and Equipment for clinically appropriate purposes on said holidays, such request not unreasonably withheld by the Lessor. All additions, improvements, upgrades and repairs made to the Equipment as provided in Section 8(d) hereof shall be deemed added to Schedule A, shall become a part of the Equipment and shall become the property of Lessor at the end of the Term (as defined below).

2. TERM

The term of this Agreement is five years, subject to extension as set forth below (the "Term"), commencing on that date which is 30 days after Lessee's receipt of a certificate of occupancy for the Site (the "Commencement Date") and ending on the day prior to the fifth anniversary of the Commencement Date, unless this Agreement is earlier terminated pursuant to Section 13 below. This Agreement may be extended for additional terms of two years each, upon the terms and conditions set forth herein, upon Lessee's option, in its sole discretion upon notice to Lessor at least 30 days prior to the expiration date of the then current term. Notwithstanding anything to the contrary contained herein, in the event that the certain Service Agreement and / or Space Agreement by and between Lessor and Lessee dated January 1, 2008 terminates for any reason, then Lessee shall have the option, in its sole discretion, to terminate this Lease upon thirty (30) days written notice to Lessor.

3. USE OF THE SITE

The parties hereby expressly acknowledge and agree that Lessee is granted exclusive possession of the Site solely during the Use Periods. In addition to the services to be provided with the Equipment pursuant to the terms hereof, for periods other than the Use Periods, the Equipment shall be used to provide stereotactic radiosurgery services, pursuant to the terms of a Service Agreement between the parties of even date hereof (the "Service Agreement"). It is understood and agreed that Lessee shall have no real property interest in the Site and that the Site and Equipment will be available pursuant to the Service Agreement at all times other than the Use Periods, which times may be immediately prior to and immediately following a Use Period. Lessee therefore acknowledges and agrees that it must vacate and leave the Site on a timely basis at the expiration of each Use Period, leaving the Site in a clean and orderly condition and without damage. For purposes of this section, Lessee holdover of a specific Use Period related to the completion of an unplanned delay in the rendering of clinical care to a patient originally anticipated to be completed during the Use Period, shall be deemed to be vacated on a timely basis at the completion of said patient care.

4. LICENSE FEE AND METHOD OF PAYMENT

(a) **License Fee and Other Costs.** During the first year of this Agreement, Lessee shall pay to Lessor \$_____ per Use Period, which amount shall be adjusted as described below (the "License Fee"). The License Fee shall be payable in advance monthly and shall be due and payable in advance on the first day of each calendar month. The License Fee shall be reset to fair market value no sooner than twelve (12) months after the effective date of this Agreement and, thereafter, at any time upon the request of either party if they believe that the License Fee does not reflect the fair market value of the items and services provided hereunder, but no more often than once every twelve months. The fair market value of the License Fee shall be determined by an independent third party appraiser mutually acceptable to the parties. In the event the parties cannot agree upon an independent third party appraiser, each party shall select an independent third party appraiser and the average of the fair market value Lessee Fee as determined by the two independent third party appraisers shall be the fair market value of the License Fee if such appraisals are within 15% of one another. If the two appraisals are not within 15% of one another, the appraisers shall select a third independent third party appraiser and the average of the two closest appraisals shall be the fair market value of the License Fee. Each party shall bear the costs of the independent third party appraiser it selects. The party whose appraisal is not utilized in determining the fair market value shall bear the costs of the third independent third party appraiser. The amount determined by the third party appraiser shall be final and binding. Finally, the License Fee for any month in which a Holiday occurs or in which any week day of the Use Period occurs five times shall be adjusted on a per Use Period basis to reflect the increase or reduction in the number of Use Periods that Lessee occupies the Site during such month. The License Fee shall be prorated for any partial calendar month at the beginning or end of a term.

(b) **Manner of Payment.** The License Fee shall be paid monthly in immediately available funds to Lessor at the address designated in Section 16 hereof or such other place or places as Lessor may from time to time designate in writing. The License Fee shall be paid on or before the first day of each calendar month during the Term of this Agreement, without notice or demand. Amounts due hereunder not made within 15 days after the due date therefor shall be delinquent. If Lessee does not make any payment when due, Lessee agrees to pay Lessor a late payment charge equal to 1% per month on the past due amounts. The payment by Lessee of the License Fee shall be the sole compensation to Lessor, and Lessor shall not bill patients or third party payors for any additional amounts for any items or services provided to Lessee pursuant to this Agreement.

5. **LESSOR'S RESPONSIBILITIES**

(a) **Delivery of Equipment.** Lessor shall coordinate with the manufacturer of the Equipment (the "Manufacturer") and Lessee to have the Equipment delivered to the Site on or prior to the Commencement Date. Lessor shall be responsible for paying all costs and expenses associated with the delivery and installation of the Equipment at the Site and any additional furnishing and build-out of the Site, as necessary for Lessee's use of the Site. Notwithstanding the foregoing, Lessor makes no representations or warranties, express or implied, concerning delivery of the Equipment to the Site or the actual date thereof.

(b) **Maintenance and Repairs.** Upon written notice from Lessee of the need for repairs, at its sole cost and expense, Lessor will perform, or cause to be performed, all necessary preventive and other routine maintenance on the Equipment, and, except as set forth in Section 6(f) below, upon receipt of written notice of any needed repair or replacement, will make, or cause to be made, all repairs to and replacements of the Equipment of any kind in such manner as to maintain the Equipment in good condition and repair and in compliance with the requirements of Manufacturer. All such maintenance, whenever possible, shall not affect patient scheduling. Notwithstanding anything to the contrary set forth herein, Lessor shall have no liability to Lessee as a result of any failure or breakdown of any of the Equipment; provided, however, that, if in the event of any such failure or breakdown, Lessee is unable to perform radiation therapy treatments at the Site for a period of four (4) or more consecutive hours, the per Use Period License Fee payable for such Use Period shall be abated in proportion to the time during Lessee's Use Period that Lessee was unable to perform such procedures as a result of such Equipment failure or breakdown; provided, further, however, to the extent that Lessee is able to reschedule some or all of such procedures which were unable to be performed because of the Equipment failure or breakdown to another use period, the abatement of the License Fee shall be adjusted accordingly. In addition, except as set forth in Section 6(f) below, Lessor shall, at Lessor's sole expense, maintain the Site in good repair and in good condition suitable for Lessee's permitted use.

(c) **No Warranties by Lessor with Respect to the Equipment.** OTHER THAN THE MAINTENANCE OBLIGATIONS ASSUMED UNDER SECTION 5(b) ABOVE,

LESSOR, NOT BEING THE MANUFACTURER OF THE EQUIPMENT, MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, DESIGN, CONDITION, DURABILITY, CAPACITY, MATERIAL OR WORKMANSHIP OF THE EQUIPMENT OR AS TO PATENT INFRINGEMENT OR THE LIKE. As between Lessor and Lessee, Lessee shall bear all risks with respect to the foregoing warranties. Lessee expressly waives any right to hold Lessor liable hereunder for any claims, demands and liabilities arising out of or in connection with the design or manufacture of the Equipment, including injury to persons or property resulting from the failure of, defective or faulty design, condition or suitability of the Equipment ("Warranty Claims"). Lessor agrees (i) that Lessee may, in Lessor's name, but at Lessee's sole cost and expense, enforce all warranties, agreements or representations, if any, which may have been made by Manufacturer or manufacturers, suppliers or other third parties regarding the Equipment ("Warranties") which might cover any Warranty Claims and (ii) to cooperate with Lessee in bringing such claims as may be necessary to enforce such Warranties and obtain the benefit thereof for Lessee. Lessor hereby assigns to Lessee, to the extent permissible, the benefits of any and all Warranties with respect to Warranty Claims and to the extent such Warranties are not assignable, agrees to cooperate, at Lessee's cost, to ensure that Lessee obtains the benefits of such Warranties.

(d) **Representations and Warranties of Lessor.** Lessor represents and warrants to Lessee on the Commencement Date and while this Agreement is in effect, as follows:

(i) Lessor has not been suspended, excluded, barred from or sanctioned under the federal health care programs as defined in 42 U.S.C. § 1320a-7b(f) (the "Federal Health Care Programs"), nor has it ever been convicted of a criminal offense related to the provisions of health care items or services but not yet suspended, excluded, barred from or sanctioned under the Federal Health Care Programs; and

(ii) To Lessor's knowledge, it is not the subject of any investigation, and Lessor is not otherwise aware of any circumstances which may result in Lessor being excluded from participation in the Federal Health Care Programs.

The foregoing representations and warranties shall be ongoing representations and warranties during the term of this Agreement, and Lessor shall immediately notify Lessee of any change in the status of the foregoing representations and warranties. Lessor shall have thirty (30) days following a change in the status of the foregoing to cure any breach of the foregoing representations or warranties. Upon any such cure being effected, Lessor will not be in breach of this Agreement for any purpose.

6. **LESSEE'S RESPONSIBILITIES**

(a) **Personnel.** All technical personnel necessary to use the Equipment to

provide radiation therapy treatments shall be the responsibility of Lessee and are at all times employees of Lessee.

(b) **Consumables.** Lessee shall provide, at its sole cost and expense, all supplies and other items necessary for the use and operation of the Equipment during the Use Periods and delivery of services utilizing the Equipment pursuant to the terms of this Agreement.

(c) **Patient Scheduling, Registration and Reception.** Lessee shall provide necessary registration and reception services for Lessee's patients receiving treatment with the Equipment during the Use Periods in accordance with its standard policies. Lessee shall provide necessary scheduling services for Lessee's patients receiving treatment with the Equipment during the Use Periods in accordance with its standard policies, subject to the reasonable review and approval of Lessor.

(d) **Billing and Collection.** Lessee shall have the sole right to bill and collect from patients and third party payors for all technical fees for radiation therapy and related services provided to Lessee patients during the Use Periods, as well as all billable items and supplies provided to Lessee's patients during the Use Periods, and shall bill for such items and services in its name and using its Medicare and other provider numbers. Lessee shall be solely responsible for maintaining all licenses necessary to bill for all services provided pursuant to this Agreement. Lessor shall not bill or collect any amounts from patients or third party payors for any items or services Lessor will provide to Lessee pursuant to this Agreement.

(e) **Medical Records.** Lessee shall cause to be maintained complete and timely medical records for each patient treated by the Equipment during the Use Periods, which medical records must include, but not be limited to, diagnoses, medical history, physician's orders and progress notes related to the services received, in accordance with its medical records policy. Such records shall be the property of Lessee.

(f) **Radioactive License.** Before the Commencement Date, Lessee shall add the Site to its existing radioactive license issued by the State of California (the "Radioactive License") Lessee agrees to pay all fees applicable to Lessee's holding of the Radioactive License.

(g) **Lessee's Maintenance of Site.** Lessee shall be responsible for any damage caused by Lessee to the Site during the Use Periods, reasonable wear and tear excepted. Lessee shall not permit undue accumulations of its garbage, trash, rubbish or other refuse within the Site and shall keep all refuse in proper containers until disposal of such refuse.

(h) **Lessee's Professional Responsibility for Services Rendered.** Lessee and its affiliated physicians shall be responsible for the medical supervision, direction and control of all radiation therapy services performed using the Equipment during the Use Periods.

(i) **Representations and Warranties of Lessee.** Lessee represents and warrants to Lessor on the Commencement Date and while this Agreement is in effect, as follows:

(i) To Lessee's knowledge, no license or certification to provide services contemplated by this Agreement in the State of California, or in any other jurisdiction, of Lessee has been denied, suspended, revoked, terminated, voluntarily relinquished under threat of disciplinary action or restricted in any way as of the Commencement Date of the Agreement;

(ii) No medical staff privileges contemplated by this Agreement at any of Lessee's health care facilities of any member of the Medical Staff who will have privileges to render services contemplated by this Agreement have, to Lessee's knowledge, been denied, suspended, revoked, terminated, voluntarily relinquished under threat of disciplinary action or made subject to terms of probation or any other restriction as of the Commencement Date of the Agreement;

(iii) Neither Lessee nor, known to Lessee, any Personnel who will render services contemplated by this Agreement has been suspended, excluded, barred from or sanctioned under the Federal Health Care Programs, nor have they been convicted of a criminal offense related to the provisions of health care items or services but not yet suspended, excluded, barred from or sanctioned under the Federal Health Care Programs as of the Commencement Date of the Agreement; and

(iv) Neither Lessee nor, known to Lessee, any Personnel who will render services contemplated by this Agreement are the subject of any investigation, and Lessee is not otherwise aware of any circumstances which may result in Lessee or any Personnel being excluded from participation in the Federal Health Care Programs.

The foregoing representations and warranties shall be ongoing representations and warranties during the term of this Agreement, and Lessee shall immediately notify Lessor of any change in the status of the foregoing representations and warranties. Lessee shall have thirty (30) days following a change in the status of the foregoing to cure any breach of the foregoing representations or warranties, which cure may include, without limitation, the discharge of any Personnel who cause the representations and warranties to be incorrect. Notwithstanding the foregoing, if Lessee learns that any Personnel have been convicted of a criminal offense related to health care, or listed by a federal agency as debarred, excluded or otherwise ineligible for Federal Health Care Program participation, Lessee agrees to discharge such Personnel as soon as reasonably practicable, not to exceed three business days from when Lessee has received conclusive evidence of such conviction or other ineligibility. Upon any such cure being effected, Lessee will not be in breach of this Agreement for any purpose.

7. ASSIGNMENT AND SUBLEASING

Lessee shall not assign or transfer this Agreement or its rights hereunder, in whole or in part, except to a successor entity of the Lessee, or sublease the Site during all or any part of its Use Period, without the prior written consent of Lessor, which consent will not be unreasonably withheld by Lessor. Any consent to assignment shall not be deemed a consent to any subsequent assignment. In the event of an assignment or sublease by Lessee, Lessee shall remain liable for payment of the License Fee to Lessor throughout the Term of this Agreement and for the performance of all of its other covenants and obligations under this Agreement. Lessor may only assign this Agreement on terms and conditions consistent with Lessor's Operating Agreement and Space Lease Agreement with the Lessee of even Date. This Agreement shall be subject to and subordinate to any such financing. Lessee, by reason of any such pledge, mortgage or security interest, shall not be relieved of any of its obligations hereunder.

8. USE OF SITE AND EQUIPMENT

(a) **Allowed Uses of Site.** The Site shall continuously and at all times during the Use Periods be used and occupied by Lessee solely for the performance by or under the direction of licensed physicians on the Medical Staff of the Lessee of radiation therapy treatment services and for no other purpose or business whatsoever. Lessee shall not dispense, in the Site, any drugs or medicines to persons other than the patients of Lessee and its affiliated physicians.

(b) **Allowed Uses of Equipment.** The Equipment shall be used by Lessee only at the Site during the Use Periods and shall not be removed therefrom, transferred, loaned, sublet or disposed of without the prior written consent of Lessor, which may be withheld in its sole discretion. Lessee must use the Equipment only in accordance with applicable law and the Manufacturer's instructions and specifications. Lessee shall not permit the Equipment to be altered, modified or otherwise used in any manner or for any purpose for which, in the reasonable opinion of Lessor, the Equipment is not designed or reasonably suitable or which is not in compliance with all applicable federal, state and local laws, codes, ordinances, rules, regulations and orders (each, an "Applicable Law"), insurance policies and Manufacturer warranties relating to the possession, use or maintenance of the Equipment; provided, however, that the foregoing shall not be deemed to affect or limit medical decisions in connection with the treatment of patients, which decisions shall be in the sole discretion of the patient's treating physician(s). Notwithstanding the foregoing, upon consent of the Lessor, not unreasonably withheld, the Lessee may utilize the Equipment for purposes of research and / or clinical trials as governed by Lessee protocol for said studies.

(c) **Title to Equipment.** The title to the Equipment shall be and remain in Lessor, subject only to Lessee's right of use in the normal operation of the Site during Lessee's Use Periods. The Equipment is and shall remain the personal property of Lessor even if installed or embedded in, permanently resting on or attached in any manner to real property or improvements thereon. Nothing herein shall be construed as conveying to Lessee any right, title or interest in or to the Equipment provided hereunder except the express interest hereunder of Lessee as a lessee. At Lessee's sole cost and expense, Lessee shall: (i) protect and defend Lessor's ownership of and title to the Equipment from and against all persons claiming against or through Lessee; (ii) at all times keep the Equipment free from any and all liens, encumbrances, attachments, levies, executions, burdens, charges or legal processes imposed against Lessee; (iii) give Lessor immediate written notice of any claim against the Equipment or any other matter described in clause (ii) after Lessee becomes aware thereof; (iv) execute any agreements, documents, acknowledgments and certifications, (including but not limited to "landlord's waivers") as Lessor shall request from time to time in the course of Lessor's business to evidence that Lessee (A) holds no interest (legal or beneficial) in the Equipment and (B) will permit any lender (or its assigns) to Lessor to remove, at no cost to such lender or its assigns, the Equipment pursuant to any agreement with Lessor; and (v) in the manner described in Section 14, indemnify and hold Lessor harmless from and against any loss, damage, fine, cost and expense (including reasonable attorney's fees) with respect to any of the foregoing.

(d) **Additions to Equipment.** All replacement parts, modifications, repairs, alterations, additions, accessories and operating controls incorporated in or affixed to the Equipment, whether before or after the commencement of the Term of this Agreement, and whether made by Lessor or Lessee, shall be included in the definition of "Equipment," shall become the sole and exclusive property of Lessor upon being incorporated or affixed, and shall be returned to Lessor upon the termination of this Agreement.

(e) **Items Left at the Site.** Lessor assumes no responsibility for any money, other valuables or other personal property or equipment brought into or left at the Site by Lessee, all of which shall be at Lessee's sole risk.

(f) **Interference with Rights of Other Tenants.** Lessee shall not do or permit anything to be done in, on or about the Site which would in any way obstruct or interfere with the rights of other tenants or occupants of the building in which the Site is located, nor shall Lessee maintain or permit any nuisance or commit or allow to be committed any waste in, on or about the Site.

9. **LOSS OR CASUALTY**

(a) **Risk of Loss.** Lessor assumes and shall bear the entire risk of loss, damage, theft or destruction of the Equipment, or any portion thereof, from any and every cause whatsoever. Lessee shall promptly notify Lessor in writing of any loss, damage, theft or destruction of any item of the Equipment after Lessee becomes aware thereof.

(b) **Repair or Replacement.** In the event of any such loss, damage, theft or destruction of the Equipment (a "Loss Event"), Lessor, at the option of Lessor, shall (i) promptly place, at Lessor's expense, the Equipment in good repair, condition and working order to the satisfaction of Lessor; or (ii) promptly replace, at Lessor's expense, the Equipment with like equipment of the same or a later model and specifications, with the same additions, in good repair, condition and working order in accordance with manufacturer standards.

10. **INSURANCE**

(a) **By Lessor.** During the term of this Agreement (including any renewal terms), Lessor shall maintain in full force and effect the following minimum insurance coverages:

(i) a policy of property damage insurance and fire and extended coverage insurance insuring the Equipment and the real property improvements made to the Site against loss from fire or other casualty normally included within "all risk" or "ISO Special Form of Loss" coverages for not less than the full replacement value thereof. Lessor shall further name Lessee as an additional insured and loss payee as its interest may appear.

(ii) commercial liability insurance for bodily injury, death and property loss and damage (including coverages for product liability, contractual liability, personal injury liability and nuclear medicine and radiation therapy) covering Lessor for claims, lawsuits or damages arising out of its performance under this Agreement, and any negligent or otherwise wrongful acts or omissions by Lessor or any officer, director, employee, contractor or agent of Lessor, with Lessee listed as an additional insured. All such policies of insurance may be provided on either an occurrence or claims-made basis, and shall provide limits of liability in amounts not less than three million dollars (\$3,000,000) per occurrence with a minimum annual aggregate of five million dollars (\$5,000,000). If such coverage is provided on a claims-made basis, such insurance shall continue throughout the term of the Agreement and, upon the termination of this Agreement, or the expiration or cancellation of the insurance, Lessor shall purchase or arrange for the purchase of, either an unlimited reporting endorsement ("Tail" Coverage) or "Prior Acts" coverage from the subsequent insurer, with a retroactive date on or prior to the Commencement Date.

Lessor shall be liable for any deductible portions of all such insurance. On or prior to the Commencement Date and thereafter at Lessee's request, Lessor, or Lessor's agent, shall provide Lessee with a copy of all such policies and/or certificates of insurance satisfactory to Lessee, evidencing the existence of all coverage required hereunder. Lessor shall provide, or shall require its insurance carriers or agents to provide, Lessee with not less than thirty (30) days prior written notice in the event of a change in the liability policies of Lessor. Lessor represents and warrants that it is not aware of any claims pending against any of the insurance coverages described

above, any reservation of rights or other policy disputes concerning any such coverage or any notification that any such coverage is subject to not being renewed or otherwise terminated. Lessor will immediately notify Lessee if it learns of any of the foregoing circumstances.

(b) **By Lessee.** During the term of this Agreement (including any renewal terms), Lessee shall maintain in full force and effect professional liability coverage covering the Site and the use or operation of the Equipment. Lessee's professional liability coverage shall provide limits of liability in the minimum amount of three million dollars (\$3,000,000) per occurrence with a minimum annual aggregate of five million dollars (\$5,000,000). Such policies shall name Lessor as an additional insured party. If such coverage is provided on a claims-made basis, such insurance shall continue throughout the term of the Agreement and, upon the termination of this Agreement, or the expiration or cancellation of the insurance, Lessee shall purchase or arrange for the purchase of, either an unlimited reporting endorsement ("Tail" Coverage) or "Prior Acts" coverage from the subsequent insurer, with a retroactive date on or prior to the Commencement Date. Lessee shall also maintain in effect worker's compensation and disability insurance for Lessee's employees in compliance with applicable state and local laws and regulations and employer liability insurance in an amount consistent with Lessee's pay personnel practices as afforded to all of its personnel. On or prior to the Commencement Date and thereafter at Lessor's request, Lessee or Lessee's agent shall provide Lessor with certificates of insurance satisfactory to Lessor, evidencing the existence of all required coverage hereunder. Lessee shall be liable for any deductible portions of all such insurance. Lessee shall provide, or shall require its insurance carriers or agents to provide, Lessor with not less than thirty (30) days prior written notice in the event of a change in the liability policies of Lessee. Lessee represents and warrants that it is not aware of any notification that any such coverage is subject to not being renewed or otherwise terminated. Lessee will immediately notify Lessor if it learns of such nonrenewal or termination.

11. TAXES AND OTHER FEES

All taxes, assessments, licenses and other charges (including, without limitation, all rental, sales, use, excise, ad valorem, stamp, documentary and personal property taxes or other similar taxes and penalties and interest on such taxes), if any, imposed, levied or assessed on the License Fee, or any other fee or payment due under this Agreement, during the Term of this Agreement shall be paid by Lessee before the same shall become delinquent, whether such taxes are assessed or would ordinarily be assessed against Lessor or Lessee. Lessee agrees to cooperate with Lessor in filing all such returns and in obtaining any available exemption. Notwithstanding the foregoing, Lessor shall acquire any and all equipment contemplated by this Agreement with the California Sales and / or Use Tax paid with said amounts already being included in the License Fee for purposes of Lessor's recovery of costs.

12. EVENTS OF DEFAULT

An event of default ("Event of Default") shall occur hereunder: (i) by Lessee, if Lessee fails to pay the License Fee or other payment required hereunder within ten (10) business days from the date such payment is due; (ii) by either Lessor or Lessee, if the other party fails to perform or observe any other material covenant, condition or agreement to be performed or observed by it hereunder or breaches a representation or warranty set forth herein, and such failure or breach shall continue unremedied for a period of thirty (30) days after being provided written notice of such breach by the other party; or (iii) by either Lessor or Lessee, if the other party makes an assignment for the benefit of creditors, whether voluntary or involuntary, or if a petition is filed by or against such party under any bankruptcy, insolvency or other consumer legislation, unless such petition is set aside, withdrawn or ceases to be in effect within ninety (90) days of the date of filing. If, upon expiration of the applicable cure period described in (ii) above, the breaching party is still diligently pursuing effectuation of such a cure, or has diligently attempted to effect such a cure but cannot complete such cure because of the failure of a third party (such as a governmental agency) to act within such cure period, then, at the option of the non-breaching party, the breaching party shall have a reasonable time beyond such cure period (but no later than sixty (60) days following the date written notice of such breach is provided) to complete its cure of the alleged event of default.

13. REMEDIES/TERMINATION

(a) **Upon Event of Default.** Upon the occurrence of any Event of Default, the non-breaching party may, in its sole discretion, do any one or more of the following: (i) upon notice to the breaching party, if the breaching party fails to cure such default within the applicable cure period (if any) described in Section 12 above, terminate this Agreement; (ii) exercise any other right or remedy which may be available to it under this Agreement, the Uniform Commercial Code or any other applicable law; (iii) proceed by appropriate court action, to enforce the terms hereof or to recover damages for the breach hereof; or (iv) pursue any other remedy at law or in equity. In addition, the breaching party shall be liable for all reasonable legal fees and other costs and expenses reasonably resulting from the foregoing defaults or the exercise of the non-breaching party's remedies. No remedy referred to in this Section is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to the non-breaching party at law or in equity. Notwithstanding the foregoing, in no event shall either party be entitled to punitive damages.

(b) **Immediate Termination by Lessee.** Lessee may terminate this Agreement immediately by written notice to Lessor upon the occurrence of any of the following events:

- (i) Lessor's failure to make a timely disclosure required pursuant to Section 5(d) or Section 34 hereof;

(ii) Lessor's failure to maintain the insurance required under this Agreement;

(iii) Lessor's conviction of a criminal offense related to health care, or Lessor's listing by a Federal Health Care Program as being debarred, excluded, suspended or otherwise ineligible for Federal Health Care Program participation; or

(iv) Lessor's failure to obtain within one hundred twenty (120) days of the Commencement Date, or maintain, any licensure or regulatory approvals necessary to operate the Site under federal, state or local law.

(c) **Immediate Termination by Lessor.** Lessor may terminate this Agreement immediately by written notice to Lessee upon the occurrence of any of the following events:

(i) Lessee's failure to make a timely disclosure required pursuant to Section 6(i) or Section 34 hereof;

(ii) Lessee's failure to obtain, or maintain, unrestricted licenses or accreditation necessary to operate a hospital, or to participate in the Medicare, Medicaid or any other state or Federal Health Care Program;

(iii) Lessee's failure to maintain the insurance required under this Agreement; or

(iv) Lessee's conviction of a criminal offense related to health care, or Lessee's listing by a Federal Health Care Program as being debarred, excluded, suspended or otherwise ineligible for Federal Health Care Program participation.

(d) **Effect of Termination.** In the event of termination of this Agreement, neither party shall have any further obligation hereunder, except for obligations accruing prior to the date of termination and obligations by their nature extending beyond the date of termination. The expiration or earlier termination of this Agreement will not affect the rights of either party to damages based on any breach by the other party prior to such expiration or termination, or indemnification pursuant to the provisions of Section 14.

14. **INDEMNITY**

Each party shall indemnify and hold harmless the other party (which, for purposes of this paragraph only, shall include all of its agents, directors, officers, employees and contractors) from and against any and all claims, losses, damages, causes of action, liabilities and expenses, including, without limitation, attorney's fees, relating to or arising out of, directly or indirectly, any injury, death or other loss or damage that results from or arises out of or in connection with, in whole or part, directly or indirectly, (i) any breach by the indemnifying party of any provision of this Agreement or (ii) negligence or willful misconduct by the indemnifying party. Neither party assumes any liability or responsibility

for the negligence of the other. Each party understands and agrees that this indemnity provision is in no way intended to reduce or eliminate any insurance coverage maintained by either party. The obligations set forth in this Section 14 shall survive the expiration or earlier termination of this Agreement.

15. COVENANTS TO RUN TO SUCCESSORS

Subject to the restrictions set forth in Section 7 hereof, it is hereby covenanted and agreed between the parties hereto that all covenants, conditions, agreements and undertakings contained in this Agreement shall extend to and be binding upon the respective successors and assigns of the respective parties hereto to the same extent as if they were in every case named and expressed.

16. NOTICES

All notices required or permitted under this Agreement shall, unless otherwise specifically provided herein, be in writing, and shall be deemed effective (i) when actually delivered to the following addresses, (ii) three (3) days after deposit in the U.S. mail, prepaid and certified, to the following addresses or (iii) when sent by facsimile transmission to the following facsimile telephone numbers:

Lessor:	San Diego Radiosurgery, LLC c/o NeoSpine, LLC 40 Burton Hills Boulevard, Suite 320 Nashville, Tennessee 37215 Attention: Gregory E. Spurlock Fax: (615) 665-8228
with a copy to:	Waller Lansden Dortch & Davis, LLP 511 Union Street, Suite 2700 Nashville, Tennessee 37219 Attention: Joseph A. Sowell, III, Esq. Fax: (615) 244-6804
Lessee:	Palomar Pomerado Health 15255 Innovation Drive San Diego, California, 92128 Attention: Chief Legal Counsel Fax: (858) 675-5460

Either party may change its address to which notices shall be sent by a notice similarly sent.

17. ATTORNEY'S FEES

If any action at law or in equity is brought to enforce any of the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief.

18. ENTIRE AGREEMENT; AMENDMENTS

This Agreement constitutes the entire agreement between the parties with respect to the services described herein and supersedes any and all prior agreements, either oral or written, between the parties with respect to the subject matter hereof. This Agreement may be amended or modified only in writing signed by each of the parties hereto.

19. ENFORCEABILITY

In the event that any of the provisions of this Agreement are held to be invalid or unenforceable by any court of competent jurisdiction, the remaining provisions hereof shall not be affected thereby. The parties further agree that if any provision contained herein is, to any extent, held invalid or unenforceable in any respect under the laws governing the Agreement, they will take any actions necessary to render the remaining provisions of this Agreement valid and enforceable to the fullest extent permitted by law and, to the extent necessary, will amend or otherwise modify this Agreement to replace any provision contained herein that is held invalid or unenforceable with a valid and enforceable provision giving effect to the intent of the parties.

20. CONSTRUCTION

Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in the masculine, the feminine or the neuter gender shall include the masculine, feminine and neuter. The term "person" means any individual, corporation, partnership, limited liability company, trust or other entity. Every covenant, term and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against either party.

21. CAPTIONS

Captions contained in this Agreement are inserted only as a matter of convenience and in no way define, limit or extend the scope or intent of this Agreement or any provision hereof.

22. COUNTERPART EXECUTION; FACSIMILE EXECUTION

Separate copies of this Agreement may be executed by the parties hereto, with the same effect as though all parties had signed the same copy of this Agreement. Signatures on this Agreement transmitted by facsimile shall be accepted as original signatures.

23. WEEKENDS AND HOLIDAYS

If any due date contained herein falls on a Saturday, Sunday or bank holiday, the due date shall be deemed to be the following business day.

24. WAIVER

Failure by either party to enforce any of the provisions hereof for any length of time shall not be deemed a waiver of its rights set forth in this Agreement. Such a waiver may be made only by an instrument in writing signed by the party sought to be charged with the waiver. No waiver of any condition or covenant of this Agreement shall be deemed to imply or constitute a further waiver of the same or any other condition or covenant, and nothing contained in this Agreement shall be construed to be a waiver on the part of the parties of any right or remedy at law or in equity or otherwise.

25. TIME

Time is of the essence with respect to all provisions of this Agreement.

26. WAIVER OF JURY TRIAL

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO DEMAND THAT ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE RELATIONSHIPS OF THE PARTIES HERETO BE TRIED BY JURY. THIS WAIVER EXTENDS TO ANY AND ALL RIGHTS TO DEMAND A TRIAL BY JURY ARISING FROM ANY SOURCE INCLUDING, BUT NOT LIMITED TO, THE CONSTITUTION OF THE UNITED STATES OR ANY STATE THEREIN, COMMON LAW OR ANY APPLICABLE STATUTE OR REGULATIONS. EACH PARTY HERETO ACKNOWLEDGES THAT IT IS KNOWINGLY AND VOLUNTARILY WAIVING ITS RIGHT TO DEMAND TRIAL BY JURY.

27. REGULATORY REQUIREMENTS

The parties expressly agree that nothing contained in this Agreement shall require either party, its owners, affiliates, agents or employees to refer any patients to the other party or any affiliate of the other party, to use the Equipment or to otherwise generate business for the other party. The parties further acknowledge that Lessor, the Personnel and Lessor's owner physicians are not restricted from establishing staff privileges at, referring any patient to, or otherwise generating any business for, any other hospital or facility of their choosing. Further, no provision in this Agreement nor any consideration paid in connection with this Agreement is intended to induce, encourage, solicit, arrange for or reimburse the referral of any patients or business, including any patients or business funded in whole or in part by state or federal health care programs (including, but not limited to, Medicare, Medicaid and TriCare). The parties acknowledge and agree that there

is no requirement under this Agreement or any other agreement between Lessee and Lessor that either Lessee or Lessor, or any of their respective owners, employees, agents or affiliates, refer patients to each other or any of their respective owners or affiliates. The parties further agree that the benefits under this Agreement do not require, are not payment for and are not in any way contingent upon the admission, referral or other arrangement for the provision of any item or service reimbursed in whole or in part by any state or federal health care program. Notwithstanding any unanticipated effect of any provision of this Agreement, neither party will knowingly or intentionally conduct itself in such a manner as to violate any applicable state, local and federal laws, including without limitation the Medicare/Medicaid Anti-fraud and Abuse Amendments and Section 1877 of the Social Security Act.

28. NO THIRD-PARTY BENEFICIARIES

This Agreement is not intended to benefit, does not benefit and may not be enforced by any person or entity other than the parties hereto.

29. GOVERNING LAW

This Agreement is made under, and shall be interpreted and enforced in accordance with, the laws of the State of California, without giving effect to those principles of conflict of laws which might otherwise require the application of the laws of another jurisdiction.

30. FORCE MAJEURE

Neither party shall be liable to the other for nonperformance or defective or late performance of any of its obligations under this Agreement to the extent and for such periods of time as such nonperformance, defective performance or late performance is due to acts of God, fire, flood, strikes, industrial disturbances, accidents, war (declared or undeclared), riots, acts of terrorism, revolution, explosions, sabotage, nuclear incidents, lightning, weather, earthquakes storms, sinkholes, epidemics, action of any governmental authority or other causes beyond the reasonable control of the pertinent party, so long as such performance is commenced as soon as reasonably possible after the cessation of the cause of the failure to perform.

31. CONFIDENTIALITY OF INFORMATION

To the extent permissible by law, each party to this Agreement will hold in confidence, and not use to the detriment of the other party, and will cause its representatives to hold in confidence, and not use to the detriment of the other party or its affiliates, any confidential or proprietary information ("Confidential Information") it receives regarding such party or its affiliates arising out of or in connection with this Agreement. Failure to mark information as confidential or proprietary will not affect its status as Confidential Information. Each party shall not, at any time, discuss or disclose any of the Confidential Information to any third party or take any action that could compromise the confidentiality of the Confidential Information without the written consent

of the other party. The obligations of the parties with respect to Confidential Information will not apply to the extent that (i) any such information was already known to such party or other others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, or (ii) the disclosure of such information is required by applicable law, provided, however, that prior to disclosing such Confidential Information, a party must notify the other party thereof, which notice will include the basis upon which such party believes the information is required to be disclosed. Upon termination of this Agreement, the restrictions on the parties' use of Confidential Information as provided herein will continue in effect, and neither party will take or retain, without prior written authorization from the other party, any papers, patients lists, fee schedules, patient records, files or other documents or copies thereof or other Confidential Information of any kind belonging to the other party. Except for disclosure to the other party's legal counsel, accountant or financial advisors, neither party shall disclose the terms of this Agreement to any person who is not a party or signatory to this Agreement, unless disclosure thereof is required by law or otherwise authorized by this Agreement or consented to by the other party. The parties acknowledge and agree that each party would be damaged irreparably in the event of a breach of this Section 31 and that any such breach could not be adequately compensated by monetary damages. Accordingly, each party agrees that, in addition to any other right or remedy to which the parties may be entitled, at law or in equity, each party will be entitled to enforce this Section 31 by temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of this Section 31, without posting any bond or other undertaking.

32. HIPAA.

The parties shall only use or disclose Protected Health Information (as such term is defined by the Standards for Privacy of Individually Identifiable Health Information, 45 C.F.R. Part 160 and Subparts A and E of Part 164 (the "Privacy Standards"), as promulgated by the Department of Health and Human Services pursuant to the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996) in compliance with the Privacy Standards and other applicable law and shall reasonably safeguard the confidentiality, integrity and availability of Protected Health Information as required by the Privacy Standards and the Security Standards (45 C.F.F. Part 160 and Subparts A and E of Part 164). In the event that Protected Health Information is disclosed by a party or its agents to the other party, its employees, contractors, subcontractors or agents, such other party agrees to take reasonable steps to maintain, and to require its employees, contractors, subcontractors and agents to maintain, the privacy and confidentiality of such Protected Health Information consistent with applicable law. Upon request of Lessee, Lessor shall execute a business associate agreement with Lessee in a form reasonably acceptable to Lessee.

33. ACCESS TO RECORDS.

As and to the extent required by law, upon the written request of the Secretary of Health and Human Services, the Comptroller General or any of their duly authorized representatives, each party shall make available those contracts, books, documents and

records necessary to verify the nature and extent of the costs of providing services under this Agreement. Such inspection shall be available for up to four (4) years after the rendering of such services. If either party is requested to disclose books, documents or records pursuant to this Section for any purpose, the disclosing party shall notify the other party of the nature and scope of such request, and the disclosing party shall make available, upon written request of the other party, all such books, documents or records. Each party shall indemnify and hold harmless the other party if any amount of reimbursement is denied or disallowed because of a party's failure to comply with the obligations set forth in this Section. Such indemnity shall include, but not be limited to, the amount of reimbursement denied, plus any interest, penalties and legal costs. If either party carries out any of the duties of this Agreement through a subcontract with a value of \$10,000.00 or more over a twelve (12) month period with a related individual or organization, such party agrees to include this requirement in any such subcontract. This Section is included pursuant to and is governed by the requirements of 42 USC §1395x(v)(1) and the regulations related thereto. No attorney-client, accountant-client or other legal privilege will be deemed to have been waived by either party by virtue of this Agreement.

34. REQUIRED DISCLOSURES

Each party shall notify the other party in writing within three (3) days after any of the following events occur: (i) an event occurs that substantially interrupts all or a portion of such party's operations or that materially adversely affects a party's ability to perform its obligations hereunder; or (ii) such party's, or its owners or employees, conviction of a criminal offense related to health care or such party's, or its owners or employees, listing by a federal agency as being debarred, excluded or otherwise ineligible for participation in a Federal Health Care Program.

35. INDEPENDENT ORGANIZATIONS.

Lessee and Lessor intend to act and perform as independent contractors pursuant to this Agreement. The relationship between Lessee and Lessor is solely that of two independent parties contracting with each other at arm's-length for the purpose of effectuating the terms of this Agreement. None of the provisions of this Agreement are intended to create or shall be deemed or construed to create, any other relationship. Except as specifically set forth in this Agreement, neither party nor its agents, employees or representatives shall be deemed the agent, employee or representative of the other party, and no joint venture or partnership shall result from this Agreement. Each party shall be responsible for and shall comply with all state and federal laws pertaining to employment taxes, income withholding, unemployment compensation contributions and other employment-related statutes applicable to that party. Lessor shall have no authority, or represent that it has authority, to act on behalf of Lessee. Lessor shall act at all times under this Agreement as an independent contractor. The provisions of this Section shall survive expiration or other termination of this Agreement, regardless of the cause of such expiration or termination.

[Signature page follows.]

IN WITNESS WHEREOF, Lessor and Lessee have executed this Agreement as of the latest date this Agreement is executed by any party as set forth on the signature page below.

LESSOR:

San Diego Radiosurgery, LLC

By: _____
Name: _____
Title: _____
Date: _____

LESSEE:

PALOMAR POMERADO HEALTH

By: _____
Name: _____
Title: _____
Date: _____

Schedule A

Equipment

[Insert description of Trilogy system] including a description of the real property improvements made.

Schedule B

Use Periods

Four (4) contiguous hours per day during the period of 7:00 am to 7:00 pm at a specific time block mutually agreed upon, from time to time by the Parties.

Five (5) days per week consisting of Monday through Friday unless Lessee elects Saturday and/or Sunday to constitute a day(s) of the week from time to time.

**Bank and Investment Account
Addition of Authorized Signatories and
Changes to Named Signatories**

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: Bob Hemker, CFO

BACKGROUND: The following changes are being requested for the board-designated signatory lists for PPH Bank and Investment Accounts. The Resolution pertains only to the Titles of the additional Authorized Signatories.

ADDITIONAL AUTHORIZED SIGNATORIES – Action Required via Resolution		
All Bank Accounts (Except Auxiliary and Health Development Accounts)	General Accounting Manager Cash Control Manager	Vacant Vacant
All Investment Accounts (Except PPH GO Bond and Citracado Road Public Benefit Development Accounts)	General Accounting Manager Cash Control Manager	Vacant Vacant

The following changes are being made to the Names of Authorized Signatories. These changes are informational in nature and do not require any action on the part of the Board.

NAMING OF AUTHORIZED SIGNATORY – Information Only		
All Bank Accounts (Except Auxiliary and Health Development Accounts)	Chief Administrative Officer - POM Director of Finance	Vacant Vacant
All Investment Accounts (Except PPH GO Bond Accounts)	Director of Finance	Vacant

BUDGET IMPACT: None

STAFF RECOMMENDATION: Staff recommended approval of the additional Authorized Signatories.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval by Board Resolution of the two requested Authorized Signatories, by Title, for all PPH Bank and Investment Accounts **except** the Auxiliary and Health Development Bank Accounts and the PPH GO Bond and Citracado Road Public Benefit Development Investment Accounts

Motion:

Individual Action: X

Information:

Required Time:

**PALOMAR POMERADO HEALTH
BANK ACCOUNTS**

Account Name	General Ledger #	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
Investment Fund Savings	31-1512.11000	Bank of America 14508-03951	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant	Two approvals needed for telephonic and electronic fund transfers.	Receipts: Deposit investment fund cash receipts into this account. Disbursements: By telephonic and electronic only for transfers to operating fund accounts and investments.
PPH Central Checking	01-1001.00000	Bank of America 14504-50008	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant	Two handwritten signatures on amounts \$0.00 and above.	Receipts: Deposit all patient cash receipts and other operating income into this account. Disbursements: Used to transfer to other checking accounts. Also telephonic transfers for investments.
PPH Central Accounts Payable	01-1003.00000	Bank of America ² 14506-03938	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	Receipts: Deposit from Central checking. Disbursements: Used to pay all expenses (except payroll) for all facilities.
PPH Payroll	01-1002.00000	Bank of America ² 14504-03939	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant	One facsimile signature for amounts \$0.00 and above. One handwritten signature on manual checks.	Receipts: Transfers from the Central checking account. Disbursements: Pay net payroll for all PPH employees.
PPIA General Checking	Not part of PPH GL	Bank of America ² 14508-52046	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	Receipts: Fees and other revenue received from contracting facilities. Disbursements: Expenditures for PPIA expenses and other financial obligations.

2007-11-12 bankacct & investment.xls Bank Accounts
¹Names given for informational purposes only - Resolution pertains to job title.
²CFO, CAO - PMC and CAO - POM have authorization for facsimile signature.

**PALOMAR POMERADO HEALTH
BANK ACCOUNTS**

Account Name	General Ledger #	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
PPH TPA Checking	01-1003.13000	Bank of America ² 14505-08318	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	<u>Receipts:</u> Checks received for Managed Care claims per contractual agreement. <u>Disbursements:</u> Managed Care claims and other financial obligations.
PCCC Patient Trust Checking	Not part of PPH GL	Bank of America 14501-04973	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two handwritten signatures are required on amounts \$0.00 and up.	<u>Receipts:</u> Deposit money received on behalf of patients to serve patient needs. Interest bearing checking account. <u>Disbursements:</u> Disbursements of funds to pay convalescent center obligations and/or patient's miscellaneous personal obligations.
Villa POM Patient Trust Checking	Not part of PPH GL	Bank of America 14505-50374	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two handwritten signatures are required on amounts \$0.00 and up.	<u>Receipts:</u> Deposit money received on behalf of patients to serve patient needs. Interest bearing checking account. <u>Disbursements:</u> Disbursements of funds to pay convalescent center obligations and/or patient's miscellaneous personal obligations.
VRC Gateway Checking	03-1001-01000	Union Bank 01600025-65	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager VRC President VRC Treasurer VRC Secretary	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant Gary P. Spoto, M.D. Andrew D. Polansky, M.D. Steven J. Taggart, M.D.	Two signatures required on all amounts \$0.00 and up.	<u>Receipts:</u> Deposit VRC Gateway cash receipts for technical fees, professional fees and other income. <u>Disbursements:</u> Expenditures for VRC Gateway expenses and other VRC Gateway financial obligations.
VRC Parkway Checking	02-1001-01000	Union Bank 01600025-57	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager VRC President VRC Treasurer VRC Secretary	Michael Covert Bob Hemker Gerald Bracht Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant Gary P. Spoto, M.D. Andrew D. Polansky, M.D. Steven J. Taggart, M.D.	Two signatures required on all amounts \$0.00 and up.	<u>Receipts:</u> Deposit VRC Parkway cash receipts for technical fees, professional fees and other income. <u>Disbursements:</u> Expenditures for VRC Parkway expenses and other VRC Parkway financial obligations.

RESOLUTION NO. 11.12.07 (03) - 15

2007-11-12 bankaccs & investment.xls Bank Accounts
¹Names given for informational purposes only - Resolution pertains to job title.
²CFO, CAO - PMC and CAO - POM have authorization for facsimile signature.

**PALOMAR POMERADO HEALTH
BANK ACCOUNTS**

Account Name	General Ledger #	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
Escondido Surgery Center Savings	Not part of PPH GL	Rancho Santa Fe National Bank 03008436-71	President/CEO Chief Financial Officer Chief Planning Officer Chief Human Resources Officer Chief Clinical Outreach Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager ESC Administrator ESC Nurse Manager	Michael Covert Bob Hemker Marcia Jackson Wallie George Sheila Brown Tim Nguyen Vacant Vacant Marvin Levenson Beverly Berg	Two signatures on all checks amount \$0.00 and up.	<u>Receipts:</u> Deposit all Surgery Center cash receipts. <u>Disbursements:</u> By telephone transfer to Revolving Checking account.
343 E. 2nd Avenue Investors, LP Checking	Not part of PPH GL	Rancho Santa Fe National Bank 03009831-70	President/CEO Chief Financial Officer Chief Planning Officer Chief Human Resources Officer Chief Clinical Outreach Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager ESC Administrator ESC Nurse Manager	Michael Covert Bob Hemker Marcia Jackson Wallie George Sheila Brown Tim Nguyen Vacant Vacant Marvin Levenson Beverly Berg	Two signatures on all checks amount \$0.00 and up.	<u>Receipts:</u> Money earned from land lease. <u>Disbursements:</u> Money disbursed to land investors and to cover accounting and legal fees.
PMC Auxiliary Gift Shop Checking	Not part of PPH GL	Bank of America 01695-21649	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schultze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To transfer funds from savings to cover expenses. <u>Disbursements:</u> To pay bills concerning PMC Auxiliary and purchases for Palomar Medical Center.
PMC Auxiliary Gift Shop Savings	Not part of PPH GL	Bank of America 01699-85096	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schultze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To transfer funds for scholarships. <u>Disbursements:</u> Yearly \$500 scholarships.
PMC Auxiliary Gift Shop Savings	Not part of PPH GL	Bank of America 01692-85094	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schultze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> Interest received used for scholarships. <u>Disbursements:</u> Transfer excess funds at maturity to general scholarship account.
PMC Auxiliary Gift Shop Savings	Not part of PPH GL	Bank of America 01692-85094	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schultze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To transfer from checking excess funds to hold for gifts to hospital. <u>Disbursements:</u> Transfer to checking funds needed for gifts to hospital.
PMC Auxiliary Gift Shop Savings	Not part of PPH GL	Bank of America 01695-85098	Auxiliary President Auxiliary Treasurer Auxiliary Secretary	Eleanor Schultze Jodie Kroon Fran Cummings	Two handwritten signatures on amounts \$0.00 and above.	<u>Receipts:</u> To deposit funds received for remembrance of members. <u>Disbursements:</u> Expenses incurred.

RESOLUTION NO. 11.12.07 (03) - 15

2007-11-12 bankacct & investment.xls Bank Accounts
¹Names given for informational purposes only - Resolution pertains to job title.
²CFO, CAO - PMC and CAO - POM have authorization for facsimile signature.

**PALOMAR POMERADO HEALTH
BANK ACCOUNTS**

Resolution Number	Account Name	General Ledger #	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
	Pre-1993 Workers' Comp Claims Account	Not yet available	Wells Fargo 4121-230080	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant		Receipts: Disbursements: Pay Workers Compensation claims both in Delta Workers Compensation Pool (pre-1993) and current.
	PPH Payroll in Lawson	IVIS = Not Applicable Lawson = 100201-0000	Bank of America ² 73132-03616	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	One facsimile signature for amounts \$0.00 and above. One handwritten signature on manual checks.	Receipts: Transfers from the Central checking account. Disbursements: Pay net payroll for all PPH employees.
	PPH Central Accounts Payable in Lawson	IVIS = Not Applicable Lawson = 100303-0000	Bank of America ² 73132-03593	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	One facsimile signature for amounts below \$10,000.01. One manual and one facsimile signature for amounts \$10,000.01 and up. Manual checks require one handwritten signature for amounts below \$10,000.01 and two manual signatures for amounts \$10,000.01 and up.	Receipts: Deposit from Central checking. Disbursements: Used to pay all expenses (except payroll) for all facilities.
	Palomar Pomarado North County Health Development	Not part of PPH GL	Bank of America 14596-24521	President/CEO Chief Financial Officer Secretary	Michael Covert Bob Hemker Bradley Wiscons	One handwritten signature by the Secretary for amounts below \$5,000.01. Two handwritten signatures by the Secretary and either the President/CEO or CFO for amounts above \$5,000.01 Amounts exceeding \$249,999.00 require Board action.	Receipts: Deposit from PPH Central checking. Disbursements: Used to pay all expenses (except payroll) for PPH Health Development.

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**PALOMAR POMERADO HEALTH
INVESTMENT ACCOUNTS**

Resolution Number	Account Name	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
	Investment Fund	Morgan Stanley 123-095476-038	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Investment Fund	Salomon Brothers 123-095465-038	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Investment Fund	Pacific Income Advisors 123-095464-038	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Investment Fund	Local Agency Investment Fund (LAIF) 20-37-004	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.

RESOLUTION NO. 11.12.07 (03) - 15

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**PALOMAR POMERADO HEALTH
INVESTMENT ACCOUNTS**

Resolution Number	Account Name	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
	Money Market Account	Fidelity 00080348725	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Excess operational funds not immediately needed. <u>Disbursements:</u> Transfers to operational funds to meet cash requirements.
	Pomerado Hospital Authority Escrow Fund 1978 Bond Issue	U.S. Bank Corporate Trust 34625230	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Interest earned on escrow funds. <u>Disbursements:</u> Payment of bond indebtedness.
	Pomerado Hospital Authority Escrow Fund 1978 Bond Issue	U.S. Bank Corporate Trust 94625840	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Interest earned on escrow funds. <u>Disbursements:</u> Payment of bond indebtedness.
	Revenue Bonds 1993 Issue	U.S. Bank Corporate Trust 94622930	President/CEO Chief Financial Officer Chief Administrative Officer - PMC Chief Administrative Officer - POM Chief Planning Officer Chief Human Resources Officer Corporate Controller Director of Finance General Accounting Manager Cash Control Manager	Michael Covert Bob Hemker Gerald Bracht Vacant Marcia Jackson Wallie George Tim Nguyen Vacant Vacant Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Transfer from operational funds to meet debt service payments. <u>Disbursements:</u> Payment of bond indebtedness.

RESOLUTION NO. 11.12.07 (03) - 15

**PALOMAR POMERADO HEALTH
INVESTMENT ACCOUNTS**

Resolution Number	Account Name	Institution Account No.	Authorized Title	Name ¹	Required Signatures and Limits	Account Purpose
RESOLUTION NO. 11.12.07 (03) - 15	Revenue Bonds 1999 Issue	U.S. Bank Corporate Trust 95465800	President/CEO	Michael Covert	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Transfer from operational funds to meet debt service payments. <u>Disbursements:</u> Payment of bond indebtedness.
			Chief Financial Officer	Bob Hemker		
			Chief Administrative Officer - PMC	Gerald Bracht		
	Repurchase Agreement	Morgan Stanley 64892719	Chief Administrative Officer - POM	Vacant	Two approvals required on all telephonic and electronic fund transfers.	<u>Receipts:</u> Transfer from operational funds to meet debt service payments. <u>Disbursements:</u> Payment of bond indebtedness.
			Chief Planning Officer	Marcia Jackson		
			Chief Human Resources Officer	Wallie George		
			Corporate Controller	Tim Nguyen		
			Director of Finance	Vacant		
			General Accounting Manager	Vacant		
	PPH GO Bond Election of 2004 Series 2005A Interest and Sinking Fund	Wells Fargo 1804050	Cash Control Manager	Vacant	One authorized signature on all documents.	<u>Receipts:</u> Receive monies from County of San Diego tax roll. <u>Disbursements:</u> Payment of Interest and Principal to Bond Holders.
			President/CEO	Michael Covert		
			Chief Financial Officer	Bob Hemker		
	PPH GO Bond Election of 2004 Series 2005A Project Fund	Wells Fargo 1804501	President/CEO	Michael Covert	One authorized signature on all documents.	<u>Receipts:</u> Proceeds from Bond sale. Interest Income earned. <u>Disbursements:</u> Disburse funds to PPH for project costs.
			Chief Financial Officer	Bob Hemker		
	Citracado Road Public Benefit Development Account	Wells Fargo 18040503	President/CEO - PPH	Michael Covert	Two authorized signatures (one each from PPH & City of Escondido) on all documents.	<u>Receipts:</u> One-time funding of \$13 million plus earned interest. <u>Disbursements:</u> Authorized uses pursuant to Development Agreement dated February 15, 2006.
Chief Financial Officer - PPH			Bob Hemker			
Controller - PPH			Tim Nguyen			
			Director of Finance - PPH	Vacant		
			Director of Finance - City of Escondido	Gil Rojas		
			Revenue Manager - City of Escondido	Joan Ryan		
			City Manager - City of Escondido	Clay Phillips		

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SECRETARY'S CERTIFICATION

I, the undersigned, the duly appointed, qualified, and acting Secretary of the Board of Directors for Palomar Pomerado Health, do hereby certify that attached hereto is a true, complete and correct copy of Resolution Number 11.12.07 (03) – 15, adopted at a duly called meeting of the Board of Directors of said Health Care District, held in accordance with laws on the 12th day of November, 2007, at which meeting a quorum was present and acting throughout, all as appears in the records of the Board of Directors of said Health Care District.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 12th day of November, 2007.

Linda Greer, R.N., Secretary
Board of Directors
Palomar Pomerado Health

**Authorized Individuals and Enabling Resolutions
for a Metropolitan Life Insurance Company Deposit Account
with JP Morgan Chase Manhattan Bank**

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: Bob Hemker, CFO
Tim Nguyen, Corporate Controller

Background: Palomar Pomerado Health ("PPH") has entered into an Agreement with Metropolitan Life Insurance Company ("MetLife") relating to the payment of benefits under the PPH Employee Benefits Plan. A part of that Agreement requires that PPH open an account with JP Morgan Chase Manhattan Bank (the "Bank"), with withdrawals therefrom to be subject to the direction of MetLife.

MetLife and the Bank have requested that the Board adopt a resolution to open the Palomar Pomerado Health Dental Benefits Account (the "Account"). The attached Resolution memorializes the authorizations for both PPH and MetLife with regard to the opening and maintenance of the Account and has been drafted for Board review and approval.

Budget Impact: N/A

Staff Recommendation: Staff recommended approval of the PPH Resolution Re: Authorized Individuals and Enabling Resolutions for a Metropolitan Life Insurance Company Deposit Account with JP Morgan Chase Manhattan Bank.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the PPH Resolution Re: Authorized Individuals and Enabling Resolutions for a Metropolitan Life Insurance Company Deposit Account with JP Morgan Chase Manhattan Bank.

Motion:

Individual Action: X

Information:

Required Time:

RESOLUTION NO. 11.12.07 (04) – 16

**RESOLUTION OF THE GOVERNING BOARD OF PALOMAR POMERADO HEALTH
RE: AUTHORIZED INDIVIDUALS AND ENABLING RESOLUTIONS FOR
A METROPOLITAN LIFE INSURANCE COMPANY DEPOSIT ACCOUNT
WITH JP MORGAN CHASE MANHATTAN BANK**

WHEREAS, to implement an Agreement between Palomar Pomerado Health ("PPH") and Metropolitan Life Insurance Company ("MetLife") relating to the payment of benefits under PPH's employee benefit plan, PPH desires to open an account with JP Morgan Chase Manhattan Bank (the "Bank"), with withdrawals therefrom to be subject to the direction of MetLife.

RESOLVED, that PPH open a deposit account with the Bank to be entitled **Palomar Pomerado Health Dental Benefits Account** or such other name designated by the Chief Executive Officer or Chief Financial Officer of PPH ("Account").

RESOLVED, that such designated officers of PPH and MetLife are authorized to deposit funds of PPH or MetLife in the Account.

RESOLVED, that any funds deposited in the Account be subject at any time, to withdrawal, transfer or charge upon the following terms only: (1) upon checks, drafts or other orders for the payment of money drawn in the name of PPH and bearing the signature of persons designated to the Bank from time to time by the Chief Executive Officer or Chief Financial Officer or when bearing or purporting to bear the facsimile signature of such persons and (2) in accordance with orders, instructions and information transmitted to the Bank on magnetic tape, by computer transmissions, in writing or by means of telecommunications by or on behalf of MetLife.

RESOLVED, that the Bank is authorized (1) to pay any such check, draft or other order or make or permit any such withdrawal, transfer or charge in accordance with such orders, instructions or information, regardless of by whom or by what means the actual or purported facsimile signature(s) thereon may have been affixed, (2) to receive same from any holder without inquiry as to the circumstances of issue or the disposition of the proceeds, it being understood that some or all of the funds on deposit in the Account will be transferred from time to time to an account(s) maintained by MetLife with the Bank and, (3) at the option of the Bank, to pay any such check, draft or other order to make or permit such withdrawal, transfer or charge even if the Account shall not be in credit to the full amount of such instrument, withdrawal, transfer or charge.

RESOLVED, that the Bank is authorized and directed (1) to send MetLife checks or drafts purporting to be drawn by PPH upon itself which are made payable through the Bank or information relating to such checks or drafts and (2) to accept instructions from the persons designated by the Chief Executive Officer or Chief Financial Officer or any other duly authorized officer of MetLife to charge the Account and pay the checks or drafts designated by such persons, to stop payment thereon, or to return such checks or drafts unpaid to the presenter provided any such checks or drafts have been returned to the Bank by MetLife.

RESOLVED, that all statements of account in connection with the Account shall be addressed and delivered to the Corporate Controller of PPH, with copies thereof to MetLife, and all canceled checks, drafts, other orders and correspondence in connection with the Account shall be addressed and delivered to MetLife.

RESOLVED, that the Account shall be a non-interest bearing account, but that no amount will be charged by the Bank for ordinary and customary depositary and disbursement services.

RESOLVED, that the Account shall be closed only upon the written direction of both (1) the Chief Financial Officer of PPH and (2) the Chief Financial Officer (or the designee) of MetLife.

RESOLVED, that PPH authorizes and directs its Chief Financial Officer (or a designee) to notify the Bank promptly in writing of any change in these Resolutions, such written notice to be given to the Bank at its offices located at 4 JP Morgan Chase MetroTech Center, Brooklyn, New York 11245, to the attention of the Worldwide Insurance Division, Domestic Institutional Banking, and that until the Bank has actually received such notice and has had a reasonable opportunity to act upon same, the Bank is authorized to act in accordance with these Resolutions and shall be indemnified and saved harmless from any loss or liability incurred in continuing to act in accordance with these Resolutions, even though these Resolutions may have changed.

The undersigned further certifies that the foregoing is a full, true and correct copy of Resolutions duly and regularly adopted by vote of the Board of Directors, that such Resolutions have not been rescinded or changed, but are now in full force and effect, and that there is no provision in the By-laws of PPH limiting the power of the Board of Directors to pass the foregoing Resolutions and that the same are in conformity with the provisions of said By-laws.

PASSED AND ADOPTED by the Governing board of Palomar Pomerado Health in Poway, California, this 12th day of November, 2007, by the following vote:

AYES:

NAYS:

ABSENT:

ABSTAINING:

IN WITNESS WHEREOF, this instrument has been duly signed and sealed as of the 12th day of November, 2007.

BY: _____
Marcelo Rivera, M.D.
Chair, Board of Directors
Palomar Pomerado Health

ATTESTED:

Linda Greer, R.N.
Secretary, Board of Directors
Palomar Pomerado Health

**DISSOLUTION OF PARTNERSHIP
343 E. SECOND AVENUE INVESTORS, LTD.**

TO: Board of Directors

FROM: Board Finance Committee
Tuesday, October 30, 2007

MEETING DATE: Monday, November 12, 2007

BY: Marvin Levenson, MD, FACHE, Administrator, Escondido Surgery Center
Sheila Brown, RN, MBA, FACHE, Chief Clinical Outreach Officer

BACKGROUND: This is a follow-up resolution to the one approved by the Board of Directors on September 10, 2007. That resolution provided for the dissolution of the Escondido Ambulatory Surgical Center Investors, LP ("EASCI"). As each limited partner in the EASCI exercised their put option, the land and all limited partners' interests in the partnership itself were transferred to Palomar Pomerado Health ("PPH"), the General Partner of EASCI.

PPH is the sole remaining entity with an ownership interest in 343 E. Second Avenue Investors, Ltd. ("343, Ltd."). Its sole asset is the land beneath the building. The attached resolution provides for the dissolution of 343, Ltd., and a transfer of the assets of the Partnership directly to PPH.

BUDGET IMPACT: There is no budget implication. As the building sitting on this land is single purpose, the value of the land is not determined.

STAFF RECOMMENDATION: Staff recommended approval of the attached resolution, which terminates the 343, Ltd., partnership and transfers all assets from 343, Ltd., to PPH.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends approval of the attached resolution, which terminates the 343, Ltd., partnership and transfers all assets from 343, Ltd., to PPH.

Motion:

Individual Action: X

Information:

Required Time:

**Purchase of Property and Building at
451 E. Valley Parkway, Escondido, CA**

TO: Board of Directors
FROM: Board Finance Committee
Tuesday, October 30, 2007
MEETING DATE: Monday, November 12, 2007
BY: Bob Hemker, CFO

Background: Utilizing the services of a Real Estate broker and a licensed appraiser, the property and building located at 451 E. Valley Parkway, Escondido, CA, was evaluated for suitability and appraisal of value. The property is an approximately 3,700 sq ft single-story industrial/office building on an approximately 3,700 sq ft parcel of land. Additionally, the property is a part of the "West Properties" referenced in the MOU with the City of Escondido, approved February 23, 2006, by Board resolution.

After having the value of the property determined by Third Party appraisal, Management entered into negotiations via a Letter of Intent to Purchase, conditioned upon Board of Director approval and certain due diligence. A negotiated purchase price of \$999,050 for the 3,700 sq ft single-story industrial/office building on an approximately 3,700 sq ft parcel of land resulted, with PPH to pay buyer's standard closing costs, as well as the escrow fee and the fee for an ALTA title insurance policy. The closing of the transaction is anticipated on or about January 4, 2008 (*see attached*).

Board of Director approval is requested, authorizing Management to finalize the purchase, subject to the satisfactory completion of due diligence.

Budget Impact: \$999,050 plus estimated closing & brokerage costs of \$60,000, to be paid from Facility Master Plan Capital Funds for the purchase of the property and building located at 451 E. Valley Parkway, Escondido, CA.

Staff Recommendation: Staff recommends that Management be instructed to complete the acquisition of the property and building located at 451 E. Valley Parkway, Escondido, CA, at the negotiated price, subject to completion of due diligence; that authorization be afforded the CEO and/or CFO to execute the final Purchase Agreement, with closing of the transaction to be on or about January 4, 2008; and recommends approval of the associated Board Resolution.

Committee Questions:

COMMITTEE RECOMMENDATION: The Board Finance Committee recommends that Management be instructed to complete the acquisition of the property and building located at 451 E. Valley Parkway, Escondido, CA, subject to completion of due diligence; that authorization be afforded the CEO and/or CFO to execute the final Purchase Agreement, with closing of the transaction to be on or about January 4, 2008; and recommends approval of the associated Board Resolution.

Motion:

Individual Action: X

Information:

Required Time:



STANDARD OFFER, AGREEMENT AND ESCROW INSTRUCTIONS FOR PURCHASE OF REAL ESTATE

(Non-Residential)

AIR Commercial Real Estate Association

October 16, 2007

(Date for Reference Purposes)

1. Buyer.

1.1 Palomar Pomerado Health, a California local healthcare district, organized pursuant to Division 29, Section 32,000 of California Health & Safety Code... hereby offers to purchase the real property...

upon the terms and conditions set forth in the agreement ("Agreement"). Buyer shall have the right to assign Buyer's rights hereunder, but any such assignment shall not relieve Buyer's obligations herein unless Seller expressly releases Buyer.

1.2 The term "Date of Agreement" as used herein shall be the date when by execution and delivery (as defined in paragraph 20.2) of this document or a subsequent counterpart thereto, Buyer and Seller have reached agreement in writing whereby Seller agrees to sell, and Buyer agrees to purchase, the Property upon terms accepted by both Parties.

2. Property.

2.1 The real property ("Property") that is the subject of this offer consists of (insert a brief physical description) on approximately 3,700 square foot single-story industrial/office building on an approximately 3,700 square foot parcel of land... is located in the City of Escondido, County of San Diego, State of California...

and is legally described as: To be addressed in escrow

(APN: 229-442-01-00)

2.2 If the legal description of the Property is not complete or is inaccurate, this Agreement shall not be invalid and the legal description shall be completed or corrected to meet the requirements of Chicago Title Company (Mark Brady) ("Title Company"), which shall issue the title policy hereinafter described.

2.3 The Property includes, at no additional cost to Buyer, the permanent improvements thereto, including those items which pursuant to applicable law are a part of the property, as well as the following items: H-ary, owned by Seller and at present located on the Property: electrical distribution systems (power panel, bus ducting, conduits, disconnects, lighting fixtures); telephone distribution systems (switch racks and connections only); open-heater, heating, ventilating, air conditioning equipment ("HVAC"); air-liner, fire-sprinkler systems; security and fire detection systems; curbs; window coverings; well coverings; and

2.4 The fire sprinkler monitor: is owned by Seller and included in the Purchase Price. is leased by Seller, and Buyer will need to negotiate a new lease with the fire monitoring company, or ownership will be determined during Escrow.

2.5 Except as provided in Paragraph 2.3, the Purchase Price does not include Seller's personal property, furniture and furnishings, and which shall be removed by Seller prior to Closing.

3. Purchase Price.

3.1 The purchase price ("Purchase Price") to be paid by Buyer to Seller for the Property shall be \$999,050.00, payable as follows:

(a) Cash down payment, including the Deposit as defined in paragraph 4.3 (or if an all cash transaction, the Purchase Price): \$999,050.00

(Strike if not applicable)

(b) Amount of "New Loan" as defined in paragraph 6.1, if any:

(c) Buyer shall take title to the Property subject to and/or assume the following existing deed(s) of trust (including deed(s) or trust) securing the existing promissory note(s) ("Existing Note(s)"): (i) An Existing Note ("First Note") with an unpaid principal balance as of the

Closing of approximately: \$ per month. Said First Note is payable at % per annum until paid (and/or the - including interest at the rate of % per annum until paid (and/or the - on the unpaid balance is due on

(ii) An Existing Note ("Second Note") with an unpaid principal balance as of the Closing of approximately: \$ per month. Said Second Note is payable at % per annum until paid (and/or the - including interest at the rate of % per annum until paid (and/or the - on the unpaid balance is due on

(d) Buyer shall give Seller a deed of trust ("Purchase Money Deed of Trust") on the Property to secure the promissory note of Buyer to Seller described in paragraph 6.1

INITIALS

MHC INITIALS

7x6

... ("Purchase Money Note") in the amount of \$ _____
Total Purchase Price 6994,850.00

3.2 If Buyer is taking title to the Property subject to, or assuming, an Existing Deed of Trust and such deed of trust permits the beneficiary to demand payment of fees including, but not limited to, points, processing fees, and appraisal fees as a condition to the transfer of the Property, Buyer agrees to pay such fees up to a maximum of 1.5% of the unpaid principal balance of the applicable Existing Note.

4. Deposits.

4.1 Buyer has delivered to Broker a check in the sum of \$ _____, payable to Escrow Holder, to be held by Broker until both Parties have executed this Agreement and the executed Agreement has been delivered to Escrow Holder, or Buyer shall deliver to Escrow Holder a check in the sum of \$50,000.00 when both Parties have executed this Agreement and the executed Agreement has been delivered to Escrow Holder. When cashed, the check shall be deposited into the Escrow's trust account to be applied toward the Purchase Price of the Property at the Closing. Should Buyer and Seller not enter into an agreement for purchase and sale, Buyer's check or funds shall, upon request by Buyer, be promptly returned to Buyer.

4.2 Additional deposit:

(a) Within 5 business days after the Date of Agreement, Buyer shall deposit with Escrow Holder the additional sum of \$0.00 to be applied to the Purchase Price at the Closing.

(b) Within 5 business days after the contingencies described in paragraph 6.1 (a) through (k) are approved or waived, Buyer shall deposit with Escrow Holder the additional sum of \$ _____ to be applied to the Purchase Price at the Closing.

4.3 Escrow Holder shall deposit the funds deposited with it by Buyer pursuant to paragraphs 4.1 and 4.2 (collectively the "Deposit") in a State or Federally chartered bank in an interest bearing account whose term is appropriate and consistent with the timing requirements of this transaction. The interest therefrom shall accrue to the benefit of Buyer, who hereby acknowledges that there may be penalties or interest impositions if the appropriate instrument is redeemed prior to its specified maturity. Buyer's Federal Tax Identification Number is 95-6003843. NOTE: Such interest bearing accounts cannot be opened until Buyer's Federal Tax Identification Number is provided.

5. Financing Contingency (Seller's not applicable)

5.1 This offer is contingent upon Buyer obtaining from a lender, financial institution or other lender, a commitment to lend to Buyer a sum equal to at least _____% of the Purchase Price, at terms reasonably acceptable to Buyer. Such loan ("New Loan") shall be secured by a first deed of trust or mortgage on the Property. If this Agreement provides for Seller to carry back your financing, then Seller shall have the right to approve or disapprove of such proposed terms. Seller shall have 7 days from receipt of the commitment setting forth the proposed terms of the New Loan to approve or disapprove of such proposed terms. If Seller fails to notify Escrow Holder, in writing, of the disapproval within said 7 days it shall be conclusively presumed that Seller has approved the terms of the New Loan.

5.2 Buyer hereby agrees to diligently pursue obtaining the New Loan. If Buyer shall fail to notify its Broker, Escrow Holder and Seller, in writing, within the Date of Agreement, that the New Loan has not been obtained, it shall be conclusively presumed that Buyer has either obtained said New Loan or has waived this New Loan contingency.

5.3 If, after due diligence, Buyer shall notify its Broker, Escrow Holder and Seller, in writing, within the time specified in paragraph 5.2 hereof, that Buyer has not obtained said New Loan, this Agreement shall be terminated, and Buyer shall be entitled to the prompt return of the Deposit, plus any interest earned thereon, less only Escrow Holder and Title Company cancellation fees and costs, which Buyer shall pay.

6. Seller Financing (Purchase Money Note) (Seller's not applicable)

6.1 The Purchase Money Note shall provide for interest on unpaid principal at the rate of _____% per annum, with principal and interest paid as follows:

The Purchase Money Note and Purchase Money Deed of Trust shall be on the uniform forms commonly used by Escrow Holder, and be just and equitable only to the Existing Note(s) and/or the New Loan expressly called for by this Agreement.

6.2 The Purchase Money Note and/or the Purchase Money Deed of Trust shall contain provisions regarding the following (see also paragraph 4.3 (b)):

- (a) Payment: Principal may be prepaid in whole or in part at any time without penalty at the option of the Buyer.
- (b) Late Charge: A late charge of _____% shall be payable with respect to any payment of principal, interest, or other charges not made within 10 days after it is due.
- (c) Due On Sale: In the event the Buyer sells or transfers title to the Property, or any portion thereof, then the Seller may, at Seller's option, require the entire unpaid balance of said Note to be paid in full.
- (d) If the Purchase Money Deed of Trust is to be subordinate to other financing, Escrow Holder shall, at Buyer's expense prepare and record on Seller's behalf a request for notice of default and/or with respect to each mortgage or deed of trust to which it will be subordinate.
- (e) 6.4. WARNING: CALIFORNIA LAW DOES NOT ALLOW DEFICIENCY JUDGMENTS ON SELLER FINANCING. IF BUYER ULTIMATELY DEFAULTS ON THE LOAN, SELLER'S SOLE REMEDY IS TO FORECLOSE ON THE PROPERTY.

7. Real Estate Brokers

7.1 The following real estate broker(s) ("Brokers") and brokerage relationships exist in this transaction and are consented to by the Parties (check the applicable boxes):

- _____ represents Seller exclusively ("Seller's Broker");
- Grubb & Ellis (DRE Commercial (Reeder/Ragghanti)) represents Buyer exclusively ("Buyer's Broker"); or
- _____ represents both Seller and Buyer ("Dual Agency").

The Parties acknowledge that Brokers are the procuring cause of this Agreement. See paragraph 24 regarding the nature of a real estate agency relationship. Buyer shall use the services of Buyer's Broker exclusively in connection with any and all negotiations and offers with respect to the Property for a period of 1 year from the date inserted for reference purposes at the top of page 1.

7.2 Buyer and Seller each represent and warrant to the other that he/she/it has had no dealings with any person, firm, broker or finder in connection with the negotiation of this Agreement and/or the consummation of the purchase and sale contemplated herein, other than the Brokers named in paragraph 7.1, and no broker or other person, firm or entity, other than said Brokers is/are entitled to any commission or finder's fee in connection with this transaction as the result of any dealings or acts of such Party. Buyer and Seller do each hereby agree to indemnify, defend, protect and hold the other harmless from and against any costs, expense or liability for compensation, commission or charges which may be claimed by any broker, finder or other similar party, other than said named Brokers by reason of any dealings or act of the indemnifying Party.

8. Escrow and Closing

8.1 Upon acceptance hereof by Seller, this Agreement, including any counterparts incorporated herein by the Parties, shall constitute not only the agreement of purchase and sale between Buyer and Seller, but also instructions to Escrow Holder for the consummation of the Agreement through the Escrow. Escrow Holder shall not prepare any further escrow instructions restating or amending the Agreement unless specifically so instructed by the Parties or a Broker herein. Subject to the reasonable approval of the Parties, Escrow Holder may, however, include its standard general escrow provisions.

8.2 As soon as practical after the receipt of this Agreement and any relevant counterparts, Escrow Holder shall ascertain the Date of Agreement as defined in paragraphs 1.2 and 20.2 and advise the Parties and Brokers, in writing, of the date ascertained.

8.3 Escrow Holder is hereby authorized and instructed to conduct the Escrow in accordance with the Agreement, applicable law and custom and practice of the community in which Escrow Holder is located, including any reporting requirements of the Internal Revenue Code. In the event of a conflict between the law of the state where the Property is located and the law of the state where the Escrow Holder is located, the law of the state where the Property is located shall prevail.

8.4 Subject to satisfaction of the contingencies herein described, Escrow Holder shall close this escrow (the "Closing") by recording a general warranty deed (a grant deed in California) and the other documents required to be recorded, and by disbursing the funds and documents in accordance with this Agreement.

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(n) **Material Change.** Buyer shall have 10 days following receipt of written notice of a Material Change within which to notify Seller with regard to such change. "Material Change" shall mean a change in the status of the use, occupancy, tenants, or condition of the Property that occurs after the date of this offer and prior to the Closing. Unless otherwise notified in writing, Escrow Holder shall assume that no Material Change has occurred prior to the Closing.

(o) **Seller Performance.** The delivery of all documents and the due performance by Seller of each and every undertaking and agreement to be performed by Seller under this Agreement.

(p) **Warranties.** That each representation and warranty of Seller herein be true and correct as of the Closing. Escrow Holder shall assume that this condition has been satisfied unless notified to the contrary in writing by any Party prior to the Closing.

(q) **Brokerage Fee.** Payment of the Closing of such brokerage fee as is specified in this Agreement or later written instructions to Escrow Holder executed by Seller and Brokers ("Brokerage Fee"). It is agreed by the Parties and Escrow Holder that Brokers are a third party beneficiary of this Agreement insofar as the Brokerage Fee is concerned, and that no change shall be made with respect to the payment of the Brokerage Fee specified in this Agreement, without the written consent of Brokers.

9.2 All of the contingencies specified in subparagraphs (a) through (p) of paragraph 9.1 are for the benefit of, and may be waived by, Buyer, and may be elsewhere herein referred to as "Buyer's Contingencies."

9.3 If any Buyer's Contingency or any other matter subject to Buyer's approval is disapproved as provided for herein in a timely manner ("Disapproved Item"), Seller shall have the right within 10 days following the receipt of notice of Buyer's disapproval to elect to cure such Disapproved Item prior to the Expected Closing Date ("Seller's Election"). Seller's failure to give to Buyer within such period, written notice of Seller's election to cure such Disapproved Item on or before the Expected Closing Date shall be conclusively presumed to be Seller's Election not to cure such Disapproved Item. If Seller elects, either by written notice or failure to give written notice, not to cure a Disapproved Item, Buyer shall have the election, within 10 days after Seller's Election to either accept title to the Property subject to such Disapproved Item, or to terminate this transaction. Buyer's failure to notify Seller in writing of Buyer's election to accept title to the Property subject to the Disapproved Item without deduction or offset shall constitute Buyer's election to terminate this transaction. Unless expressly provided otherwise herein, Seller's right to cure shall not apply to the remediation of Hazardous Substance Conditions or to the Financing Contingency. Unless the Parties mutually instruct otherwise, if the time periods for the satisfaction of contingencies or for Seller's said Elections would expire on a date after the Expected Closing Date, the Expected Closing Date shall be deemed extended for 3 business days following the expiration of: (a) the applicable contingency period(s), (b) the period within which the Seller may elect to cure the Disapproved Item, or (c) if Seller elects not to cure, the period within which Buyer may elect to proceed with the transaction, whichever is later.

9.4 Buyer understands and agrees that until such time as all Buyer's Contingencies have been satisfied or waived, Seller and/or its agents may solicit, entertain and/or accept back-up offers to purchase the Property.

9.5 The Parties acknowledge that extensive local, state and Federal legislation establish broad liability upon owners and/or users of real property for the investigation and remediation of Hazardous Substances. The determination of the existence of a Hazardous Substance Condition and the evaluation of the impact of such a condition are highly technical and beyond the expertise of Brokers. The Parties acknowledge that they have been advised by Brokers to consult their own technical and legal experts with respect to the possible presence of Hazardous Substances on the Property or adjoining properties, and Buyer and Seller are not relying upon any investigation by or statement of Brokers with respect thereto. The Parties hereby assume all responsibility for the impact of such Hazardous Substances upon their respective interests herein.

10. Documents Required at or before Closing:

10.1 Five days prior to the Closing date Escrow Holder shall obtain an updated Title Commitment concerning the Property from the Title Company and provide copies thereof to each of the Parties.

All additional items not belonging to Buyer shall be removed from the Premises by the close of escrow or at least termination of Premises as addressed in Paragraph 31.

10.2 Seller shall deliver to Escrow Holder in time for delivery to Buyer at the Closing:

(a) Grant or general warranty deed, duly executed and in recordable form, conveying fee title to the Property to Buyer.

(b) If applicable, the Beneficiary Statements concerning Existing Notes.

(c) If applicable, the Existing Leases and Other Agreements together with duly executed assignments thereof by Seller and Buyer. The assignment of Existing Leases shall be on the most recent Assignments and Assumption of Lessor's Interest in Lease form published by the AIR or its equivalent.

(d) If applicable, Estoppel Certificates executed by Seller and/or the tenants of the Property.

(e) An affidavit executed by Seller to the effect that Seller is not a "foreign person" within the meaning of Internal Revenue Code Section 1445 or successor statutes if Seller does not provide such affidavit in form reasonably satisfactory to Buyer at least 3 business days prior to the Closing. Escrow Holder shall at the Closing deduct from Seller's proceeds and remit to Internal Revenue Service such sum as is required by applicable Federal law with respect to purchases from foreign sellers.

(f) If the Property is located in California, an affidavit executed by Seller to the effect that Seller is not a "nonresident" within the meaning of California Revenue and Tax Code Section 18962 or successor statutes. If Seller does not provide such affidavit in form reasonably satisfactory to Buyer at least 3 business days prior to the Closing, Escrow Holder shall at the Closing deduct from Seller's proceeds and remit to the Franchise Tax Board such sum as is required by such statute.

(g) If applicable, a bill of sale, duly executed, conveying title to any included personal property to Buyer.

(h) If the Seller is a corporation, a duly executed corporate resolution authorizing the execution of this Agreement and the sale of the Property.

10.3 Buyer shall deliver to Seller through Escrow:

(a) The cash portion of the Purchase Price and such additional sums as are required of Buyer under this Agreement shall be deposited by Buyer with Escrow Holder, by federal funds wire transfer, or any other method acceptable to Escrow Holder as immediately collectable funds, no later than 2:00 P.M. on the business day prior to the Expected Closing Date.

(b) If a Purchase Money Note and Purchase Money Deed of Trust are called for by this Agreement, the duly executed originals of those documents, the Purchase Money Deed of Trust being in recordable form, together with evidence of fire insurance on the improvements in the amount of the full replacement cost naming Seller as a mortgagee less payee, and a real estate tax service contract (at Buyer's expense), ensuring Seller of notice of the status of payment of real property taxes during the life of the Purchase Money Note.

(c) The Assignment and Assumption of Lessor's Interest in Lease form specified in paragraph 10.2(c) above, duly executed by Buyer.

(d) Assumptions duly executed by Buyer of the obligations of Seller that arise after Closing under any Other Agreements.

(e) If applicable, a written assumption duly executed by Buyer of the loan documents with respect to Existing Notes.

(f) If the Buyer is a corporation, a duly executed corporate resolution authorizing the execution of this Agreement and the purchase of the Property.

10.4 At Closing, Escrow Holder shall cause to be issued to Buyer a standard coverage (or ALTA extended, if elected pursuant to 5.1(g)) owner's form policy of title insurance effective as of the Closing, issued by the Title Company in the full amount of the Purchase Price, insuring title to the Property vested in Buyer, subject only to the exceptions approved by Buyer. In the event there is a Purchase Money Deed of Trust in this transaction, the policy of title insurance shall be a joint protection policy insuring both Buyer and Seller.

IMPORTANT: IN A PURCHASE OR EXCHANGE OF REAL PROPERTY, IT MAY BE ADVISABLE TO OBTAIN TITLE INSURANCE IN CONNECTION WITH THE CLOSE OF ESCROW SINCE THERE MAY BE PRIOR RECORDED LIENS AND ENCUMBRANCES WHICH AFFECT YOUR INTEREST IN THE PROPERTY BEING ACQUIRED. A NEW POLICY OF TITLE INSURANCE SHOULD BE OBTAINED IN ORDER TO ENSURE YOUR INTEREST IN THE PROPERTY THAT YOU ARE ACQUIRING.

11. Provisions and Adjustments.

11.1 **Taxes.** Applicable real property taxes and special assessment bonds shall be prorated through Escrow as of the date of the Closing, based upon the latest tax bill available. The Parties agree to prorate as of the Closing any taxes assessed against the Property by supplemental bill levied by reason of events occurring prior to the Closing. Payment of the prorated amount shall be made promptly in cash upon receipt of a copy of any supplemental bill.

11.2 **Insurance.** WARNING: Any insurance which Seller may have maintained will terminate on the Closing. Buyer is advised to obtain appropriate insurance to cover the Property.

11.3 **Reverts, Interest and Expenses.** Scheduled reverts, interest on Existing Notes, utilities, and operating expenses shall be prorated as of the date of Closing. The Parties agree to promptly adjust between themselves outside of Escrow any reverts received after the Closing.

11.4 **Security Deposit.** Security Deposits held by Seller shall be given to Buyer as a credit to the cash required of Buyer at the Closing.

11.5 **Post Closing Matters.** Any item to be prorated that is not determined or determinable at the Closing shall be promptly adjusted by the Parties by appropriate cash payment outside of the Escrow when the amount due is determined.

11.6 **Variations in Existing Note Balances.** In the event that Buyer is purchasing the Property subject to an Existing Deed of Trust(s), and in the event that a Beneficiary Statement as to the applicable Existing Note(s) discloses that the unpaid principal balance of such Existing Note(s) at the

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closing will be more or less than the amount set forth in paragraph 3.1(c) hereof ("Existing Note Variation"), then the Purchase Money Note(s) shall be reduced or increased by an amount equal to such Existing Note Variation. If there is to be no Purchase Money Note, the cash required at the Closing per paragraph 3.1(e) shall be reduced or increased by the amount of such Existing Note Variation.

11.7 Variations in New Loan Balance. In the event Buyer is obtaining a New Loan and the amount ultimately obtained exceeds the amount set forth in paragraph 3.1, then the amount of the Purchase Money Note, if any, shall be reduced by the amount of such excess.

12. Representation and Warranties of Seller and Disclaimers. 12.1 Seller's warranties and representations shall survive the Closing and delivery of the deed for a period of 3 years, and, one year, material and related upon by Buyer and Brokers in all respects. Seller hereby makes the following warranties and representations to Buyer and Brokers:

- (a) **Authority of Seller.** Seller is the owner of the Property and/or has the full right, power and authority to sell, convey and transfer the Property to Buyer as provided herein, and to perform Seller's obligations hereunder.
- (b) **Maintenance During Escrow and Equipment Condition At Closing.** Except as otherwise provided in paragraph 9.1(m) hereof, Seller shall maintain the Property until the Closing in its present condition, ordinary wear and tear excepted. The HVAC, plumbing, elevators, loading docks and electrical systems shall be in good operating order and condition at the time of Closing.
- (c) **Hazardous Substances/Storage Tanks.** Seller has no knowledge, except as otherwise disclosed to Buyer in writing, of the existence of prior existence on the Property of any Hazardous Substance, nor of the existence or prior existence of any above or below ground storage tank.
- (d) **Compliance.** Seller has no knowledge of any aspect or condition of the Property which violates applicable laws, rules, regulations, codes or covenants, conditions or restrictions, or of improvements or alterations made to the Property without a permit where one was required, or of any unfulfilled order or directive of any applicable governmental agency or casualty insurance company requiring any investigation, remediation, repair, maintenance or improvement to be performed on the Property.
- (e) **Changes in Agreements.** Prior to the Closing, Seller will not violate or modify any Existing Lease or Other Agreement, or create any new lease or other agreements affecting the Property, without Buyer's written approval, which approval will not be unreasonably withheld.
- (f) **Proprietary Rights.** Seller has no knowledge that anyone will, at the Closing, have any right to possession of the Property, except as disclosed by this Agreement or otherwise in writing to Buyer.
- (g) **Mechanics' Liens.** There are no unsatisfied mechanics' or materialmen's lien rights concerning the Property.
- (h) **Actions, Suits or Proceedings.** Seller has no knowledge of any actions, suits or proceedings pending or threatened before any commission, board, bureau, agency, arbitrator, court or tribunal that would affect the Property or the right to occupy or utilize same.
- (i) **Notice of Changes.** Seller will promptly notify Buyer and Brokers in writing of any Material Change (see paragraph 0.1(n)) affecting the Property that becomes known to Seller prior to the Closing.
- (j) **No Tenant Bankruptcy Proceedings.** Seller has no notice or knowledge that any tenant of the Property is the subject of a bankruptcy or insolvency proceeding.
- (k) **No Seller Bankruptcy Proceedings.** Seller is not the subject of a bankruptcy, insolvency or probate proceeding.
- (l) **Personal Property.** Seller has no knowledge that anyone will, at the Closing, have any right to possession of any personal property included in the Purchase Price nor knowledge of any liens or encumbrances affecting such personal property, except as disclosed by this Agreement or otherwise in writing to Buyer.

12.2 Buyer hereby acknowledges that, except as otherwise stated in this Agreement, Buyer is purchasing the Property in its existing condition and will, by the time called for herein, make or have waived all inspections of the Property Buyer believes are necessary to protect its own interest in, and its contemplated use of, the Property. The Parties acknowledge that, except as otherwise stated in this Agreement, no representations, inducements, promises, agreements, assurances, oral or written, concerning the Property, or any aspect of the occupational safety and health laws, Hazardous Substance laws, or any other act, ordinance or law, have been made by either Party or Brokers, or relied upon by either Party herein.

12.3 In the event that Buyer learns that a Seller representation or warranty might be untrue prior to the Closing, and Buyer elects to purchase the Property anyway then, and in that event, Buyer waives any right that it may have to bring an action or proceeding against Seller or Brokers regarding said representation or warranty.

12.4 Any environmental reports, soils reports, surveys, and other similar documents which were prepared by third party consultants and provided to Buyer by Seller or Seller's representatives, have been delivered to an accommodation to Buyer and without any representation or warranty as to the sufficiency, accuracy, completeness, and/or veracity of said documents, all of which Buyer relies on at its own risk. Seller follows said documents to be accurate, but Buyer is advised to retain appropriate consultants to review said documents and investigate the Property.

13. Possession. Possession of the Property shall be given to Buyer at the Closing subject to Paragraph 51 the rights of tenants under existing leases.

14. Buyer's Entry. At any time during the Escrow period, Buyer, and its agents and representatives, shall have the right at reasonable times and subject to rights of tenants, to enter upon the Property for the purpose of making inspections and tests specified in the Agreement. No destructive testing shall be conducted, however, without Seller's prior approval which shall not be unreasonably withheld. Following any such entry or work, unless otherwise directed in writing by Seller, Buyer shall return the Property to the condition it was in prior to such entry or work, including the reconnection or removal of any disrupted soil or material as Seller may reasonably direct. All such inspections and tests and any other work conducted or materials furnished with respect to the Property by or for Buyer shall be paid for by Buyer as and when due and Buyer shall indemnify, defend, protect and hold harmless Seller and the Property or end from any and all claims, liabilities, losses, expenses (including reasonable attorneys' fees), damages, including those for injury to person or property, arising out of or relating to any such work or materials or the acts or omissions of Buyer, its agents or employees in connection therewith.

15. Further Documents and Assurances. The Parties shall each, diligently and in good faith, undertake all actions and procedures reasonably required to place the Escrow in condition for Closing as and when required by the Agreement. The Parties agree to provide all further information, and to execute and deliver all further documents, reasonably required by Escrow Holder or the Title Company.

16. Attorneys' Fees. If any Party or Broker brings an action or proceeding (including arbitration) involving the Property whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereinafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to attorneys' fees. The term "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred.

17. Prior Agreements/Amendments. 17.1 This Agreement supersedes any and all prior agreements between Seller and Buyer regarding the Property. 17.2 Amendments to this Agreement are effective only if made in writing and executed by Buyer and Seller.

18. Broker's Rights. 18.1 If this sale is not consummated due to the default of either the Buyer or Seller, the defaulting Party shall be liable to and shall pay to Brokers the Brokerage Fee that Brokers would have received had the sale been consummated. If Buyer is the defaulting party, payment of said Brokerage Fee is in addition to any obligation with respect to Equated or other damages. 18.2 Upon the Closing, Brokers are authorized to publicize the facts of this transaction.

19. Notices. 19.1 Whenever any Party, Escrow Holder or Brokers herein shall desire to give or serve any notice, demand, request, approval, disapproval or other communication, each such communication shall be in writing and shall be delivered personally, by messenger or by mail, postage prepaid, to the address set forth in this Agreement or by facsimile transmission.

19.2 Service of any such communication shall be deemed made on the date of actual receipt if personally delivered. Any such communication sent by regular mail shall be deemed given 48 hours after the same is mailed. Communications sent by United States Express Mail or overnight courier sent by regular mail shall be deemed delivered 24 hours after delivery of the same to the Postal Service or courier. Communications that guarantee next day delivery shall be deemed delivered upon telephonic confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If such communication is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

19.3 Any Party or Broker herein may from time to time, by notice in writing, designate a different address to which, or a different person or additional persons to whom, all communications are thereafter to be made.

20. Duration of Offer. 20.1 If the offer is not accepted by Seller on or before 5:00 P.M. according to the time standard applicable to the city of

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Escondido, CA on the date of October 29, 2007

it shall be deemed automatically revoked. 20.2 The acceptance of this offer, or of any subsequent counteroffer hereof, that creates an agreement between the Parties as described in paragraph 1.2, shall be deemed made upon delivery to the other Party or other broker herein of a duly executed writing unconditionally accepting the last outstanding offer or counteroffer.

21. LIQUIDATED DAMAGES. (This Liquidated Damages Paragraph is applicable only if Initialed by both Parties) THE PARTIES AGREE THAT IT WOULD BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO FIX, PRIOR TO SIGNING THIS AGREEMENT, THE ACTUAL DAMAGES WHICH WOULD BE SUFFERED BY SELLER IF BUYER FAILS TO PERFORM ITS OBLIGATIONS UNDER THIS AGREEMENT. THEREFORE, IF, AFTER THE SATISFACTION OR WAIVER OF ALL CONTINGENCIES PROVIDED FOR THE BUYER'S BENEFIT, BUYER BREACHES THIS AGREEMENT, SELLER SHALL BE ENTITLED TO LIQUIDATED DAMAGES IN THE AMOUNT OF \$5,000.00. UPON PAYMENT OF SAID SUM TO SELLER, BUYER SHALL BE RELEASED FROM ANY FURTHER LIABILITY TO SELLER, AND ANY ESCROW CANCELLATION FEES AND TITLE COMPANY CHARGES SHALL BE PAID BY SELLER.

Buyer Initials [Signature] Seller Initials [Signature]

22. ARBITRATION OF DISPUTES. (This Arbitration of Disputes paragraph is applicable only if Initialed by both Parties.) 22.1 ANY CONTROVERSY AS TO WHETHER SELLER IS ENTITLED TO THE LIQUIDATED DAMAGES AND/OR BUYER IS ENTITLED TO THE RETURN OF DEPOSIT MONEY, SHALL BE DETERMINED BY BINDING ARBITRATION BY, AND UNDER THE COMMERCIAL RULES OF THE AMERICAN ARBITRATION ASSOCIATION ("COMMERCIAL RULES"), ARBITRATION HEARINGS SHALL BE HELD IN THE COUNTY WHERE THE PROPERTY IS LOCATED. ANY SUCH CONTROVERSY SHALL BE ARBITRATED BY 3 ARBITRATORS WHO SHALL BE IMPARTIAL REAL ESTATE BROKERS WITH AT LEAST 5 YEARS OF FULL TIME EXPERIENCE IN BOTH THE AREA WHERE THE PROPERTY IS LOCATED AND THE TYPE OF REAL ESTATE THAT IS THE SUBJECT OF THIS AGREEMENT. THEY SHALL BE APPOINTED UNDER THE COMMERCIAL RULES. THE ARBITRATORS SHALL HEAR AND DETERMINE SAID CONTROVERSY IN ACCORDANCE WITH APPLICABLE LAW, THE INTENTION OF THE PARTIES AS EXPRESSED IN THIS AGREEMENT AND ANY AMENDMENTS THERETO, AND UPON THE EVIDENCE PRODUCED AT AN ARBITRATION HEARING. PRE-ARBITRATION DISCOVERY SHALL BE PERMITTED IN ACCORDANCE WITH THE COMMERCIAL RULES OR STATE LAW APPLICABLE TO ARBITRATION PROCEEDINGS. THE AWARD SHALL BE EXECUTED BY AT LEAST 2 OF THE 3 ARBITRATORS, BE RENDERED WITHIN 30 DAYS AFTER THE CONCLUSION OF THE HEARING, AND MAY INCLUDE ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY PER PARAGRAPH 18 HEREOF. JUDGMENT MAY BE ENTERED ON THE AWARD IN ANY COURT OF COMPETENT JURISDICTION NOTWITHSTANDING THE FAILURE OF A PARTY DULY NOTIFIED OF THE ARBITRATION HEARING TO APPEAR THEREAT.

22.2 BUYER'S RESORT TO OR PARTICIPATION IN SUCH ARBITRATION PROCEEDINGS SHALL NOT BAR SUIT IN A COURT OF COMPETENT JURISDICTION BY THE BUYER FOR DAMAGES AND/OR SPECIFIC PERFORMANCE UNLESS AND UNTIL THE ARBITRATION RESULTS IN AN AWARD TO THE SELLER OF LIQUIDATED DAMAGES, IN WHICH EVENT SUCH AWARD SHALL ACT AS A BAR AGAINST ANY ACTION BY BUYER FOR DAMAGES AND/OR SPECIFIC PERFORMANCE.

22.3 NOTICE: BY INITIATING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIATING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS SUCH RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

Buyer Initials [Signature] Seller Initials [Signature]

23. Miscellaneous.

23.1 Binding Effect. This Agreement shall be binding on the Parties without regard to whether or not paragraphs 21 and 22 are initialed by both of the Parties. Paragraphs 21 and 22 are each incorporated into this Agreement only if initialed by both Parties at the time that the Agreement is executed.

23.2 Applicable Law. This Agreement shall be governed by, and paragraph 22.3 is amended to refer to, the laws of the state in which the Property is located.

23.3 Time of Essence. Time is of the essence of this Agreement.

23.4 Counterparts. This Agreement may be executed by Buyer and Seller in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. Escrow Holder, after verifying that the counterparts are identical except for the signatures, is authorized and instructed to combine the signed signatures pages on one of the counterparts, which shall then constitute the Agreement.

23.5 Waiver of Jury Trial. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.

23.6 Conflict. Any conflict between the printed provisions of this Agreement and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

23.7 1031 Exchange. Both Seller and Buyer agree to cooperate with each other in the event that either or both wish to participate in a 1031 exchange. Any party initialed on an exchange shall bear all costs of such exchange.

24. Disclosure Regarding The Nature of a Real Estate Agency Relationship.

24.1 The Parties and Brokers agree that their relationship(s) shall be governed by the principles set forth in the applicable sections of the California Civil Code as summarized in paragraph 24.2.

24.2 When entering into a discussion with a real estate agent regarding a real estate transaction, a Buyer or Seller should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Buyer and Seller acknowledge being advised by the Brokers in this transaction, as follows:

(a) Seller's Agent. A Seller's agent under a listing agreement with the Seller acts as the agent for the Seller only. A Seller's agent or subagent has the following affirmative obligations: (1) To the Seller: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Seller. (2) To the Buyer and the Seller: a Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(b) Buyer's Agent. A selling agent can, with a Buyer's consent, agree to act as agent for the Buyer only. In these situations, the agent is not the Seller's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Seller. An agent

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INITIALS [Signature]

acting only for a Buyer has the following affirmative obligations: (1) To the Buyer: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealing with the Buyer. (2) To the Buyer and the Seller: A diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(c) Agent Representing Both Seller and Buyer. A real estate agent, either acting directly or through one or more associate licensees, can legally be the agent of both the Seller and the Buyer in a transaction, but only with the knowledge and consent of both the Seller and the Buyer. (1) In a dual agency situation, the agent has the following affirmative obligations to both the Seller and the Buyer: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Seller or the Buyer. b. Other duties to the Seller and the Buyer as stated above in their respective sections (a) or (b) of this paragraph 24.2. (2) In representing both Seller and Buyer, the agent may not without the express permission of the respective Parties, disclose to the other Party that the Seller will accept a price less than the listing price or that the Buyer will pay a price greater than the price offered. (3) The above duties of the agent in a real estate transaction do not relieve a Seller or Buyer from the responsibility to protect their own interests. Buyer and Seller should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

(d) Further Disclosures. Throughout this transaction Buyer and Seller may receive more than one disclosure, depending upon the number of agents assisting in the transaction. Buyer and Seller should each read its contents each time it is presented, considering the relationship between them and the real estate agent in this transaction and the disclosure. Brokers have no responsibility with respect to any default or breach thereof by either Party. The liability (including court costs and attorneys' fees), of any Broker with respect to any breach of duty, error or omission relating to this Agreement shall not exceed the fee received by such Broker pursuant to this Agreement, provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

24.3 Confidential Information: Buyer and Seller agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.

25. Construction of Agreement. In construing this Agreement, all headings and titles are for the convenience of the parties only and shall not be considered a part of this Agreement. Whenever required by the context, the singular shall include the plural and vice versa. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Agreement shall mean and refer to calendar days. This Agreement shall not be construed as if prepared by one of the parties, but rather according to its fair meaning as a whole, as if both parties had prepared it.

26. Additional Provisions: Additional provisions of this offer, if any, are as follows or are attached hereto by an addendum consisting of paragraphs 28 through 32 (if there are no additional provisions write "NONE".)

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS AGREEMENT OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:
1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS AGREEMENT.
2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PROPERTY, SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PROPERTY, THE INTEGRITY AND CONDITION OF ANY STRUCTURES AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PROPERTY FOR BUYER'S INTENDED USE.
WARNING: IF THE PROPERTY IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THIS AGREEMENT MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PROPERTY IS LOCATED.

NOTE:
1. THIS FORM IS NOT FOR USE IN CONNECTION WITH THE SALE OF RESIDENTIAL PROPERTY.
2. IF THE BUYER IS A CORPORATION, IT IS RECOMMENDED THAT THIS AGREEMENT BE SIGNED BY TWO CORPORATE OFFICERS.
The undersigned Buyer offers and agrees to buy the Property on the terms and conditions stated and acknowledges receipt of a copy hereof.

BROKER:
Graph A Ellis/BRE Commercial
Attn: Rick Reeder / Amber Rayghanti
Title:
Address: 1000 Avilera Parkway, Suite 100
Carlsbad, CA 92011
Telephone: (760) 434-4200
Facsimile: (760) 454-3864
Email:
Federal ID No:

BUYER:
Palomar Pomarado Health, a California local
healthcare district organized pursuant to
Division 23, Section 32,000 of California
Health & Safety Code
By: [Signature]
Date: 10/31/07
Name Printed: Michael Covett
Title: Chief Executive Officer
Telephone:
Facsimile:
By: [Signature]
Date: 10/31/07
Name Printed: Bob Hemker
Title: Chief Financial Officer
Address: 15255 Innovation Drive
San Diego, CA 92128
Telephone: (619) 675-5267
Facsimile:

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FORM OFA-5-304E

7-11

Team Irving MHC

ADDENDUM TO STANDARD OFFER, AGREEMENT AND ESCROW INSTRUCTIONS FOR PURCHASE OF REAL ESTATE, FOR THAT CERTAIN PROPERTY LOCATED AT 451 E. VALLEY PARKWAY, ESCONDIDO, CALIFORNIA, BY AND BETWEEN ANDROS GILL "SELLER", AND PALOMAR POMERADO HEALTH, A CALIFORNIA LOCAL HEALTHCARE DISTRICT, ORGANIZED PURSUANT TO DIVISION 23, SECTION 32,000 OF CALIFORNIA HEALTH & SAFETY CODE, AS "BUYER" DATED OCTOBER 8, 2007.

28. REPRESENTATIONS AND WARRANTIES:

This property is being sold on an "As is" basis.

29. ALLOCATION OF FEES AND COSTS:

Seller will pay:

- a. All San Diego County documentary transfer taxes
- b. The fee for a CLTA title insurance policy premium
- c. One-half (1/2) of Escrow Agent's escrow fee
- d. The usual Seller's document drafting and recording charges

Buyer will pay:

- a. One-half (1/2) of Escrow Agent's escrow fee
- b. The additional fee for an ALTA title insurance policy
- c. The usual Buyer's document drafting and recording charges

Escrow Agent shall prorate these fees and costs between the parties at the close of escrow.

30. CLOSE OF ESCROW:

Escrow shall close on January 4, 2008.

31. LEASE BACK:

Seller shall have the right to lease back the property for a lump sum of \$1,547/month for no more than six (6) months, cancelable by Buyer with thirty (30) days written notice any time after the second month (60 days). Seller shall have the right to cancel the lease back at any time with written notice. Any and all operating costs, including utilities and insurance, are to be borne by the Seller. No subleasing shall be permitted during this time. Facility to be used in its current, at-close-of-escrow, condition. Seller shall be obligated for any and all damages occurring to Property during this period. Lease back shall be subject to a commercially reasonable Lease Agreement executed on or before close of escrow. If not executed, Seller to vacate premises at or before close of escrow.

32. CONTINGENCY:

Subject to Palomar Pomerado Health Finance Committee meeting scheduled for October 30, 2007, and Board of Directors review and approval at its November 12, 2007, Board of Directors Meeting.

***CONSULT YOUR ADVISORS** - This document has been prepared for your approval by your attorney. No representation or recommendation is made by Grubb & Ellis|BRE Commercial as to the sufficiency or tax consequences of this document or the transaction to which it relates. These are questions for your attorney. In any real estate transaction, it is recommended that you consult with a professional, such as a civil engineer, industrial hygienist or other person, with experience in evaluating the condition of the property, including the possible presence of asbestos, hazardous materials and underground storage tanks.

AGREED TO AND ACCEPTED:

SELLER:
Joan Irving

By: [Signature]
 Name: Joan Irving
 By: _____
 Name: _____
 Date: _____

BUYER:
Palomar Pomerado Health, A California
Local Healthcare District, Organized
Pursuant To Division 23, Section 32,000 Of
California Health & Safety Code

By: [Signature]
 Name: Michael Covort
 By: [Signature]
 Name: Bob Herriker
 Date: 10/31/07

A WordPerfect 7.0 document saved as Palomar_Pomerado_Health_1020070811 E Valley Parkway 451 Valley Parkway 2007 Addendum.doc

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RESOLUTION NO. 11.12.07 (06) – 18

RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH, AUTHORIZING THE ACQUISITION OF THE PROPERTY AND BUILDING LOCATED AT 451 E. VALLEY PARKWAY, ESCONDIDO, CA, SUBJECT TO THE FINAL ACCEPTANCE OF THE STANDARD OFFER AND AGREEMENT AND COMPLETION OF DUE DILIGENCE

WHEREAS, in July 2004 the Palomar Pomerado Health Board of Directors approved the Facility Master Plan for new, replacement and expanded facilities, inclusive of support service buildings; and

WHEREAS, on February 8, 2006, the City of Escondido approved a Memorandum of Understanding between Palomar Pomerado Health and the City of Escondido concerning the potential future activities at the Downtown Medical Campus and the parties' cooperation in the development of new facilities; and

WHEREAS, the Palomar Pomerado Health Board of Directors approved said Memorandum of Understanding between Palomar Pomerado Health and the City of Escondido on February 23, 2006, by Resolution No. 02.23.06 (02) – 03; and

WHEREAS, on April 25, 2006, the Memorandum of Understanding Between the City of Escondido and Palomar Pomerado Health Concerning the Preservation of Downtown Escondido and the Redevelopment of Palomar Medical Center went into effect; and

WHEREAS, the Palomar Pomerado Health Board of Directors has determined that acquisition of the property and building located at 451 E. Valley Parkway, Escondido, CA, is in the best interest of the district and consistent with the intent of both the Facility Master Plan and the Memorandum of Understanding;

NOW, THEREFORE, BE IT RESOLVED THAT:

A. DETERMINATIONS AND FINDINGS

The Board hereby determines and finds that:

(1) The acquisition of the property and building located at 451 E. Valley Parkway, Escondido, CA, is consistent with Section V.B. Acquisition of West Properties in the Memorandum of Understanding; and

(2) PPH has obtained a Third Party appraisal and determined that the negotiated purchase price is at or below the market value range of appraisal; and

(3) The closing on the purchase of the property and building located at 451 E. Valley Parkway, Escondido, CA, is in the best interest of the District in order to develop and implement the District's Facility Master Plan.

