PALOMAR POMERADO HEALTH

SPECIALIZING IN YOU

BOARD FINANCE COMMITTEE MEETING

Posted & Mailed (US & E-mail) October 24, 2008

Tuesday, October 28, 2008
5:30 p.m. (Dinner via café line for Committee Members & Invited Guests *only*)
6:00 p.m. Meeting

Pomerado Hospital
15615 Pomerado Road, Poway, CA
Meeting Room E

	Time	Page	Target
CALL TO ORDER			**6:00 p.m.**
➢ Public Comments	5		6:05 p.m.
➢ Information Item(s) • RAC Update • ICOC – Posting of Vacancy Notice	10		6:15 p.m.
1. * Review/Approval: North County Radiology Medical Group, Inc. • Professional & Medical Director Services Agreement – Radiology Department *(Addendum A)* • Line of Credit *(Addendum B)*	25	Ag2-6	6:40 p.m.
2. * Review/Approval: Draft Audited Financial Statements for Years Ended June 30, 2008 and 2007 *(Addenda C& C1)*	25	Ag7	7:05 p.m.
3. * Approval: Finance Committee Minutes – Tuesday, September 30, 2008 *(Addendum D)*	5	Ag8	7:10 p.m.
4. * Review/Approval: Establishment of Palomar Pomerado Health Retail Group, LLC *(Addendum E)*	20	Ag9	7:30 p.m.
5. * Information/Approval: Bond Issuance – Update on CY2008 GO Bond Issue and Conversion of CoPs-2006 ARS	10	Ag10	7:40 p.m.
6. * Approval: September 2008 & YTD FY2009 Financial Report *(Addendum F)*	20	Ag11	8:00 p.m.
FINAL ADJOURNMENT			**8:00 p.m.**

NOTE: If you have a disability, please notify us 72 hours prior to the event so that we may provide reasonable accommodations

PALOMAR POMERADO HEALTH
RADIOLOGY DEPARTMENT
PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT

TO: Board Finance Committee

MEETING DATE: Tuesday, October 28, 2009

BY: Gerald Bracht
Chief Administrative Officer

BACKGROUND: The existing Professional Services and Medical Director Agreement with Valley Radiology is scheduled to expire on December 31, 2008. In June 2008, a Request for Proposal (RFP) was distributed by PPH to sixteen radiology groups, soliciting interest in providing Professional Radiology Services to PPH facilities. A total of seven responses were received. A multidisciplinary committee of the PMC and POM medical staffs was convened to review the responses received, interview qualified candidates and recommend to Administration which groups would be acceptable to the medical staffs to proceed to negotiations. The RFP Committee—chaired by Palomar Chief of Staff Dr. John Lilly—met on two separate occasions, with a total of 16 physicians present. The Committee initially identified 4 out of the 7 respondents for follow-up and interviews. Two groups were interviewed on August 25, 2009, with a recommendation by the Committee to proceed to negotiations with North County Radiology Medical Group, Inc. (NCR).

This is an exclusive, five-year Agreement *(Addendum A)* for the provision of imaging services across the district and, therefore, includes no compensation from PPH to NCR for either the professional services rendered or the medical director services provided. The standard agreement template was utilized, with the following sections added as specific to this Agreement: §3.7 Nighthawk Services; §4.4 Line of Credit; and §6.8 Joint Venture Opportunities.

The Agreement represents the standard terms and conditions for a Hospital based professional services agreement in effect for all hospital based services. As reflected in §4.4, the Agreement provides for a Line of Credit to support the start-up up efforts of NCR *(Addendum B)*. Additionally, a portion of certain costs incurred by PPH and NCR associated with the start-up of services may accrue to the formation of a Joint Venture between the parties to provide outpatient imaging services.

It is expected that a joint venture will be formed by the parties before December 31, 2009.

At this time, the parties have executed a Letter of Intent to establish this Professional and Medical Director Services Agreement in order for the activities associated with the transition on December 31, 2008, to proceed.

BUDGET IMPACT: Operating Budget: $240,000.00 for start-up costs incurred by PPH
Cash Budget: $240,000.00 and potential draws on the Line of Credit

STAFF RECOMMENDATION: Approval

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

North County Radiology
Professional Services Agreement – Line of Credit

Objective:

To facilitate the start-up of new Imaging Professional Services coverage.

Line of Credit Components:

1. Accounts receivable advance
2. Nighthawk coverage 6 months (need dependent upon "ramp up" of physicians)
3. Intellectual start-up costs
4. Interest expense on LOC
5. Physician recruitment costs (only if needed)

North County Radiology
Professional Services Agreement – Line of Credit

Line	Description	PPH Cost	NCR Repaid	NCR Costs	Section	Reference
1	Accounts Receivable advance		900,000		4.4(a)-1	A/R LOC
2	Nighthawk Coverage 1/09 through 6/09	240,000			3.7	
3	Nighthawk Coverage 7/09 through 12/09		240,000		4.4(a)-2	Nighthawk LOC
4	Actual start-up costs			90,000	4.4(a)-3	Intellectual LOC
5	Opportunity value on expanded working capital			40,000	4.4(a)-4	Opportunity Value LOC
6	Physician Recruitment costs			120,000	4.4(a)-5	Recruitment LOC
7	Amount to be repaid to PPH		**$ 1,140,000**			
8	Amount to accrue to JV	**$ 240,000**		**$ 250,000**		

PALOMAR POMERADO HEALTH

North County Radiology
Professional Services Agreement – Line of Credit

Terms and Conditions:

1. Repayment of principle begins October 1, 2009

2. Interest at prime rate as of 10/1/09 plus 2%

3. Repayment at any time of all principle and accrued interest without penalty

4. Credit up to $250,000 towards establishment of Joint Venture by 12/31/09

PALOMAR POMERADO HEALTH

PALOMAR POMERADO HEALTH - AGREEMENT ABSTRACT

Section Reference	Term/Condition	Term/Condition Criteria
Preamble	**TITLE**	Radiology Department, Professional and Medical Director Services Agreement
Preamble	**AGREEMENT DATE**	January 1, 2009
Preamble	**PARTIES**	1) PPH 2) North County Radiology Medical Group, Inc.
Recitals D	**PURPOSE**	Provision of imaging services on exclusive basis to PPH facilities.
1.1 – 1.4	**SCOPE OF SERVICES**	Complete 24x7 coverage of imaging and interventional radiology services at PMC and POM and out-patient imaging coverage at the Women's Center.
	PROCUREMENT METHOD	☒ **Request For Proposal** ☐ **Discretionary** Formation of Medical Staff RFP review committee
7.1	**TERM**	January 1, 2009 through December 31, 2013
	RENEWAL	None
7.2 7.3 – 7.5	**TERMINATION**	- Either party may terminate with 180 days written notice after the first 24 months of the term. - Either party may terminate immediately for cause as defined in the agreement.
4.1(a)	**COMPENSATION METHODOLOGY**	No compensation. Group will bill and collect all charges for professional services.
3.7 6.8	**BUDGETED**	☐ **YES** ☒ **NO - IMPACT:** Up to $240,000 for PPH portion of start-up costs which costs accrue as capital contribution towards formation of a joint venture with NCR for out-patient imaging services.
1.6 1.15 & Ex. 1.15	**EXCLUSIVITY**	☐ **NO** ☒ **YES – EXPLAIN:** Exclusivity of the department with exclusivity over services with exceptions.
	JUSTIFICATION	Required for the provision of reliable, uninterrupted imaging services.
	AGREEMENT NOTICED	☒ **YES** ☐ **NO – METHODOLOGY & RESPONSE:** Announced at Medical Executive Committee of both hospitals and broadly communicated in the community.
	ALTERNATIVES/IMPACT	None.
Article I & Exhibit 1.5(a)	**DUTIES**	☒ **Provision for Staff Education** ☒ **Provision for Medical Staff Education** ☒ **Provision for participation in Quality Improvement** ☒ **Provision for participation in budget process development**
	COMMENTS	
	APPROVALS REQUIRED	☒ VP ☒ CFO ☒ CEO ☒ BOD Committee _10/28/08___ ☒ BOD

Draft Audited Financial Statements for Years Ended June 30, 2008 and 2007 & Independent Auditors' Report

TO: Board Finance Committee

DATE: Tuesday, October 28, 2008

FROM: Tim Nguyen, Corporate Controller

BY: Bob Hemker, CFO

BACKGROUND: The draft Audited Financial Statements for the Years Ended June 30, 2008 and 2007, and the Independent Auditors' Report are respectfully submitted for approval *(Addendum C).*

BUDGET IMPACT: N/A

STAFF RECOMMENDATION: Approval of the draft Audited Financial Statements for the Years Ended June 30, 2008 and 2007, and the Independent Auditors' Report as submitted.

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

Minutes
Finance Committee – Tuesday, September 30, 2008

TO: Board Finance Committee

MEETING DATE: Tuesday, October 28, 2008

FROM: Tanya Howell, Secretary

BY: Bob Hemker, CFO

Background: The minutes of the Board Finance Committee meeting held on Tuesday, September 30, 2008, are respectfully submitted for approval *(Addendum D)*.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval of the Tuesday, September 30, 2008, Board Finance Committee minutes.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

FORMATION OF PALOMAR POMERADO HEALTH RETAIL GROUP, LLC

TO: Board Finance Committee

MEETING DATE: Tuesday October 28, 2008

FROM: Janine Sarti, Esq., General Counsel

BACKGROUND: Over the past several years, PPH has expanded its business ventures to include healthcare retail operations, such as PPH expresscare and Weight Solutions. It is expected that PPH may develop additional retail operations in the future.

These retail operations have specific billing requirements that are different from an acute care hospital. Specifically, due to Medicare billing requirements, the retail operations may not use the same tax identification number as those currently used by a PPH facility. In order to bill for its services, each retail operation would need to obtain its own separate tax identification number.

Instead of requesting separate tax identification numbers for each operation, the recommendation is to create a separate taxable nonprofit Limited Liability Company (LLC) for all of PPH's retail operations *(Addendum E)*. This LLC would have its own tax identification number under the name Palomar Pomerado Health Retail Group, LLC. PPH would be the sole member, and the LLC would be a PPH Board of Directors directed entity. Day-to-day management of the LLC would be under the direction of PPH staff.

Creation of the LLC will also involve banking authority and depository accounts, both of which will require future Board approvals.

BUDGET IMPACT:

STAFF RECOMMENDATION: Staff recommends approval

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

Issuance of GO Bonds, Election of 2004, Series 2008A
And
Conversion of Certificates of Participation – ARS 2006

TO: Board Finance Committee

MEETING DATE: Tuesday, October 28, 2008

FROM: Bob Hemker, CFO

Background:

An update on the preparations underway for the Issuance of General Obligation (GO) Bonds, Election of 2004, Series 2008A, and the Conversion of the Certificates of Participation – ARS 2006—both authorized at the October 20, 2008, Board meeting—will be presented.

Actionable items, if any, will be discussed at the meeting.

Budget Impact:

N/A

Staff Recommendation:

To be presented at the meeting.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

September 2008 & YTD FY2009 Financial Report

TO: Board Finance Committee

MEETING DATE: Tuesday, October 28, 2008

FROM: Robert Hemker, CFO

Background: The Board Financial Reports (unaudited) for September 2008 and YTD FY2009 are submitted for the Finance Committee's approval *(Addendum F).*

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

ADDENDUM A

RADIOLOGY DEPARTMENT

PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT

by and between

PALOMAR POMERADO HEALTH (“PPH”)

and

NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC. (“Group”)

RADIOLOGY DEPARTMENT

PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT

THIS PROFESSIONAL AND MEDICAL DIRECTOR SERVICES AGREEMENT (this **"Agreement"**) is made and entered into as of January 1, 2009, by and between Palomar Pomerado Health, a local health care district organized under Section 23 of the California Health and Safety Code (**"PPH"**), and North County Radiology Medical Group, Inc., a California professional corporation (**"Group"**). PPH and Group are sometimes referred to herein as a **"Party"** or, collectively, as the **"Parties."**

RECITALS

A. PPH owns and operates Palomar Medical Center and Pomerado Hospital, two general acute care hospitals (collectively, "**PPH**"), in which it operates radiology departments under its general acute care hospital license (collectively, the **"Department"**).

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 radiology (the **"Specialty"**).

C. PPH desires to retain Group on an exclusive basis to provide professional services and certain administrative services related to the development and operation of PPH facilities, through qualified physician employees of Group (collectively, the **"Group Practitioners"** and each, a **"Group Practitioner"**). PPH acknowledges that Group may also engage independent contractors ("**Non-Group Practitioners**") to provide services in accordance with the terms of this Agreement.

D. PPH 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 PPH, and the efficient operation of other PPH 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 PPH and that coverage of such departments is provided at night and on weekends, thereby reducing unnecessary delays in providing such services to PPH patients.

3. Reduce disruptions in PPH operations and relations between PPH administration and PPH's medical staff (the **"Medical Staff"**) and among members of the Medical Staff.

4. Promote participation in PPH's educational programs.

5. Reduce inefficiencies resulting from having multiple practitioners and groups providing Specialty professional services in the Department.

6. Simplify scheduling problems, thereby improving coverage, economy and availability of services in the Department.

7. Facilitate efficient utilization of PPH equipment and facilities by giving PPH greater control over the operation of the Department.

8. Improve the quality of care furnished to Department patients by promoting standardization of procedures and improving monitoring by requiring active participation in PPH and Medical Staff quality assurance activities.

9. Enhance PPH's reputation and competitive position by enabling PPH to attract highly qualified physicians to the community.

10. Reduce costs through standardization of procedures and centralized administration of the Department.

11. Improve the quality of care provided by PPH by better ensuring that Department physicians perform a sufficient number of procedures to maintain and improve their proficiency.

AGREEMENT

THE RECITALS ARE HEREBY INCORPORATED INTO THIS AGREEMENT, AND THE PARTIES AGREE AS FOLLOWS:

ARTICLE I.
GROUP'S OBLIGATIONS

1.1 Professional Services. Group shall provide the diagnostic and interventional radiology services described in Exhibit 1.1 (the **"Radiology 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 Radiology Services are performed only by Group Practitioners who have been granted privileges to provide Radiology Services at PPH facilities pursuant to the regular medical staff credentialing process, and have not been removed pursuant to Section 7.8 or 7.9 of this Agreement; provided however, that nothing in this Section 1.2(a) or otherwise in this Agreement, shall prevent Group from utilizing Non-Group practitioners to provide after-hours teleradiology Radiology Services, provided such Non-Group practitioners are granted privileges to provide Radiology Services at PPH pursuant to the regular medical staff credentialing process, 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 PPH, 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)(1). Group shall hold all Non-Group Practitioners to the same standards under this Agreement. Group has initially engaged those Group Practitioners listed on Exhibit 1.2(b) to provide Radiology Services, which Group Practitioners are hereby approved and accepted by PPH. Group may from time to time engage additional Group Practitioners or Non-Group Practitioners to furnish Radiology 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 granted privileges to furnish Radiology Services pursuant to the regular medical staff credentialing process.

(b) All Physician members of Group will be credentialed through PPH Department of Radiology. No members of Group shall seek to obtain privileges in any department other than the Department of Radiology, except upon express agreement between Group and the PPH Medical Executive Committee.

1.3 Department Staffing.

(a) Interventional Radiology. Group shall arrange for the provision of coverage 24 hours a day, seven (7) days a week coverage for the Department and provide physical on-site coverage as defined in Exhibit 1.3 PPH reserves the right to review on-site coverage from time to time at the request of the medical staff and adjust within a reasonable amount of time as mutually agreed upon with Group to meet the needs of medical staff and patients. If Group and PPH cannot agree upon the staffing needs of medical staff and patients, Group or PPH can request a review by the Medical Executive Committee. Group and PPH will abide by the findings and recommendations of the Medical Executive Committee. Group shall cooperate with requests by a member of the medical staff for physical on-site response when on-call in accordance with Medical Staff Bylaws and following consultation with the requesting physician in order to facilitate timely and quality delivery of patient care services.

(b) Diagnostic Radiology. Group shall arrange for the provision of 24 x 7 coverage for the Department and provide physical on-site coverage as defined in Exhibit 1.3. PPH reserves the right to review on-site coverage from time to time at the request of the medical staff and adjust within a reasonable amount of time as mutually agreed upon with Group to meet the needs of medical staff and patients. If Group and PPH cannot agree upon the staffing needs of medical staff and patients, Group or PPH can request a review by the Medical Executive Committee. Group and PPH will abide by the findings and recommendations of the Medical Executive Committee. Group shall comply with requests by a member of the medical staff for physical on-site response when on-call in accordance with Medical Staff Bylaws and following consultation with the requesting physician in order to facilitate timely and quality delivery of patient care services.

(c) Group shall provide vacation coverage and coverage in case of illness or unavailability of a scheduled Group Practitioner, to ensure staffing at the levels described in this Section 1.3. Group may engage Non-Group Practitioners to provide coverage during the times when Group Practitioners are not physically present in PPH as described in Section 1.3(b).

(d) No fewer than five (5) days prior to the beginning of each month during the term of this Agreement, Group shall provide PPH with the monthly on-site staffing schedule for the Department (excluding those that provide coverage through tele-radiology), along with the name, contact information and scheduled hours for each assigned Group Practitioner, and such other information as reasonably requested by PPH from time to time.

(e) Group shall ensure that one (1) or more qualified Group Practitioners are available at reasonable times to consult with individual members of the Medical Staff, committees of the Medical Staff, and nursing and administrative employees of PPH, regarding Radiology Services.

1.4 Department Coverage.

(a) Group shall be eligible to receive compensation for such on call coverage commensurate to that which is paid to other on call panel providers for the same or similar level of clinical services provided. Group shall arrange to provide for after hours tele-radiology coverage for Radiology Services by Non-Group Practitioners to provide prompt preliminary professional interpretations.

(b) Should any Group Practitioner that is on-call to a PPH facility, and simultaneously is on-call to any other non-PPH health care facility, such simultaneous coverage will not interfere with Group Practitioners' ability to respond as stated in Sections 1.3 and 1.4(a).

1.5 Medical Director Services.

(a) Group shall provide and cause Donald Ponec, M.D. a Group Practitioner (**"Medical Director"**), to serve as medical director of the Department. Medical Director or his designee shall perform the duties set forth on Exhibit 1.5(a) (the **"Director Services"**) and shall perform all Director Services in accordance with the bylaws, rules, regulations, protocols, guidelines and policies of PPH and Medical Staff (collectively, the "PPH Rules") (to the extent such PPH Rules are not consistent with this Agreement) and upon the terms and subject to the conditions set forth in this Agreement.

(b) Group shall cause Medical Director or his designee to devote whatever time is necessary to effectively provide the Director Services. Medical Director shall allocate time to Director Services when and as needed and as reasonably requested by PPH from time to time.

(c) Medical Director shall inform PPH of Medical Director's schedule and availability to perform Director Services during that month. Medical Director shall use his or her best efforts to adjust such schedule of availability if reasonably requested by PPH in order to meet PPH's needs for Director Services.

(d) Medical Director shall inform PPH of Medical Director absence or unavailability and identify his designee during those periods of absence or unavailability. Group Medical Director will designate two Associates Directors who would be pre-approved to act on behalf of the Medical Director in his/her absence.

(e) PPH has designated an individual with principal administrative responsibility for the Department (the **"Department Administrator"**). The Department

Administrator is responsible and accountable to PPH for the administrative and technical functions of the Department, including: supervision, selection, assignment, and evaluation of personnel; maintenance of equipment; development of all Department budgets; and acquisition of materials, supplies, and equipment. Group agrees to submit to PPH recommendations concerning matters affecting the proper and efficient operation of the Department. Group agrees to furnish annually, as reasonably requested, an estimate of the medical equipment requirements for the Department for the ensuing fiscal year for budgetary purposes. PPH shall seek the advice and recommendations of Group on matters pertaining to the Department, including personnel, equipment and supplies. These recommendations should consider quality, efficiency, and coordination between inpatient and outpatient services and reduce duplication wherever possible.

(f) Medical Director or his designee shall be solely responsible for performing the Director Services. If for any reason Medical Director: (i) fails to satisfy any of the professional standards and qualifications set forth in Article II of this Agreement; (ii) is no longer a Group Practitioner; (iii) is removed from service in accordance with Sections 7.7 or 7.8; (iv) is unable to provide the Director Services due to illness, disability, vacation or any other absence; (v) is otherwise unable to perform the Director Services; or (vi) is removed from the position of Department medical director for good cause at the written request of PPH, then Group shall designate a replacement Group Practitioner to provide Director Services on behalf of Medical Director, subject to the prior written approval of PPH, which approval shall not be unreasonably withheld or delayed. Group shall ensure that any designated replacement meets all qualifications and satisfies all obligations of Medical Director under this Agreement. Group shall be solely responsible for compensating any designated replacement providing Director Services pursuant to this Agreement.

1.6 Exclusive Department. The Department of Radiology is exclusive to the provision of radiology services. Any physician seeking to perform Radiology services under this Agreement must be a member of Group or a Non-Group practitioner hired by Group and a member of the Department of Radiology in order to provide those services. Physicians who are members of Group and are not members of PPH medical staff are not subject to this limitation.

1.7 Personal Services. This Agreement is entered into by PPH in reliance on the professional and administrative skills of Group and the approved Group Practitioners. Group shall be solely responsible for providing the Services and otherwise fulfilling the terms of this Agreement through the services of the approved Group Practitioners, except as specifically set forth in this Agreement.

1.8 Coordination with Attending Physicians. Group shall ensure that each Group Practitioner promptly reports the critical values regarding a Department patient to such treating physician within the guidelines as agreed to in mutual consultation with the Medical Staff.

1.9 Medical Records and Claims.

(a) Group shall prepare complete, timely, accurate and legible medical and other records with respect to the services and treatment furnished by Group Practitioners to any PPH patient, in accordance with PPH Rules, federal and state laws and regulations, and Joint Commission on Accreditation of Healthcare Organizations (**"JCAHO"**) standards and recommendations. All such information and records relating to any PPH patient shall be: (i) prepared on forms developed, provided or approved by PPH; (ii) the sole property of PPH; and (iii) maintained at PPH in accordance with the terms of this Agreement and for so long as is required by applicable laws and regulations.

(b) Group shall maintain and upon request provide to, PPH, and to state and federal agencies, all financial books and records (related to PPH activity only) as may be necessary for Group and/or PPH to comply with applicable state, federal, and local laws and regulations. Group shall cooperate with PPH in completing such claim forms for Department patients as may be required by insurance carriers, health care service plans, governmental agencies, or other third party payors. Group shall retain all such records and information for at least ten (10) years following the expiration or termination of this Agreement. This Section 1.9(b) shall survive the expiration or termination of this Agreement.

1.10 Records Available to Group. Both during and after the term of this Agreement, PPH shall permit Group and its agents to inspect and/or duplicate, at Group's sole cost and expense, any medical chart and record to the extent necessary to meet Group's professional responsibilities to patients, to assist in the defense of any malpractice or similar claim to which such chart or record may be pertinent, and/or to fulfill requirements pursuant to provider contracts to provide patient information; provided, however, such inspection or duplication is permitted and conducted in accordance with applicable legal requirements and pursuant to commonly accepted standards of patient confidentiality. Group shall be solely responsible for maintaining patient confidentiality with respect to any information which it obtains pursuant to this Section.

1.11 Use of Space. Neither Group nor any Group Practitioner shall use any part of the space that PPH designates for the Department as an office for the private practice of medicine, except in an emergency, for remote electronic reading or with PPH's prior written consent.

1.12 *Locum Tenens*. Group shall, at its own expense, provide all *locum tenens* necessary for Group to fulfill its duties and obligations under this Agreement. Group shall ensure that all *locum tenens* shall, prior to commencement of Services at PPH, satisfy all requirements for credentialing pursuant to the Medical Staff bylaws.

1.13 New Technology. Group shall ensure that Group Practitioners adopt and use any information management systems or other new technology as may be made available by PPH and determined by PPH, after consultation with Group, to be reasonably necessary and appropriate for the proper operation of the Department and/or PPH**.** PPH will provide appropriate training for all Group Practitioners with respect to any new such technologies.

1.14 Competitive Services.

(a) Except for those persons or entities described in Exhibit 1.14 and Group itself, during the term of this Agreement, neither Group nor any Group Practitioner shall own any interest in, manage, operate, or provide any professional, administrative, consulting, or medical director services to or on behalf of, any person or entity (whether as director, officer, employee, partner, shareholder, member, agent, representative, security holder, consultant or otherwise), that furnishes or intends to furnish or is preparing to furnish any services within the boundaries of the local health care district in which Palomar PPH and Pomerado PPH are located ('Health Care District" as defined by the map of the legally defined boundaries of the district which is attached as Exhibit 1.14b) and that compete with the Radiology Services Group will be providing to PPH or any Affiliate (as defined in Section 7.4(d)), on an exclusive basis pursuant to this Agreement, without the prior written consent of PPH. Notwithstanding the foregoing, nothing in this Section shall prohibit Group or any Group Practitioner from owning securities in any publicly traded company that furnishes services furnished by PPH or any Affiliate. PPH acknowledges that Group shall not be prohibited from continuing to provide professional services to physician's offices which they currently serve as of the Effective Date. Furthermore, nothing in this Section 1.14 shall prohibit Group from providing professional services to physician's offices which it does not serve as of the Effective Date, provided that Group affords PPH thirty (30) days written notice prior to its commencement of those services. Group has advised PPH that Group is in the process of negotiating a change of ownership with respect to the facility listed on Exhibit 1.14, and that Group's ownership interest in such facility will likely be increased during the term of this Agreement. Such change in ownership shall not be subject to the provisions of this Section 1.14. With respect to the composition all of the other entities described in Exhibit 1.14 changes in a manner that may bring the entities in competition with PPH and Group's ownership of the competing entity exceeds ten percent (10%), then PPH shall have the right to request that Group divest its interest in the competing entity. If Group refuses to divest its interest, PPH shall have the right to terminate this Agreement upon sixty (60) days after PPH first gives written notice to Group.

(b) The parties understand that there may be physician members of the physician group previously providing services to PPH who are transitioning to become members of Group. Those physician members who will become new members of Group will be given up to twenty four (24) months from the start date of this Agreement to divest themselves of any conflicting or competing interests with the former group unless other arrangements are expressly approved by PPH in writing.

1.15 Exclusive Services. During the term of this Agreement, PPH shall not, except as otherwise set forth in Exhibit 1.15, without the prior written consent of Group, employ, contract with, or otherwise engage the services of any other physician, allied health professional, corporation, limited liability corporation, partnership, limited partnership, limited liability partnership or other person or entity to provide Radiology Services in PPH. Group shall also have first right of refusal to provide Radiology Services in any facility that PPH establishes, controls, or owns in whole or in part, after the Effective Date within the boundaries of the healthcare district. If Group cannot or does not provide services by the date requested, PPH may, in its sole discretion, seek an alternate service provider. Group shall also have first right of refusal, at the same terms that PPH would propose to all other parties, to partner with PPH in any joint ventures that PPH seeks to create for the purpose of establishing facilities to provide imaging services.

1.16 Collaborative Efforts. Group will cooperate with PPH Medical Staff to develop new service lines, procedures, and credentialing/privileging mechanisms that may include non-radiologists as practitioners.

1.17 Notification of Certain Events. Group shall notify PPH in writing after Group becomes aware of any of the following:

(a) Group or any Group Practitioner becomes the subject of any investigation, proceeding, or disciplinary action by any Federal Health Care Program (as defined in Section 2.5), any state's medical board, any agency responsible for professional licensing, standards or behavior, or any medical staff. Notice shall be provided to PPH within five (5) days;

(b) Group or any Group Practitioner becomes the subject of any adverse legal action or proceeding arising out of the provision of Services or any other professional services. Notice shall be provided to PPH within five (5) days;

(c) any event that materially interrupts or affects Group's, Group Practitioners' or Medical Director's ability to provide any Services. Notice shall be provided to PPH with twenty-four (24) hours;

(d) any termination, non-renewal, cancellation or reduction in coverage of any insurance policy required under Article V. Notice shall be provided to PPH within twenty-four hours (24); or

(e) any event listed in Article 7.

ARTICLE II.
PROFESSIONAL STANDARDS AND QUALIFICATIONS

2.1 Licensure. Group shall ensure that each Group Practitioner and Non-Group Practitioner performing Radiology Services is duly licensed and qualified to practice medicine in the State of California.

2.2 DEA Registration. Group shall ensure that each Group Practitioner performing Radiology Services has and maintains a valid United States Drug Enforcement Agency (**"DEA"**) registration if applicable to that Group Physician's practice.

2.3 Certification. Group shall ensure that each Group Practitioner and Non-Group Practitioner providing Radiology Services in PPH is board certified or Board eligible in the Specialty by the American Board of Radiology (the **"Board"**). If a Group Practitioner or Non-Group Practitioner is not board certified or Board eligible in the Specialty by the Board as of the date such Group Practitioner or Non-Group Practitioner begins providing Radiology Services in the Department, such Group Practitioner or Non-Group Practitioner shall have a reasonable amount of time to obtain such board certified; provided, however, that such Group Practitioner or Non-Group Practitioner diligently pursues such board certification and exercises his or her best efforts to complete this process and become board certified by the Board at the earliest date reasonably possible.

2.4 Medical Staff Membership. Group shall ensure that each Group Practitioner providing Radiology Services is a member in good standing in the appropriate staff category of the Medical Staff, and maintains all clinical privileges necessary to practice medicine in the

Specialty at PPH. Any Group Practitioner may also obtain and maintain medical staff membership and clinical privileges at any other PPH or health care facility. Group shall ensure that each Group Practitioner actively participates in the Medical Staff department or section encompassing the Specialty and on all Medical Staff committees commensurate with Medical Staff status.

2.5 <u>Participation in Governmental Programs</u>. Group and each Group Practitioner providing Radiology Services shall: be a participating provider in the Federal health care programs, as defined at 42 U.S.C. Section 1320(a)-7b(f) (**"Federal Health Care Programs"**), in which PPH is a provider, which programs include, but are not limited to, Medicare and Medi-Cal; accept and perform Services for Federal Health Care Program patients; and participate in any Medicare and/or Medi-Cal managed care efforts and programs of PPH pursuant to Section 4.2 of this Agreement.

2.6 <u>Continuing Education</u>. Group shall ensure that each Group Practitioner and Non-Group Practitioner providing Services participates in continuing medical education, as necessary to maintain his or her licensure, professional competence and skills, commensurate with the standards of the medical community and the American College of Radiology. Group Practitioners and Non-Group Practitioners will be deemed to have satisfied this Section 2.6 if they have completed sufficient medical education to maintain licensure.

2.7 <u>Performance Standards</u>. Group shall comply, and shall ensure that each Group Practitioner providing Services complies, with PPH Rules, the performance standards set forth in <u>Exhibit 2.7</u> (the **"Performance Standards"**) (to the extent such PPH Rules are not inconsistent with this Agreement) and the terms and conditions of this Agreement.

2.8 <u>Code of Conduct</u>. Group hereby acknowledges receipt of PPH's Code of Conduct for Physician Arrangements, attached to this Agreement as <u>Exhibit 2.8</u> (the **"Code"**). Group, Group Practitioners and Non-Group Practitioners shall comply with the Code to the extent consistent with the terms of this Agreement.

2.9 <u>Quality Assurance and Peer Review</u>. Group shall, as reasonably requested by PPH, assist PPH in establishing policies, procedures and committees for utilization management, quality assurance and peer review applicable to the Radiology Services provided by Group Practitioner and Non-Group Practitioners. Group shall comply and cooperate with, and shall ensure that Group Practitioners comply and cooperate with, PPH's utilization management, quality assurance, risk management, peer review and credentialing committees, programs and procedures as amended from time to time by PPH.

2.10 <u>Representation and Warranties by Group</u>. Group represents and warrants that, except as set forth in <u>Exhibit 2.10</u>: (i) to its actual knowledge no Group Practitioner or Non-Group Practitioner's license to practice medicine in any state has ever been suspended, revoked or restricted; (ii) to its actual knowledge neither Group nor any Group Practitioner or Non-Group Practitioner has ever been reprimanded, sanctioned or disciplined by any licensing board or medical specialty board; (iii) neither Group nor any Group Practitioner or Non-Group Practitioner has ever been debarred, excluded or suspended from participation in, or sanctioned by, any Federal Health Care Program; (iv) to its actual knowledge no Group Practitioner or Non-

Group Practitioner has ever been denied membership and/or reappointment to the medical staff of any PPH or health care facility; and (v) to its actual knowledge no Group Practitioner or Non-Group Practitioner's medical staff membership or clinical privileges at any PPH have ever been suspended for more than thirty consecutive (30) days or more than sixty (60) consecutive or non-consecutive days in a calendar year, limited or revoked for a medical disciplinary cause or reason.

2.11 Confidentiality of Committee Records. The Parties agree that the records and proceedings of the committees referred to in this Article are subject to the immunities and privileges required by the laws of the State of California. The Parties shall conduct all of their activities with respect to this Agreement, and specifically with respect to the proceedings and records of the committees referred to in this Article, to affirm and ensure the applicability of such laws to their activities.

ARTICLE III.
PPH'S OBLIGATIONS

3.1 Staff. PPH shall, at its own expense, provide the services of licensed, registered and vocational nurses, and licensed and registered, radiology, ultrasound, mammography, MRI, CT, Angiography/Interventional and fluoroscopy technologists, and other non-physician technicians, reading room assistants and assistants onsite and on call as necessary for the cost-efficient operation of the Department for all hours of operations. PPH shall, after consultation with Group, have sole discretion with regard to selection and retention of these personnel and to determine levels of staffing, provided that Group and Department Administrator shall meet at least quarterly to discuss the staffing needs of PPH. Control and direction of these personnel for medical matters shall rest with Group. Salaries and personnel policies for persons within personnel classifications used in the Department shall be uniform with other PPH personnel in the same classification insofar as may be consistent with the recognized hazards of the work. PPH shall ensure that all personnel it provides maintain all licenses, certifications, permits and/or registrations necessary to perform their duties at PPH and are in good standing with the licensing bodies. PPH will make available to the Medical Director, administrative assistant support in connection with his Director services.

3.2 Support Services. PPH shall, at its own expense, provide to the Department services such as heat, water, electricity, telephone, laundry, housekeeping, transcription, clerical support, PACS and IT support personnel, necessary patient transportation within PPH and other support services during those hours when Group is required to be physically present at the Department.

3.3 Space. PPH shall make available for the use of Group the space that is now or may hereafter be occupied by the Department. In addition, and solely for the purpose of providing the professional and administrative services pursuant to this Agreement, PPH shall use its best effort to provide an office for the use of the Medical Director, suitable space for consulting with other physicians and suitable space for the examination of patients and reading rooms. Notwithstanding the forgoing, PPH acknowledges that Group may use a portion of the space provided under this Agreement for non-PPH interpretations.

3.4 Equipment and Supplies. PPH shall, at its own expense, provide all expendable and non-expendable equipment, drugs, supplies, PACS reading stations, furniture and fixtures for the use of Group as are necessary for the cost-efficient operation of the Department. This equipment shall meet all electrical, engineering, and other safety standards required by law and/or relevant PPH policies. PPH shall, at its own expense, keep and maintain this equipment in good order and repair and replace this equipment or any part of it which becomes worn out or is mutually determined to be obsolete.

3.5 Cooperation. Group agrees to provide to PPH and PPH agrees to solicit from Group, recommendations concerning matters affecting the proper and efficient operation of the Department. Group agrees to furnish annually, as reasonably requested, an estimate of the medical equipment requirements for the Department for the ensuing fiscal year for budgetary purposes. PPH shall seek the advice and recommendations of Group on matters pertaining to the Department, including personnel, equipment and supplies. These recommendations should consider efficiency, and coordination between inpatient and outpatient services and reduce duplication wherever possible.

3.6 Budget Restraints. The obligations of PPH under this Article III shall be subject to PPH regulatory and reasonable budget restraints to the extent such restraints do not effect Group's ability to provide Radiology Services.

3.7 Nighthawk Services. PPH will provide to Group up to Two Hundred Forty Thousand Dollars ($240,000.00) to be used to cover the actual amounts incurred of after hours radiology services, referred to for purposes of this agreement as Nighthawk Services, for the first six (6) months of this Agreement. Group will submit to PPH on a monthly basis a statement reflecting the actual costs of Nighthawk coverage incurred by Group for the month. PPH will reimburse to Group the actual cost of Nighthawk services up to Forty Thousand Dollars ($40,000.00) per month within fifteen days of receipt of Group's statement.

ARTICLE IV.
BILLING AND COMPENSATION

4.1 Professional Services Billing and Collection.

(a) **Professional Services Fee Schedule.** Group shall have discretion in establishing its professional fees for Radiology Services furnished pursuant to this Agreement; provided, however, that all professional fees shall be competitive with customary local fees for comparable services and shall be billed in accordance with a uniform schedule of Group's fees for Radiology Services provided under this Agreement, and further provided that such usual and customary fee schedule, and any amendments thereto, shall be delivered to PPH.

(b) **Group Billing.** Group shall be solely responsible for billing and collecting for Radiology Services furnished pursuant to this Agreement. All billing shall be in compliance with applicable laws, customary professional practice, the Federal Health Care Programs. PPH shall have reasonable access to Group's records, related to work done at PPH facilities, in order to ensure Group's compliance with this Agreement. Group shall promptly correct any billing errors documented by PPH. Group shall accept assignment with respect to services provided to Federal Health Care Program beneficiaries, to the extent permissible under applicable rules and regulations.

(c) **Billing Compliance.** Group shall ensure that all billing and coding for Radiology Services is in compliance with applicable laws and regulations, customary professional practice, the Federal Health Care Programs, and other third party payor programs, whether public or private. Group shall adopt and maintain billing and coding compliance policies and procedures to ensure Group's compliance with applicable laws and regulations, including laws and regulations under the Federal Health Care Programs.

(d) **Patient Information.** PPH shall take all necessary and reasonable steps to provide Group, within four (4) days of services rendered, sufficient patient information as requested by Group to facilitate Group's billing and collecting for Radiology Services furnished pursuant to this Agreement. Such patient information shall include, but not be limited to, electronic transmission of patient demographics and billing information as well as electronic transmission or paper copies (as available) of radiology reports limited to Department's available information technology and clerical support.

(e) **Separate Billing.** Each Party shall separately bill all patients for its respective fees and charges, and neither Group nor PPH shall bill for, guarantee the ability to collect, or have any claim or interest in or to the amounts billed or collected by the other Party.

(f) **Collection Agencies.** PPH shall have the right to disapprove Group's use of any collection agency which engages in conduct which results in the unreasonable annoyance or harassment of patients. Group shall either cure this problem or discharge the collection agency within thirty (30) days following written notice of disapproval by PPH. If this problem occurs a second time, Group shall discharge the collection agency within thirty (30) days following written notice of disapproval by PPH.

4.2 Third Party Payor Arrangements.

(a) Group shall make all reasonable efforts to cooperate as necessary to facilitate PPH's entry into or maintenance of any third-party payor arrangements.

(b) Third party payor arrangements are defined as arrangements for the provision of services under Medicare, Medi-Cal or other public or private managed care, health, and/or PPH care programs. Group shall, in good faith upon PPH's request, negotiate with third-party payors for the purpose of entering into an express contractual agreement with said third-party payor, or any intermediate organization including any independent practice association, if required for said enrollment, ("Payor"), at fair market rates for radiology services. Both Parties agree that negotiations must be fair and reasonable.

(c) Upon communication to PPH from any Payor of failed negotiation with Group, if PPH in good faith determines (i) that the Payor has been negotiating with Group in good faith and (ii) that such negotiations have been active long enough for a reasonable chance of resolution, PPH shall immediately notify Group. Thereupon, Group agrees to proceed as follows:

(i) Group and PPH agree to proceed immediately to have a Special Meeting and Payor will be invited to join and participate in the Special Meeting.

(ii) The parties will mutually discuss the failed negotiation in order to reach a mutual resolution including the discussion over the process for resolution that PPH and Group have agreed to ("The Process") as defined in Section 4.2(d). If Group and Payor agree to enter into The Process then both Group and Payor will enter into an agreement to delineate, (i) the equal sharing of cost associated with The Process and (ii) selection of a mediator ("Mediator") to facilitate The Process. The Mediator selected shall have expertise required to survey and determine prevailing rates for radiology services in Southern California.

(iii) If Payor does not agree to enter into The Process, or a mutually agreed upon modified process, with Group, then Section 4.2(e) shall apply.

(d) The Process

(i) Group and Payor shall each submit its most recent rate schedule proposal made to each other in their negotiation process and the rationale used to substantiate the proposal. The Mediator and all parties shall in the Special Meeting seek in good faith to reach consensus on reimbursement rates and establishment of a contractual agreement with Payor within thirty (30) days of the initial Special Meeting, or such extended time as Group and PPH agree upon.

(ii) If Group does not reach agreement with Payor within such thirty (30) day or extended period, the Mediator shall determine a rate schedule based on the median prevailing rates for the geographic service area of PPH which is the northern portion of San Diego County ("Geographic Area"). In determining prevailing rates for the Geographic Area, the Mediator may take into account to the extent Mediator deems relevant prevailing rates for radiology services, of comparable scope and scale, in San Diego County, Orange County, Riverside County, and Los Angeles County. If the rate schedule proposed by the Group in the aggregate is within five percent (5%) of the rate schedule determined by the Mediator, then Group agrees to contract with Payor at the rate schedule proposed. If the rate schedule proposed by Group in the aggregate is not within five percent (5%) of the rate schedule determined by the Mediator, then Group shall adjust its rate schedule proposal to be within five percent (5%) of the rate schedule determined by the Mediator. If Payor does not agree to consummate a contract with Group under such circumstances, then Section 4.2(e) shall apply.

(e) If Group and Payor fail to enter into a contractual agreement based on the method described in Section 4.2(d), then Group shall have no further obligation to enter into a contractual agreement with Payor, and shall be entitled to bill Payor directly at Group's full rate schedule. If Payor defaults in payment of all or a portion of the billing, then Group may balance bill the patient (if not prohibited by law). Provided that, in this case in no event shall the total collection from Payor and patient exceed one hundred percent (100%) of Group's full rate schedule.

(f) Under no circumstance shall PPH or mediator be allowed to disclose any rates or contract terms of Group with any other third party payor to the third party payor involved in this mediation. Further, it is the understanding of all parties, that any information brought forth in this mediation, including, but not limited to rates and contract terms of Group with any third party payor is proprietary and confidential information and will not be disclosed to any other party outside of this mediation.

4.3 No Compensation for Director Services. In recognition of the mutual obligations of the Parties hereunder, PPH and Group acknowledge that there shall be no monetary compensation to Group for the Director Services furnished by Group hereunder.

4.4 Line of Credit. The parties agree that Group will incur start up and normalization expenses and may have a need for working capital monies to initially fund the start up of Radiology services at PPH. In recognition of this need and that it is in PPH's best interest to assure the smooth start up and normalization of Radiology services, PPH is willing to establish a non-revolving Line of Credit ("LOC") under the following conditions:

(a) PPH will provide to Group a total LOC in the amount of up to One Million Three Hundred –Ninety Thousand Dollars ($1,390,000.00). The LOC shall be used only for the purposes and up to the amounts delineated below:

1. Up to Nine Hundred Thousand Dollars ($900,000.00) may be used by Group for the purpose of assisting Group in normalizing cash flow related to its accounts receivable. Group may make withdrawals for this purpose until March 31, 2009 based upon expected realizable collections for the then current month. No additional draws can be made upon this portion of the LOC after March 31, 2009 nor can any undrawn portion be re-allocated to another portion of the LOC. This portion of the LOC shall be referred to as the A/R LOC ("A/R LOC").

2. Up to Two Hundred Forty Thousand Dollars ($240,00000) may be used by Group to cover after hours radiology services. This amount may be withdrawn at the rate of up to $40,000.00 per month for the months of July through December, 2009. PPH will make this amount available during the second six months of the Agreement. This portion of the LOC shall be referred to as the Nighthawk LOC ("Nighthawk LOC").

3. Up to Ninety Thousand Dollars ($90,000.00) for actual costs and such other use of intellectual properties utilized by Group in transitioning and establishing radiology services at PPH and in the establishment of related business strategies. PPH will make this amount available during the first six months of the agreement. This portion of the LOC shall be referred to as the Intellectual LOC ("Intellectual LOC").

4. Up to Forty Thousand Dollars ($40,000.00) for imputed opportunity value of foregone interest income during the

stabilization of Accounts Receivable. For purposes of this portion, opportunity value shall be deemed to be 5% per annum times the expected realizable revenue per month. PPH will make this amount available during the first three months of the agreement. This portion of the LOC shall be referred to as the Opportunity Value LOC ("Opportunity Value LOC").

5. Up to One Hundred –Twenty Thousand Dollars ($120,000.00) for recruiting and relocation costs associated with the recruiting and hiring of physicians into the Group to provide radiology services under this Agreement. PPH will make this amount available during the first nine months of the agreement. This portion of the LOC shall be referred to as the Recruitment LOC ("Recruitment LOC").

(b) Repayment of outstanding principle on the LOC will commence effective October 1, 2009, which is the tenth (10th) month of this Agreement, and shall continue during its remaining term. Repayment shall be made in 50 equal installments. Should the Agreement be terminated prior to its natural expiration, for any reason, any and all principle amounts and accrued interest then currently outstanding are immediately due and payable.

(c) The LOC shall bear interest at the prime rate of interest on October 1, 2009 plus two percent (2%). Interest shall accrual from the date of the draw Notwithstanding the foregoing, should Group provides PPH with documentation that it is able to obtain a creditworthy loan on similar terms and conditions as that contemplated under the LOC from a reputable third party lending institution at a lower interest rate, the interest rate will be adjusted to match said documented fair market value rate.

(d) Group, may without penalty, repay any and all principle and accrued interest at any time during the term of the Agreement.

(e) Should the Parties establish a Joint Venture pursuant to Section 6.8, the outstanding principle amounts along with accrued but unpaid interest related to the Intellectual LOC, the Opportunity Value LOC and the Recruitment LOC shall be extinguished. In the event the Parties do not establish a Joint Venture pursuant to Section 6.8, amounts remain due and payable by Group.

(f) Group will sign a LOC agreement and promissory note similar to that attached in Exhibit 4.4

ARTICLE V.
INSURANCE AND INDEMNITY

5.1 Malpractice Liability Insurance. Group shall obtain and continuously maintain professional malpractice liability insurance coverage or mutual protection trust, issued by an insurance company licensed or otherwise qualified to issue professional liability insurance policies or coverage in the State of California, in the amount of at least One Million Dollars ($1,000,000) per occurrence or claim and Three Million Dollars ($3,000,000) in the annual aggregate for the acts and omissions of Group and Group Practitioners. Such coverage shall provide for a date of placement preceding or coinciding with the Effective Date (as defined in Section 7.1) of this Agreement.

5.2 Certificate of Insurance. On or before the Effective Date (as defined in Section 7.1), Group shall provide PPH with an original certificate evidencing professional malpractice liability insurance coverage, and shall provide PPH with proof of continued professional malpractice liability insurance coverage on an annual basis (or as periodically requested by PPH). Group shall provide PPH with no less than thirty (30) calendar days' prior written notice of cancellation or any material change in such professional malpractice liability insurance coverage.

5.3 Tail Coverage. If Group's professional malpractice liability insurance is provided on a claims-made basis, upon the expiration or termination of this Agreement for any reason, Group shall continuously maintain such insurance or purchase from an insurance company licensed or otherwise qualified to issue professional liability insurance policies or coverage in the State of California, and reasonably acceptable to PPH, extended reporting period (*i.e.*, "tail") coverage or prior acts (i.e., "nose") coverage for a five (5) year reporting period.

5.4 Cooperation between the Parties.

(a) The Parties recognize that, during the term of this Agreement and for an undetermined time period thereafter, certain risk management issues, legal issues, claims or actions may arise that involve or could potentially involve the Parties and their respective employees and agents. The Parties further recognize the importance of cooperating with each other in good faith when such issues, claims or actions arise, to the extent such cooperation does not violate any applicable laws, cause the breach of any duties created by any policies of insurance or programs of self-insurance, or otherwise compromise the confidentiality of communications or information regarding the issues, claims or actions. As such, the Parties hereby agree to cooperate in good faith, using their best efforts, to address such risk management and legal issues, claims, or actions.

(b) The Parties further agree that if a controversy, dispute, claim, action or lawsuit (each, an **"Action"**) arises with a third party wherein both the Parties are included as defendants, each Party shall promptly disclose to the other Party in writing the existence and continuing status of the Action and any negotiations relating thereto. Each Party shall make every reasonable attempt to include the other Party in any settlement offer or negotiations.

5.5 Survival of Obligations. The Parties' obligations under this Article V shall survive the expiration or termination of this Agreement for any reason.

ARTICLE VI.
RELATIONSHIP BETWEEN THE PARTIES

6.1 Independent Contractors. Group and each Group Practitioner are and shall at all times be independent contractors with respect to PPH in meeting their respective responsibilities under this Agreement. Nothing in this Agreement is intended nor shall be construed to create a partnership, employer-employee or joint venture relationship between PPH and either Group or any Group Practitioner.

6.2 Limitation on Control. PPH shall neither have nor exercise any control or direction over Group's or any Group Practitioner's professional medical judgment or the methods by which Group or any Group Practitioner performs professional medical services; provided, however, that Group and each Group Practitioner providing Services shall be subject to and shall at all times comply with PPH Rules to the extent such PPH Rules are not inconsistent with this Agreement.

6.3 Practice of Medicine. Group and PPH acknowledge that PPH is neither authorized nor qualified to engage in any activity which may be construed or deemed to constitute the practice of medicine. To the extent that any act or service required of, or reserved to, PPH in this Agreement is construed or deemed to constitute the practice of medicine, the performance of such act or service by PPH shall be deemed waived or unenforceable, unless this Agreement can be amended to comply with the law, in which case the Parties shall make such amendment.

6.4 No Benefit Contributions. PPH shall have no obligation under this Agreement to compensate or pay applicable taxes for, or provide employee benefits of any kind (including contributions to government mandated, employment-related insurance and similar programs) to or on behalf of, Group, any Group Practitioner or any other person employed or retained by Group. Notwithstanding the foregoing, if PPH determines or is advised that it is required by law to compensate or pay applicable taxes for, or provide employee benefits of any kind (including contributions to government mandated, employment-related insurance and similar programs) to or on behalf of, Group, any Group Practitioner or any other person employed or retained by Group, Group shall reimburse PPH for any such expenditure within thirty (30) calendar days after being notified of such expenditure.

6.5 Non-Solicitation. During the term of this Agreement and for a period of one (1) year thereafter, neither Party shall solicit for employment any employee of the other Party, or interfere with any relationship, contractual or otherwise, between the other Party and any of its employees.

6.6 Referrals. Group and each Group Practitioner shall be entitled to refer patients to any PPH or other health care facility or provider deemed by Group or such Group Practitioner best qualified to deliver medical services to any particular patient; provided, however, that neither Group nor any Group Practitioner shall refer any PPH patient to any provider of health care services which either Group or such Group Practitioner knows or should have known is excluded or suspended from participation in, or sanctioned by, any Federal Health Care Program. No term of this Agreement shall be construed as requiring or inducing either Group or any Group Practitioner to refer patients to PPH. Group's rights under this Agreement shall not be dependent in any way on the referral of patients or business to PPH by either Group or any Group Practitioner.

6.7 Physician Compensation Arrangements. Group represents and warrants to PPH that the compensation paid or to be paid by Group to any physician is and will at all times be fair market value for services and items actually provided by such physician, not taking into account the value or volume of referrals or other business generated by such physician for PPH or any Affiliate. Group further represents and warrants to its actual knowledge to PPH that Group has and will at all times maintain a written agreement with each physician receiving compensation from Group.

6.8 Joint Venture Opportunities. The Parties will negotiate in good faith to partner in the formation of a joint venture(s) to establish facilities and or services to provide outpatient imaging services in PPH's Healthcare District, as provided for in this Agreement. For purposes of this Agreement, services provided under any joint venture will be considered services at PPH.

(a) The parties agree that any joint venture contemplated above will be completed no later than December 31, 2009. Each party will make capital contributions to the joint venture proportional to their ownership interests.

(b) Group will receive credit for capital contributions to the joint venture for the following amounts:

(i) Interest expense actually paid on amounts drawn from the A/R LOC.

(ii) The outstanding unpaid principle only related to the Intellectual LOC, the Opportunity Value LOC and the Recruitment LOC in an aggregate amount not to exceed Two Hundred- Fifty Thousand Dollars ($250,000.00)

(c) PPH will receive credit for capital contributions to the joint venture for all dollars provided to Group during the first six (6) months of this Agreement that were used by Group to cover after hours radiology services, referred to for purposes of this Agreement as Nighthawk services. As further stipulated in this Agreement in section 3.7, PPH's obligation pursuant to these services is limited to an aggregate of <u>Two Hundred Forty Thousand Dollars ($240,000.00)</u>.

ARTICLE VII.
TERM, TERMINATION AND REMOVAL OF GROUP PRACTITIONERS

7.1 Term. This Agreement shall become effective on January 1, 2009 (the **"Effective Date"**), and shall continue until December 31, 2013 (the **"Expiration Date"**), subject to the termination provisions of this Agreement.

7.2 Termination Without Cause. Either Party may terminate this Agreement without cause, expense or penalty at any time after the first twenty-four (24) months after the Effective Date of this Agreement, effective one hundred and eighty (180) days after written notice of termination is given to the other Party. Such notice shall not be provided within the first twenty-four (24) months after the Effective Date.

7.3 Termination by PPH. Upon the occurrence of any one or more of the following events, PPH may terminate this Agreement by giving written notice of termination to Group, which termination shall be effective thirty (30) days following the issuance by PPH of written notice of termination to Group which notice shall specify the breach or default ("Event of Default") committed by Group which allows PPH to terminate this Agreement; unless the Event of Default identified in the notice is cured by Group during such thirty (30) days notice and cure period (the "Notice and Cure Period"). Notwithstanding the preceding sentence, certain Events of Default described below shall have a cure period of less than thirty (30) days, as specifically stated below:

(a) breach of this Agreement by the Group, so long Group is demonstrating good faith effort to cure;

(b) Group breaches any representation or warranty in this Agreement which is not cured within the Notice and Cure Period:

(c) Group or any Group Practitioner breaches any HIPAA Obligation (as defined in Exhibit 8.5), and has not resolved the breach or the situation that caused the breach within the Notice And Cure Period;

(d) Group knowingly utilizes a physician who has not been granted privileges by PPH to furnish Radiology Services under this Agreement (termination shall be immediate);

(e) Group fails to remove a Group Practitioner from furnishing Radiology Services under this Agreement in accordance with Section 7.8 or Section 7.9 of this Agreement within ten (10) days following written notice;

(f) Group makes an assignment for the benefit of creditors, admits in writing its inability to pay its debts as they mature, applies to any court for the appointment of a trustee or receiver over its assets, or upon commencement of any voluntary or involuntary proceedings under any bankruptcy (unless such bankruptcy is dismissed within sixty (60) days of its commencement), reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or other similar law of any jurisdiction;

(g) the insurance required to be maintained by Group hereunder is terminated, reduced below the minimum coverage requirements set forth in Section 5.1, not renewed or cancelled (whether by action of the insurance company or Group) for any reason, and Group has not obtained replacement coverage prior to the effective date of such termination, reduction, non-renewal or cancellation within the Notice and Cure Period;

(h) Group is convicted of a felony or any crime relevant to the provision of the Services, or Group's or any Group Practitioner's practice of medicine (termination shall be immediate);

(i) Medical Director and his designee become unable to furnish Director Services for a period of thirty (30) days in the aggregate over any three (3) month period, and a replacement Medical Director is not designated by Group and approved by PPH in accordance with Section 1.5(f) of this Agreement;

(j) Group or any Group Practitioner acts, or causes another person to act, in a manner which violates the Code and has not resolved the violation or the situation that caused the violation within the Notice and Cure Period; or

(k) Group is debarred, suspended, excluded or otherwise ineligible to participate in any Federal Health Care Program in which PPH participates (termination shall be immediate).

7.4 Termination by Group. Group shall have the right to terminate this Agreement upon breach of this Agreement by PPH where the breach is not cured within sixty (60) calendar days after Group gives written notice of the breach to PPH.

7.5 Termination or Modification in the Event of Government Action.

(a) In the event of any Government Action (as defined below), the Parties shall, within ten (10) days after one Party gives written notification of such Government Action to the other Party, meet and confer and negotiate in good faith to attempt to amend this Agreement in order to comply with the Government Action.

(b) If the Parties, after good faith negotiations that shall not exceed thirty (30) days, are unable to mutually agree upon the amendments necessary to comply with the Government Action, or, alternatively, if either Party determines in good faith that compliance with the Government Action is impossible or infeasible, either Party may terminate this Agreement effective thirty (30) days after a written notice of termination is given to the other Party.

(c) For the purposes of this Section, "**Government Action**" shall mean any legislation, statute, law, regulation, rule or procedure passed, adopted or implemented by any federal, state or local government or legislative body or any private agency, or any decision, finding, interpretation or action by any governmental or private agency, court or other third party which, in the opinion of counsel to either Party, as a result or consequence, in whole or in part, of the arrangement between the Parties set forth in this Agreement, if or when implemented, could reasonably be expected to result in or present a material risk of any one or more of the following:

(i) revocation or threat of revocation of the status of any license, certification or accreditation granted to PPH or any Affiliate;

(ii) revocation or threat of revocation of the federal, state or local tax-exempt status of PPH, or any Affiliate, or their respective tax-exempt financial obligations;

(iii) prohibit or restrict the ability of PPH or any Affiliate to issue tax-exempt bonds, certificates of participation or other tax-exempt financial obligations;

(iv) prevent Group or any Group Practitioner from being able to access and use the facilities of PPH or any Affiliate of PPH;

(v) violation of or threat of prosecution under 42 U.S.C. Section 1320a-7b(b) (commonly referred to as the “Anti-Kickback law”), 42 U.S.C. Section 1395nn (commonly referred to as the “Stark law”) or any comparable state law governing kickbacks, bribes, rebates or patient referrals if either Group or any Group Practitioner referred patients to PPH or any Affiliate;

(vi) violation by PPH of, or threat of prosecution of PPH under, any law, regulation, rule or procedure applicable to PPH;

(vii) prohibit Group, any Group Practitioner, PPH or any Affiliate from submitting claims or materially reducing the reimbursement received by PPH or any Affiliate for services provided to patients referred by Group or any Group Practitioner;

(viii) subject PPH, Group, any Group Practitioner, any Affiliate, or any of their respective officers, directors, employees or agents, to civil action or criminal prosecution by any governmental authority or other person or entity or the imposition of any sanction (including any excise tax penalty under Internal Revenue Code Section 4958), on the basis of their approval of or participation in this Agreement or performing their respective obligations under this Agreement; or

(ix) revocation or loss of PPH’s status as a provider of Medi-Cal services under the Selective Provider Contracting Program established pursuant to Section 14081 et seq. of the California Welfare & Institutions Code as a result in whole or in part, of the exclusive rights of Group under Section 1.15 of this Agreement.

(d) For the purposes of this Agreement, **“Affiliate”** shall mean any entity which, directly or indirectly, controls, is controlled by, or is under common control with PPH.

7.6 <u>Effect of Termination or Expiration</u>. Upon any termination or expiration of this Agreement:

(a) all rights and obligations of the Parties shall cease except: (i) those rights and obligations that have accrued and remain unsatisfied prior to the termination or expiration of this Agreement; (ii) those rights and obligations which expressly survive termination or expiration of this Agreement; and (iii) Group’s obligation to continue to provide services to patients under its care in the Department at the time of expiration or termination of this Agreement, until the patient’s course of treatment is completed or the patient is transferred to the care of another physician;

(b) upon PPH’s request, Group and the Group Practitioners shall immediately vacate the Department premises, removing any and all of their personal property, and PPH may remove and store, at Group’s expense, any personal property not so removed;

(c) Group and the Group Practitioners shall immediately return to PPH all of PPH's property, including PPH's equipment, supplies, furniture, furnishings and patient records, in their possession or under their control; and

(d) neither Group nor any Group Practitioner shall do anything or cause any other person to do anything that interferes with PPH's efforts to engage any other person or entity for the provision of Services, or interfere in any way with any relationship between PPH and any other person or entity who may be engaged to provide Services to PPH.

(e) Group will cooperate with PPH and any other person or entity to ensure the smooth transition of service to any new provider.

(e) This Section 7.6 shall survive the expiration or termination of this Agreement for any reason.

7.7 Effect of Termination or Expiration on Medical Staff Status.

(a) The termination or expiration of this Agreement shall not have any independent effect upon the Medical Staff membership or clinical privileges of any Group Practitioner.

(b) Notwithstanding the foregoing, upon the termination or expiration of this Agreement, the right of Group and each Group Practitioner to provide those Radiology Services in the Department that the Group has the exclusive right under this Agreement to provide shall immediately terminate, without any action on the part of PPH and/or the Medical Staff and without the right to a "fair hearing" or any other similar hearing or appellate review as may be set forth in the Medical Staff bylaws, except to the extent PPH reasonably determines that the termination of such right is reportable to the Medical Board of California pursuant to the reporting requirements of the State of California. Upon termination or expiration of this Agreement, neither Group nor any Group Practitioner shall seek to exercise those clinical privileges which have been terminated pursuant to this Section 7.6.

(c) Group shall provide in any agreement it has with a Group Practitioner and/or with a Non-Group Practitioner providing Radiology Services under this Agreement that upon the earlier of the termination or expiration of this Agreement or the termination of the employment or other affiliation between Group and such Group Practitioner or Non-Group Practitioner, the right of such Group Practitioner or Non-Group Practitioner to provide Radiology Services in the Department shall immediately terminate, without any action on the part of PPH and/or the Medical Staff and without the right to a "fair hearing" or any other similar hearing or appellate review as may be set forth in the Medical Staff bylaws, except to the extent PPH reasonably determines that such termination is reportable to the Medical Board of California pursuant to the reporting requirements of the State of California; provided, however, that Group's failure to include such provision shall not affect PPH's right to so terminate the right of such Group Practitioner or Non-Group Practitioner to provide Radiology Services in the Department.

7.8 Immediate Removal of Group Practitioners. Group shall immediately remove any Group Practitioner, including Medical Director, from furnishing Radiology Services under this Agreement who:

(a) has his or her Medical Staff membership or clinical privileges at PPH or any other health facility terminated, suspended, revoked or relinquished for any reason, whether voluntarily or involuntarily, regardless of the availability of civil or administrative hearing rights or judicial review with respect thereto;

(b) has his or her license to practice medicine in the State of California, board certification or DEA registration (subject to Section 2.2) denied, suspended, restricted, terminated, revoked or relinquished for any reason, whether voluntarily or involuntarily, temporarily or permanently, regardless of the availability of civil or administrative hearing rights or judicial review with respect thereto;

(c) is convicted of a felony or any crime relevant to Radiology Services or the practice of medicine;

(d) is debarred, suspended, excluded or otherwise ineligible to participate in any Federal Health Care Program in which PPH participates;

(e) fails to satisfy any of the standards and qualifications set forth in Sections 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, or 2.7 of this Agreement; or

(f) fails to be covered by the professional liability insurance required to be maintained under this Agreement.

7.9 Removal of Group Practitioners upon PPH Request. Upon written request by PPH, Group shall immediately remove any Group Practitioner, including Medical Director, from furnishing Radiology Services under this Agreement who:

(a) engages in conduct that, in PPH's good faith determination, jeopardizes the mental or physical health, safety or well-being of any person or damages the reputation of PPH. Upon the occurrence of such conduct, PPH shall immediately meet and confer in good faith with Medical Director to discuss the conduct at issue. However, PPH, in its sole discretion shall have the right to demand that Group immediately remove any Group Practitioner that engages in the conduct that in PPH's good faith determination is governed by this Section 7.9(a).

(b) fails to satisfy any of the standards and qualifications set forth in Section 2.7 of this Agreement;

(c) fails to comply with any other material terms or conditions of this Agreement after being given written notice of that failure and a reasonable opportunity to comply;

(d) within a twelve (12) month period, he or she becomes the subject of two (2) or more disciplinary/clinical proceedings by the Medical Staff regarding the performance of professional medical services.

(e) Indicted of a felony or any crime relevant to Radiology Services or the practice of medicine;

7.10 Effect of Removal; Reinstatement of Group Practitioner.

(a) No Group Practitioner removed from furnishing Radiology Services pursuant to Section 7.8 or Section 7.9 of this Agreement, shall be entitled to any "fair hearing" or any other similar hearing or appellate review as may be set forth in the Medical Staff bylaws, except to the extent PPH reasonably determines that such removal is reportable to the Medical Board of California pursuant to the reporting requirements of the State of California.

(b) Upon the removal of a Group Practitioner pursuant to Section 7.8 or Section 7.9 of this Agreement, Group shall employ, contract with, or otherwise engage, at its cost and expense, a qualified substitute for the removed Group Practitioner, or shall demonstrate to PPH's satisfaction Group's ability to continuously perform the Radiology Services without such a substitute. Failure to take such action shall constitute a material breach of this Agreement, subject to Section 7.2. Nothing herein shall be construed to limit PPH's rights under Section 7.2 or any other provision of this Agreement.

(c) A Group Practitioner that has been removed from furnishing Radiology Services pursuant to Section 7.8 or Section 7.9 of this Agreement may be reinstated as a Group Practitioner eligible to furnish Radiology Services upon the prior written approval by PPH. PPH shall in good faith meet and confer with the Group to discuss potential reinstatements. However, PPH shall have the right to withhold its approval of any reinstatement of a Group Practitioner in its sole discretion and without the need for compliance with any provision of the Medical Staff bylaws or with any other term of this Agreement, except to the extent PPH reasonably determines that withholding of approval is reportable to the Medical Board of California pursuant to the reporting requirements of the State of California. Notwithstanding anything to the contrary in this Section 7.10, if a Group Practitioner was removed because of a loss of Medical Staff privileges, Group Practitioner shall be automatically reinstated upon the reinstatement of privileges by the Medical Staff.

ARTICLE VIII.
GENERAL PROVISIONS

8.1 Amendment. This Agreement may be modified or amended only by mutual written agreement of the Parties. Any such modification or amendment must be in writing, dated, signed by the Parties and explicitly indicate that such writing modifies or amends this Agreement.

8.2 Assignment. Neither party may assign any of its rights, interests, duties, or obligations under this Agreement without the other party's prior written consent, which consent shall not be unreasonably withheld or delayed. Any attempted or purported assignment by a party in violation of this Section shall be void. Subject to the foregoing, this Agreement shall be binding on and shall inure to the benefit of the Parties and their respective heirs, successors, assigns and representatives.

8.3 Attorneys Fees. In the event of any dispute arising between the parties concerning the interpretation of this Agreement, or an alleged breach of this Agreement, or any other dispute relating to this Agreement, each party shall bear their own legal fees and expenses.

8.4 Choice of Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California, without giving effect to any choice of law or conflict of law rules or provisions that would cause the application of the laws of any jurisdiction other than the State of California.

8.5 Compliance with HIPAA. Group and each Group Practitioner shall comply with the HIPAA Obligations as defined and set forth in Exhibit 8.5. The HIPAA Obligations shall survive the expiration or termination of this Agreement for any reason. PPH shall also comply with all of its obligations under HIPAA.

8.6 Compliance with Laws. Group and each Group Practitioner shall comply with all applicable laws, ordinances, codes and regulations of federal, state and local governments, including without limitation laws that require Group and each Group Practitioner to disclose any economic interest or relationship with PPH, and the policies, standards, requirements, guidelines and recommendations of JCAHO, all as in effect and amended from time to time.

8.7 Compliance with Medicare Rules. To the extent required by law or regulation, Group shall make available, upon written request from PPH, the Secretary of Health and Human Services, the Comptroller General of the United States, or any duly authorized agent or representative of the foregoing, a copy of this Agreement and Group's books, documents and records to the extent necessary to certify the nature and extent of PPH's costs for services provided by Group. Group shall preserve and make available such books, documents and records for a period which is the longer of ten (10) years after the end of the term of this Agreement or the length of time required by state or federal law. If Group is requested to disclose books, documents or records pursuant to this Section, Group shall notify PPH of the nature and scope of such request, and Group shall make available, upon written request of PPH, all such books, documents or records. Group shall indemnify and hold harmless PPH if any amount of reimbursement is denied or disallowed because of Group'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. This Section 8.7 shall survive the expiration or termination of this Agreement for any reason related to work done at a PPH facility.

8.8 Confidentiality. Unless permitted by applicable law, neither Party shall disclose any of the provisions of this Agreement to any person or entity, other than their respective attorneys or accountants, without the prior written consent of the other Party; provided, however, that either Party may disclose the provisions of this Agreement to any person or entity without the prior written consent of the other Party to the extent such disclosure is (a) required by such Party's contracts existing as of the date of this Agreement; or (b) requested by fiscal intermediaries, public agencies or commissions with governmental powers and duties related to disclosure of information which have the right to compel disclosure of such information. PPH may also disclose the provisions of this Agreement to any person or entity without the prior written consent of Group to the extent such disclosure is requested or required by PPH's representatives or others in connection with any tax-exempt bond or other financing transactions of PPH or any Affiliates.

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

8.10 Dispute Resolution. In the event of any controversy or dispute related to or arising out of this Agreement, the Parties agree to meet and confer in good faith to attempt to resolve the controversy or dispute without an adversary proceeding. If the Parties are unable to resolve the controversy or dispute after meeting and conferring, they shall submit the matter to arbitration.

(a) If the parties hereto are unable, after good faith negotiations, which hereby covenants to undertake, to resolve any and all disputes in respect to or arising under this Agreement, including, without limitation, in respect to the formation of this Agreement, or the construction or interpretation of this Agreement, any party may commence arbitration by sending a written demand for arbitration to the other party or parties. Such demand shall set forth with particularity and with supporting detail or documentation the dispute or matter to be resolved by arbitration.

(b) There shall be one arbitrator. If the parties shall fail to select a mutually acceptable arbitrator within ten (10) days after the demand for arbitration is mailed, each party shall then select its own arbitrator. The two (2) arbitrators so selected shall select a third arbitrator who shall conduct the arbitration. This process shall be completed expeditiously, and in no event later than thirty (30) days following the date of the original demand for arbitration. The fee payable to the arbitrator shall be based upon the then current fee schedule of the American Arbitration Association and shall be advanced one-half (1/2) by each party, upon written request of the arbitrator.

(c) The parties shall not have the rights of discovery as provided for in the California Code of Civil Procedure.

(d) Except as set forth herein, the arbitrator shall conduct the arbitration according to the commercial Arbitration Rules of American Arbitration Association. Arbitration shall take place in San Diego, California, unless the parties otherwise mutually agree. The arbitrator shall base the decision on the express language of this Agreement. Within ten (10) days after the arbitrator is appointed, or as soon thereafter as shall be reasonably practicable, a hearing with respect to the dispute or matter to be resolved shall be conducted by the arbitrator. Each party may make written submissions to the arbitrator, and each party shall have a reasonable opportunity for rebuttal, but no longer than ten (10) days. As soon as reasonably practical, but not later than ten (10) days after the hearing is completed, signed by the arbitrator and mailed to each of the parties and their legal counsel.

(e) All decisions of the arbitrator shall be final, binding and conclusive on all parties, and shall constitute the only method of resolving disputes or matters subject to arbitration pursuant to this Agreement. Judgment may be entered upon decision in accordance with applicable law in any court having jurisdiction thereof.

(f) This arbitration clause and all rulings or decisions of the arbitrator shall be specifically enforceable in a court of law, or the arbitral tribunal.

8.11 Entire Agreement. This Agreement is the entire understanding and agreement of the Parties regarding its subject matter, and supersedes any prior oral or written agreements, representations, understandings or discussions between the Parties with respect to such subject matter. No other understanding between the Parties shall be binding on them unless set forth in writing, signed and attached to this Agreement.

8.12 Exhibits and Attachments. The attached exhibits and attachments, together with all documents incorporated by reference in the exhibits and attachments, form an integral part of this Agreement and are incorporated by reference into this Agreement.

8.13 Force Majeure. Neither Party shall be liable for nonperformance or defective performance 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 reasons outside such Party's control, including acts of God, war (declared or undeclared), terrorism, action of any governmental authority, riots, revolutions, fire, floods, explosions, sabotage, nuclear incidents, lightning, weather, earthquakes, storms, sinkholes, epidemics, or strikes (or similar nonperformance or defective performance or late performance of employees, suppliers or subcontractors).

8.14 Headings. The headings in this Agreement are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

8.15 Income Tax Ramifications. The Parties acknowledge that Group may incur federal and state income tax liabilities from certain of the transactions contemplated by this Agreement, and that PPH is or may be required to report items of income to Group under relevant income tax laws and regulations. The Parties acknowledge and agree that PPH has not made any representation to Group with respect to the tax implications of the transactions contemplated by this Agreement, and that statements made by PPH or its agents, employees, representatives or attorneys shall not be relied upon by Group, and shall not be interpreted or construed as tax advice to Group.

8.16 Litigation Consultation. Neither Group nor any Group Practitioner shall accept consulting assignments or otherwise contract, agree, or enter into any arrangement to provide expert testimony or evaluation on behalf of a plaintiff in connection with any claim against PPH or any Affiliate named, or expected to be named as a defendant. Neither Group nor any Group Practitioner shall accept similar consulting assignments if (a) the defendants or anticipated defendants include a member of the medical staff of PPH or any Affiliate, and (b) the matter relates to events that occurred at PPH or any Affiliate; provided, however, the provisions of this Section shall not apply to situations in which any Group Practitioner or any shareholder, physician or employee of Group served as a treating physician.

8.17 Meaning of Certain Words. Wherever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine, or neuter forms, and the singular form of nouns shall include the plural and vice versa. Unless otherwise specified, "days" shall be considered "calendar days" and "months" shall be considered "calendar months" in this Agreement and its exhibits and attachments.

8.18 No Conflicting Obligations. Group shall immediately inform PPH of any other agreements to which Group or any Group Practitioner is a party that may present a conflict of interest or materially interfere with performance of either Group's or a Group Practitioner's duties under this Agreement.

8.19 Non-Discrimination. Neither Group nor any Group Practitioner shall differentiate or discriminate in the provision of medical services on the basis of race, color, national origin, ancestry, religion, sex, marital status, sexual orientation, age, medical condition, medical history, genetics, evidence of insurability, or claims history, in violation of any applicable state, federal or local law or regulation, or PPH Rules, including, without limitation, the Age Discrimination Act of 1975, the Americans with Disabilities Act and all regulations issued pursuant thereto and as may be amended from time to time. Group, each Group Practitioner, and PPH shall be in full compliance with Section 504 of the Rehabilitation Act of 1973, Titles VI and VII of the 1964 Civil Rights Act, and all regulations issued pursuant thereto and as may be amended from time to time.

8.20 No Third Party Beneficiary Rights. This Agreement shall not confer or be construed to confer any rights or benefits to any person or entity other than the Parties.

8.21 Notices. All notices or communications required or permitted under this Agreement shall be given in writing and shall be delivered to the Party to whom notice is to be given either: (a) by personal delivery (in which case such notice shall be deemed given on the date of delivery); (b) by next business day courier service (*e.g.,* Federal Express, UPS or other similar service) (in which case such notice shall be deemed given on the business day following date of deposit with the courier service); or (c) by United States mail, first class, postage prepaid, registered or certified, return receipt requested (in which case such notice shall be deemed given on the third (3rd) day following the date of deposit with the United States Postal Service). In each case, notice shall be delivered or sent to the address indicated on the signature page, or such other address as provided by a Party, from time to time, pursuant to this Section.

8.22 Participation in Federal Health Care Programs. Group hereby represents that neither Group nor any Group Practitioner is debarred, suspended, excluded or otherwise ineligible to participate in any Federal Health Care Program.

8.23 Representations. Each Party represents with respect to itself that: (a) no representation or promise not expressly contained in this Agreement has been made by any other Party or by any Parties' agents, employees, representatives or attorneys; (b) this Agreement is not being entered into on the basis of, or in reliance on, any promise or representation, expressed or implied, other than such as are set forth expressly in this Agreement; and (c) Party has been represented by legal counsel of Party's own choice or has elected not to be represented by legal counsel in this matter.

8.24 **Severability.** If any provision of this Agreement, in whole or in part, or the application of any provision, in whole or in part, is determined to be illegal, invalid or unenforceable by a court of competent jurisdiction and such provision can be severed without substantially changing the bargain reached by the Parties, such provision or part of such provision shall be severed from this Agreement, and such severance shall have no effect upon the enforceability, performance or obligations of the remainder of this Agreement, including the remainder of such provision not determined to be illegal, invalid or unenforceable. If Section 7.5 is applicable, this Section 8.24 shall not be enforced.

8.25 **Trade Secrets.** During the term of this Agreement, each Party will have access to and become acquainted with confidential information and trade secrets of the other Party, including information and data relating to payor contracts and accounts, clients, patients, patient groups, patient lists, billing practices and procedures, business techniques and methods, strategic plans, operations and related data (collectively, **"Trade Secrets"**). All Trade Secrets shall be proprietary information protected under the Uniform Trade Secrets Act. Neither Party shall disclose to any person or entity, directly or indirectly, either during the term of this Agreement or at any time thereafter, any Trade Secrets of the other Party, or use any Trade Secrets of the other Party other than in the course of providing Services under this Agreement. All documents that Group or any Group Practitioner prepares, or Trade Secrets that might be given to Group or any Group Practitioner in the course of providing Services under this Agreement, are the exclusive property of PPH, and, without the prior written consent of PPH, shall not be removed from PPH's premises unless they are active studies being interpreted by Group.

8.26 **Waiver.** No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. Any waiver granted by a Party must be in writing to be effective, and shall apply solely to the specific instance expressly stated.

8.27 **Waiver of Injunctive or Similar Relief.** In the event that a court or an arbitrator determines that a Party has improperly breached or terminated this Agreement, the other Party shall accept monetary damages, if any, as full and complete relief, to the exclusion of any specific performance, or injunctive or similar equitable relief.

[*signature page follows*]

The Parties have executed this Agreement on the date first above written, and signify their agreement with duly authorized signatures.

PPH

Palomar Pomerado Health, a local health care district organized under Division 23 of the California Health and Safety Code

____
By:___________________________________
Its:___________________________________

Address of PPH:
Palomar Pomerado Health
15255 Innovation Drive
San Diego, CA 92128

GROUP

North County Medical Group, Inc.,
a California professional medical corporation

____
By:___________________________________
Its:___________________________________

Address of Group:
____
____
____

Exhibit 1.1

RADIOLOGY SERVICES

Radiology Services encompasses all diagnostic imaging services and derivative technologies, including general radiography, ultrasound, nuclear medicine, computed tomography, magnetic resonance imaging, PET and other diagnostic imaging procedures (other than radiation oncology), performed in PPH, and angiography and interventional radiology performed in the Department. The preceding services are provided on an exclusive basis with the exception of those services listed in Exhibit 1.15.

Exhibit 1.2(a)(1)

LETTER OF ACKNOWLEDGEMENT

PPH President
[Name of PPH]
[Address of PPH]

Ladies and Gentlemen:

I acknowledge that Palomar Pomerado Health System, a local health care district organized under Division 23 of the California Health and Safety Code (the **"PPH"**) and North County Radiology Medical Group, Inc. a California professional corporation ("Group") have entered into a Professional and Medical Director Services Agreement ("Agreement") under which Group shall perform specified Radiology Services and Director Services (as defined in the Agreement), and that I have been engaged by Group to provide Radiology Services, [and Director Services] as a "Group Practitioner" (as defined in the Agreement). In consideration of PPH's approval of me as a Group Practitioner eligible to furnish Radiology Services [and Director Services], I expressly:

1. acknowledge that I have read the Agreement, and agree to be bound by and comply with all of the requirements of the Agreement applicable to Group Practitioners;

2. acknowledge that I have no employment, independent contractor or other contractual relationship with PPH, that my right to practice in PPH as a Group Practitioner is derived solely through my employment or contractual relationship with Group, and that PPH has approved my acting as a Group Practitioner as provided in the Agreement except to the extent PPH reasonably determines that my removal is reportable to the Medical Board of California pursuant to the reporting requirements set forth in California (the "Reporting Requirements");

3. acknowledge that PPH has reserved the right to cause Group to remove me as a Group Practitioner pursuant to the terms of the Agreement upon written notice to me, and understand that PPH may do so without compliance with any rules or procedures of PPH's Medical Staff bylaws, except to the extent PPH reasonably determines that my removal is reportable to the Medical Board of California pursuant to the reporting requirements set forth in California (the "Reporting Requirements");

4. acknowledge that upon the termination or expiration of the Agreement, notwithstanding the fact that such termination or expiration will not have any independent effect on my Medical Staff membership or clinical privileges, my right to continue to provide those Radiology Services in the Department which Group has an exclusive right to provide, will immediately terminate, without any action on the part of PPH and/or the Medical Staff and without the right to a "fair hearing" or any other similar hearing or appellate review as may be set forth in the Medical Staff bylaws, except to the extent PPH reasonably determines that withholding of approval is reportable to the Medical Board of California pursuant to the reporting requirements set forth in California;

5. acknowledge that upon the termination of my employment or other affiliation with Group, notwithstanding the fact that such termination will not have any independent effect on my Medical Staff membership or clinical privileges, my right to continue to provide Radiology Services in the Department which Group has an exclusive right to provide will immediately terminate, without any action on the part of PPH and/or the Medical Staff and without the right to a “fair hearing” or any other similar hearing or appellate review as may be set forth in the Medical Staff bylaws, except to the extent PPH reasonably determines that such termination is reportable to the Medical Board of California pursuant to the reporting requirements of the State of California;

6. with regard to all of the foregoing, I expressly waive any right to assert that any termination of my status as a Group Practitioner requires PPH to comply with any procedures whatsoever under the Medical Staff bylaws, except to the extent PPH reasonably determines that such termination is reportable to the Medical Board of California pursuant to the reporting requirements of the State of California

Sincerely,

____
[Name of Group Practitioner], [M.D.][D.O.]

Exhibit 1.2(b)

GROUP PRACTITIONERS

Physician Name	Specialty	License #	DEA #	UPIN

Exhibit 1.3

Department Staffing

1. Physical on-site presence for Diagnostic Radiology:

   Palomar Medical Center:

Monday through Friday	7:00 A.M. – 10:00 P.M.
Saturday, Sunday, Holidays*	7:00 A.M. – 7:00 P.M.

   Pomerado Hospital:

Monday through Friday	8:00 A.M. – 5:00 P.M.
Saturday, Sunday, Holidays*	8:00 A.M. – 5:00 P.M.

   Pomerado Outpatient Breast Center:

Monday through Friday	8:00 A.M. – 5:00 P.M.

2. Physical on-site presence for Interventional Radiology:

   Palomar Medical Center:

Monday through Friday	7:00 A.M. – 5:00 P.M.
Saturday, Sunday, Holidays*	On-Call Basis

   Pomerado Hospital:

Monday through Friday	8:00 A.M. – 5:00 P.M.
Saturday, Sunday, Holidays*	On-Call Basis

3. On-Call response to hospitals:

By phone:	within 15 minutes
In person if requested/required:	within 30 minutes**

   * *Holidays include Presidents Day, Labor Day, Fourth of July, Memorial Day, Thanksgiving Day, Christmas Day and New Years Day*

   ** *Coverage must provide backup provisions for instances when a Group physician responds to one hospital and therefore unable to respond to the other hospital if requested.*

<u>Exhibit 1.5(a)</u>

DIRECTOR SERVICES

Group, through Medical Director, shall:

1. provide medical direction for the day-to-day operations of the Department;

2. assist in the implementation of those PPH policies and procedures regarding the Department that are reasonable and not inconsistent with the rights and obligations of the Parties under this Agreement and the Medical Staff Bylaws. In instances where there is a disagreement between the Parties as to what is reasonable and not inconsistent with this Agreement and the Medical Staff Bylaws, the Parties agree to meet and confer on a timely basis to address the disagreement;

3. ensure Group Practitioner staffing and coverage of the Department;

4. schedule, coordinate and supervise the provision of physician services within the Department;

5. be responsible to PPH Administration for the professional services and medical management of the Department and participate in management development programs;

6. ensure the provision of consistently high quality service, and advise PPH in the development and implementation of an appropriate quality assessment and improvement program with respect to the Department and participate in such program;

7. participate in such PPH and Medical Staff committees as PPH or the Medical Staff may reasonably request to fulfill the obligations of this Agreement;

8. work with PPH Administration in the timely planning of activities, including the annual development of Department objectives, operations budget and a capital equipment budget, and provide PPH with ongoing appraisals of the strengths, weaknesses and overall quality of the Department;

9. cooperate with PPH personnel assigned general administrative responsibilities for operation of the Department;

10. advise and assist in the organization and implementation of an effective utilization review program for the Department and PPH and assist Department in utilization review services;

11. assist in developing and review of on-going training and continuing education programs for the Medical Staff, the nursing staff and other support personnel;

12. facilitate the Department's operation in accordance with all requirements of JCAHO, all applicable licensing requirements, and all other relevant requirements promulgated by any federal, state, or local agency;

13. recommend to appropriate committees of the Medical Staff and/or PPH Administration new or revised policies as needed;

14. participate in developing and presenting programs pertinent to the Department for the community and as needed for PPH/community relations; provided, however, that Medical Director shall not be required to participate in any advertising or commercials related to the Department's services;

15. assist in the design and development of patient information forms, medical record forms, and consent forms for use within the Department;

16. engage in and cooperate in the furtherance of teaching, research, and educational activities of PPH to the extent that such activities do not hinder Group's performance of radiology services and patient care in the department;

17. consult with the Department Administrator regarding proper and efficient use of equipment and materials, and make recommendations as to appropriate repair or replacement;

18. be responsible for keeping abreast of equipment developments and make recommendations with respect to procurement of new equipment;

19. consult with the Department Administrator regarding adoption and implementation of information management systems and other new technology for the operation of the Department and/or PPH;

20. work with PPH in the development of a policy to assure timely proactive communication of abnormal findings directly with the referring physician. Group shall establish acceptable response times with medical staff departments and assist in implementing formal monitoring of response times for reporting of abnormal findings to demonstrate compliance.

21. assure timely, accurate, complete and legible medical record entries made by Group Practitioners as appropriate for services provided in accordance with Medical Staff By Laws/Rules and Regulations.

22. actively participate in department, PPH and organizational performance improvement efforts to achieve defined service and outcomes targets**.** Group will participate in medical staff department meetings of key customers and cooperatively develop criteria and initiate ongoing monitoring to assure service and outcomes targets are achieved.

23. review and respond to Quality Utilization and Performance data in a timely manner. Assist in establishing formal service level standards for the Department

and all modalities and monitor standards taking proactive action in cooperation with Department's leadership to assure levels are maintained or exceeded.

24. coordinate with Department leadership to assure appropriate revenue capture through establishment of correct billing codes for new and existing services.

25. ensure appropriate case-mix index through appropriate coding and documentation.

26. consult with the Department Administrator regarding appropriate throughput through timely discharge and proper discharge planning.

27. proactively solicit feedback from medical staff and PPH to assure adequate coverage, address needs and concerns, and identify opportunities to enhance the range and scope of the Departments/Groups services. Group will participate in medical staff department meetings of key customers to provide immediate contact and interaction to address issues, concerns and opportunities.

28. assure that issues raised are responded to and address in a timely manner to resolve the issue.

29. participate in the evaluation of departmental staff competency and the development of training programs to assure optimal delivery of Departments services.

30. perform such other reasonable duties as may be assigned from time to time by PPH President, the Board of Directors, Community Board, or the Chief of the Medical Staff.

31. actively participate in the leadership of the Department

Exhibit 1.6

Exhibit 1.14(a)

List of locations where Group provides services or has ownership interest in that are within the "Hospital District"

Exhibit 1.14(b)

Exhibit 1.14(b)

Health District Map

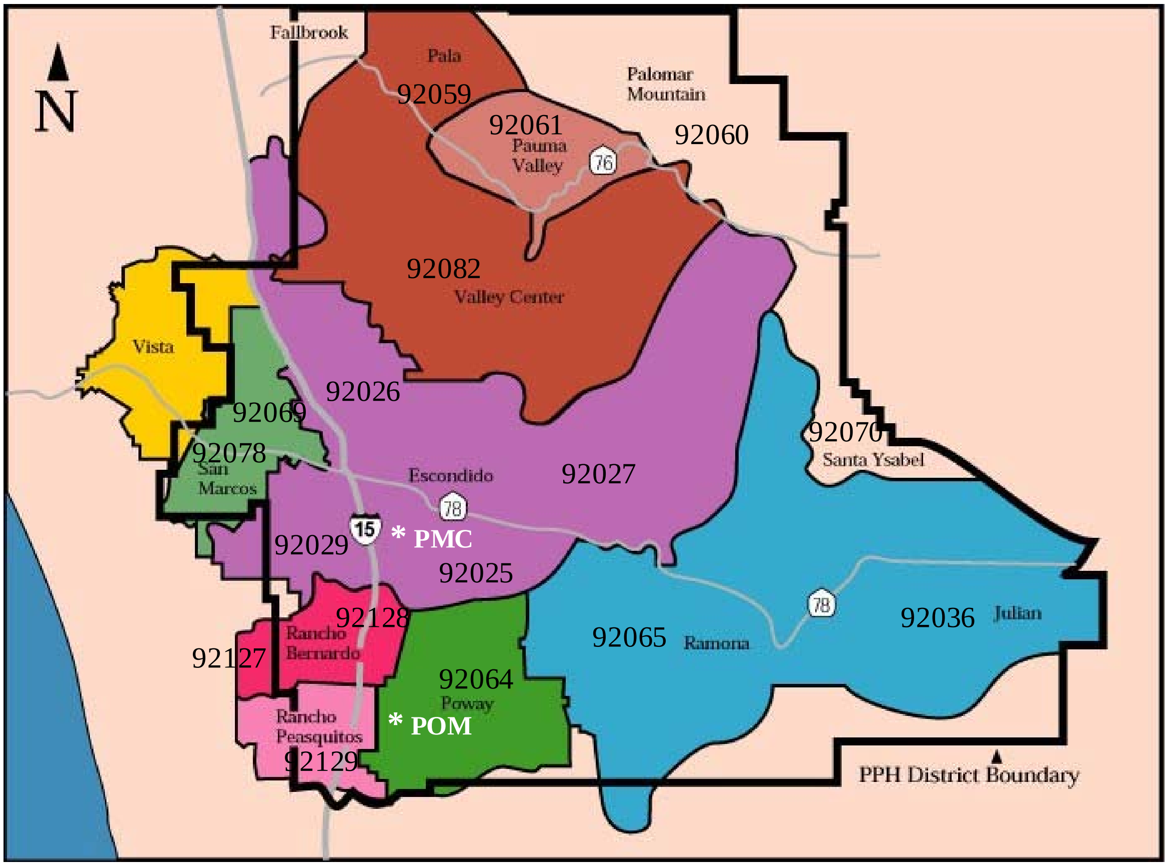

Exhibit 1.15

NON-EXCLUSIVE RADIOLOGY SERVICES

Group shall provide Radiology Services on an exclusive basis with the exception of the following services:

1. Cardiac angiography and related cardiac procedures performed in the Cardiac Catheterization Laboratory by cardiologists.

2. Echo-cardiography services provided in Cardiology Services Department at Palomar Medical Center and Radiology at Pomerado Hospital by cardiologists.

3. Non-Invasive vascular and cardiac ultrasound performed in Cardiology Services at Palomar Medical Center and Radiology at Pomerado PPH by cardiologists.

4. C-arm fluoroscopy performed by any clinician, assuming state guidelines are met and the clinician maintains a current operator's permit.

5. Obstetrical sonography performed outside the Radiology department by obstetricians.

6. Stereotactic ultrasound guided localizations performed in the operating room.

7. Ultrasound guided prostate implants performed by Radiation Oncologists.

8. Ultrasound guidance for placement performed by physicians to aid in performing interventional procedures.

9. Radiosurgery performed by Neurosurgeons and Radiation Oncologists in the Radiation Therapy Department.

10. OB ultrasound performed within Women's Services by perinatologists.

11. Interventional Radiology suite utilization will be evaluated six (6) months from the effective date of the agreement to evaluate its continuing exclusivity. scheduled in cooperation with the Radiologist's schedules

12. Neurointerventional procedures

13. Ultrasound performed by Emergency Physician physicians to aid in patient diagnosis of ectopic pregnancies,

Exhibit 2.7

PERFORMANCE STANDARDS

In addition to the requirements and standards set forth in the Agreement, Group and as applicable Group Practitioners, shall meet the following minimum standards in performing Radiology Services under this Agreement:

1. PPH, and Medical Director, may develop a survey to measure the satisfaction of professional users of the Department (other members of the Medical Staff, *etc.*) with the quality of professional radiology services in the Department on an annual basis If the overall rating of the services is less four (4.0) on a five (5.0) point scale, Medical Director shall institute a plan of correction to increase satisfaction of the professional users. A resurvey shall be conducted no more than six (6) months after the initial survey, and if the overall satisfaction rating has not increased to four (4.0) or better, and if Group objects to the results of the second survey, Group or PPH can request a review by the Medical Executive Committee. Group and PPH will abide by the findings and recommendations of the Medical Executive Committee. If the Medical Executive Committee determines that Group's performance is unacceptable, then Group shall be deemed in breach of these Performance Standards.

2. There shall be no more than one (1) successful employee grievance per year relating to any Group Practitioner. A successful employee grievance is an EEOC, DFEH, or labor department complaint which results in a finding of fault of any Group Practitioner in a judicial or administrative decision, or a settlement involving a payment by any Group Practitioner in excess of Ten Thousand Dollars ($10,000).

3. Each Group Practitioner shall cooperate with PPH in the accomplishment of PPH's reasonable goals, share information with PPH appropriately and in a timely manner, and not engage in a pattern of repeated lack of cooperation or negative interpersonal relations.

4. As and to the extent requested to fulfill the obligations of this Agreement, each Group Practitioner shall, without compensation, serve on, participate in and cooperate fully with any and all credentialing, quality assurance, peer review and utilization review procedures, programs and committee applicable to the performance of Radiology Services.

5. Assist PPH management with preparation for, and conduct of, any inspections and on-site surveys of PPH conducted by governmental agencies or accrediting organizations.

6. Cooperate and comply with PPH's policies and procedures which are pertinent to patient relations, quality assurance, scheduling, billing, collections, insurance verification and enrollment and other administrative matters to the extent not inconsistent with the terms of this Agreement.

Exhibit 2.8
Code of Conduct for Physician Agreements

1. I will perform my duties faithfully and to the best of my ability, and in the interest of PPH as it relates to services provided under this agreement.

2. I will not lie, cheat, steal, or violate any law in connection with my practice at any PPH facility.

3. I will not pay or arrange for PPH to pay any person or entity for the referral of patients to PPH, nor will I accept any payment or arrange for PPH to accept any payment for referrals from PPH.

4. I will not participate in any false billing of patients, government entities or any other party, nor will I participate in the preparation of any false cost reports, or other type of report submitted to the government.

5. I will not engage in any conduct or practice that conflicts with interest of PPH, as it relates to services provided under this agreement.

6. I will not improperly use PPH's confidential or proprietary information gathered during my association with PPH for my own personal benefit.

7. I will not obtain any improper personal benefits by virtue of my practice at PPH facilities.

8. I will notify the compliance officer of PPH immediately upon the receipt (at work or home) of an inquiry, subpoena (other than for routine licensing or tax matters) or other agency or government request for information regarding PPH.

9. I will not destroy or alter information or documents in anticipation of or in response to, a request for documents by any applicable government agency or from a court of competent jurisdiction.

10. I will not engage in any business practice intended to unlawfully obtain favorable treatment or business from any government entity, physician, patient, vendor or any other party in a position to provide such treatment or business.

11. I will not accept any gift of more than nominal value, and PPHity or entertainment that because of its source or value might influence my independent judgment in transactions involving PPH as it relates to services provided under this agreement.

12. I will not provide any gifts to any government or public agency representative as it relates to services provided under this agreement.

13. I will disclose any compensation arrangements or an ownership in a privately-owned medically related entity (not big pharmaceutical or other major public companies and not ownership through mutual funds) that I or a member of my immediate family has.

14. I will not disclose confidential medical information pertaining to PPH patients without the express written consent of the patient in accordance with HIP AA, other applicable law and PPH applicable policies or procedures.

15. I will promptly report all violations or suspected violations of this code by myself to the compliance officer of PPH.

16. I will not conspire with a competitor of PPH to illegally fix prices, labor cost, allocate markets, or engage in group boycotts.

Exhibit 2.10

EXCEPTIONS TO REPRESENTATIONS AND WARRANTIES OF GROUP

Group has noted no exceptions to the representations and warranties set forth in Section 2.10.

<u>**Exhibit 4.4**</u>

LOC AGREEMENT AND PROMISORY NOTE

Exhibit 8.5

OBLIGATIONS UNDER THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996 ("HIPAA")

1. **Definitions.**

   a. **"Designated Record Set"** shall have the meaning given to such term under the Privacy Rule (as defined below).

   b. **"HIPAA Obligations"** means the obligations of Group and each Group Practitioner as set forth in this Exhibit.

   c. **"Privacy Rule"** means the HIPAA Regulation that is codified at Title 45 of the Code of Federal Regulations, Parts 160 and 164, or applicable successor provisions, as may be amended from time to time.

   d. **"Protected Health Information"** means any information, whether oral or recorded in any form or medium that: (i) relates to the past, present or future physical or mental condition of an individual; the provision of health care to an individual; or the past, present or future payment for the provision of health care to an individual, and (ii) identifies the individual or with respect to which there is a reasonable basis to believe the information can be used to identify the individual, or is defined as such under the Privacy Rule.

   e. **"Protected Information"** means Protected Health Information provided by PPH to Group or any Group Practitioner or created or received by Group or any Group Practitioner on PPH's behalf.

   f. **"Required by Law"** shall have the meaning given to such term under the Privacy Rule.

2. **Use of Protected Information.** Neither Group nor any Group Practitioner shall use Protected Information except as permitted by and for the purpose of performing their respective obligations under this Agreement. Neither Group nor any Group Practitioner shall use Protected Information in any manner that would constitute a violation of the Privacy Rule if so used by PPH.

3. **Permitted Disclosures.** Neither Group nor any Group Practitioner shall disclose Protected Information in any manner that would constitute a violation of the Privacy Rule if disclosed by PPH, except that Group and any Group Practitioner may disclose Protected Information in a manner permitted pursuant to this Agreement or as Required by Law.

4. **Appropriate Safeguards.** Group shall implement appropriate safeguards as are necessary to prevent the use or disclosure of Protected Information other than as permitted by this Agreement.

5. **Reporting of Improper Use or Disclosure.** Group shall notify PPH in writing of any use or disclosure of Protected Information other than as provided for by this Agreement and this Exhibit within two (2) days of becoming aware of such use or disclosure.

6. **Group Practitioner's Agents.** Group and each Group Practitioner shall ensure that any agents, including subcontractors, to whom either provides Protected Information, agree in writing to the same restrictions and conditions that apply to Group and each Group Practitioner with respect to such Protected Information.

7. **Access to Protected Information.** Group and each Group Practitioner shall make Protected Information maintained by Group, any Group Practitioner or their respective agents or subcontractors in Designated Record Sets available to PPH for inspection and copying within ten (10) days of a request by PPH to enable PPH to fulfill its obligations under the Privacy Rule.

8. **Amendment of Protected Health Information.** Within ten (10) days of receipt from PPH for an amendment of Protected Information or a record about an individual contained in a Designated Record Set, Group, each Group Practitioner and their respective agents or subcontractors shall make such Protected Information available to PPH for amendment and incorporate any such amendment to enable PPH to fulfill its obligations under the Privacy Rule.

9. **Accounting Rights.** Within ten (10) days of notice by PPH of a request for an accounting of disclosures of Protected Information, Group and each Group Practitioner and their respective agents or subcontractors shall provide to PPH an accounting of disclosures sufficient to enable PPH to fulfill its obligations under the Privacy Rule. As set forth and as limited by the Privacy Rule, neither Group nor any Group Practitioner shall provide an accounting to PPH of disclosures: (i) to carry out treatment, payment or health care operations; (ii) to individuals of Protected Information about them; (iii) to persons involved in the individual's care or other notification purposes; (iv) for national security or intelligence purposes; or (v) to correctional institutions or law enforcement officials. *Group shall implement a process that allows for an accounting to be collected and maintained by Group and its agents or subcontractors for at least six (6) years prior to the request, but not before the compliance date of the Privacy Rule.* At a minimum, such information shall include: (A) the date of disclosure; (B) the name of the entity or person who received Protected Information and, if known, the address of the entity or person; (C) a brief description of Protected Information disclosed; and (D) a brief statement of purpose of the disclosure that reasonably informs the individual of the basis for the disclosure, or copy of the individual's authorization, or a copy of the written request for disclosure.

10. **Governmental Access to Records.** Group and each Group Practitioner shall make their respective internal practices, books and records relating to the use and disclosure of Protected Information available to PPH or, at the request of PPH, to the Secretary of the U.S. Department of Health and Human Services, for purposes of determining PPH's compliance with the Privacy Rule.

11. **Retention of Protected Information.** Except as provided in Sections 12 and 13 of this Exhibit, Group, each Group Practitioner and their respective agents or subcontractors shall retain all Protected Information throughout the term of this Agreement and shall continue to maintain the information required hereunder for a period of six (6) years after expiration or termination of this Agreement.

12. **Term of Obligations.** Group's and each Group Practitioner's HIPAA Obligations shall commence as of the compliance date of the Privacy Rule, and shall terminate when all of the Protected Information is destroyed or returned to PPH, or, if it is infeasible to return or destroy Protected Information, protections are extended to such information, in accordance with Section 14 of this Exhibit.

13. **Effect of Termination.** Upon expiration or termination of this Agreement for any reason, Group and each Group Practitioner shall return or destroy all Protected Information that Group, any Group Practitioner or their respective agents or subcontractors still maintain in any form, and shall retain no copies of such Protected Information. If return or destruction is not feasible, Group and each Group Practitioner shall continue to extend the protections of this Exhibit to such information, and limit further use of such Protected Health Information to those purposes that make the return or destruction of such Protected Health Information infeasible.

14. **Amendment.** The Parties agree to take such action as is necessary to amend HIPAA Obligations from time to time in order for PPH to comply with the requirements of the Privacy Rule, HIPAA and other applicable laws relating to the security or confidentiality of Protected Health Information.

15. **Interpretation of Obligations.** The HIPAA Obligations shall be interpreted as broadly as necessary to implement and comply with HIPAA and the Privacy Rule. The Parties acknowledge and agree that any ambiguity in the HIPAA Obligations shall be resolved in favor of a meaning that complies and is consistent with HIPAA and the Privacy Rule.

ADDENDUM B

LINE OF CREDIT AGREEMENT

by and between

PALOMAR POMERADO HEALTH (“PPH”)

and

NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC. (“NCR”)

ADD B-2

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Exhibits

LINE OF CREDIT AGREEMENT

THIS LINE OF CREDIT AGREEMENT (this "Agreement") is dated as of January ___, 2009, (the "Effective Date") by and between PALOMAR POMERADO HEALTH, a local health care district organized under the laws of the State of California ("PPH"), and NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC., a California professional corporation ("NCR"). PPH and NCR are each sometimes referred to in this Agreement as a "Party" or, collectively, as the "Parties."

RECITALS

A. PPH, a local health care district organized under the California Local Hospital District Law (California Health and Safety Code § 32000 et seq.) (the "Law"), owns and operates healthcare facilities for the benefit of the communities within its boundaries.

B. NCR is a professional physician association, organized and operated to provide clinical radiology services to persons in the communities served by PPH.

C. The Parties entered into a Professional Services Agreement ("Professional Services Agreement") wherein NCR will provide clinical radiology services to patients in the communities served by PPH. The Parties believe that it is in the best interests of the public served by PPH to facilitate the proper operation of NRC so that it may fulfill its duties under the Agreement.

D. NCR desires to obtain from PPH certain funds, and PPH has agreed to provide such funds to NCR to further the public purposes for which PPH and the NCR operate, in accordance with the California Constitution and according to the terms and conditions set forth herein.

G. The Parties hereby reference the following additional agreements to which they are both parties:

(i) Security Agreement dated January ____, 2009, and attached hereto as Exhibit 2.1(b);

(ii) Business Associate Agreement dated January ___, 2009, and not attached but referenced herein; and

(iii) Professional Services Agreement dated January ___, 2009, and not attached but referenced herein.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I.
LINE OF CREDIT

1.1 Line of Credit. PPH shall make available to NCR, and NCR agrees to accept from PPH, a line of credit, the aggregate amount of which shall not exceed One Million Three Hundred Thirty Thousand Dollars ($1,330,000.00) ("Line of Credit"), subject to the terms set forth in this Article III. The Line of Credit shall expire in its entirety on December 31, 2009 (the "Credit Line Expiration Date"). This expiration date does not affect NCR's repayment obligation.

1.2 Advances. PPH shall advance to NCR amounts requested pursuant to Section 1.4 of this Article (each, an "Advance", and collectively, the "Advances"), from time to time prior to, but not including, the Credit Line Expiration Date. The aggregate amount of all outstanding Advances shall not exceed the Line of Credit. Notwithstanding the foregoing, both PPH's Chief Executive Officer and Chief Financial Officer and NCR's President and Treasurer shall approve in writing Advance requests exceeding One Hundred Thousand Dollars ($100,000.00).

1.3 Use of Advances. PPH shall use the Advances for the following purposes only:

(a) Up to Nine Hundred Thousand Dollars ($900,000.00) may be used for the purpose of assisting NCR in normalizing cash flow related to its accounts receivable. NCR may make withdrawals for this purpose until March 31, 2009, based upon expected realizable collections for the then-current month, but not to exceed Three Hundred Thousand Dollars ($300,000.00) in any given month. No additional draws can be made upon this portion of the Line of Credit after March 31, 2009, nor can any undrawn portion be re-allocated to another portion of the Line of Credit. This portion of the LOC shall be referred to as the A/R Line of Credit ("A/R Line of Credit");

(b) Up to One Hundred Eighty Thousand Dollars ($180,000.00) may be used by NCR to cover after hours radiology services. This amount may be withdrawn at the rate of up to Thirty Thousand Dollars ($30,000.00) per month for the months of July through December 2009. PPH will make this amount available during the second six (6) months of the Agreement. This portion of the Line of Credit shall be referred to as the Nighthawk Line of Credit ("Nighthawk Line of Credit").

(c) Up to Ninety Thousand Dollars ($90,000.00) for actual costs and such other use of intellectual properties utilized by NCR in transitioning and establishing radiology services at PPH and in the establishment of related business strategies. PPH will make this amount available during the first six months of the Agreement. This portion of the Line of Credit shall be referred to as the Intellectual Line of Credit ("Intellectual Line of Credit").

(d) Up to Forty Thousand Dollars ($40,000.00) for imputed opportunity value of foregone interest income during the stabilization of Accounts Receivable. For purposes of this portion, opportunity value shall be deemed to be five percent (5%) per annum times the expected realizable revenue per month. PPH will make this amount available during the first three months of the agreement. This portion of the Line of Credit shall be referred to as the Opportunity Value Line of Credit ("Opportunity Value Line of Credit").

(e) Up to One Hundred Twenty Thousand Dollars ($120,000.00) for recruiting and relocation costs associated with the recruiting and hiring of physicians into NCR to provide radiology services under the Agreement. PPH will make this amount available during the first nine months of the Agreement. This portion of the Line of Credit shall be referred to as the Recruitment Line of Credit ("Recruitment Line of Credit").

1.4 **Request and Delivery of Advances.** When NCR desires to obtain an Advance, it shall deliver to PPH a notice in the form attached hereto as Exhibit 1.4 (the "Notice of Borrowing") at least three (3) Business Days prior to the date on which the Advance is to be paid (the "Proposed Funding Date"). The Notice of Borrowing shall specify the Proposed Funding Date (which shall be a Business Day), the amount of the requested Advance, and certify as to the satisfaction of each of the conditions set forth in Exhibit 1.4. "Business Day" shall mean any day which is not a Saturday, a Sunday or a generally observed holiday for banks in the State of California.

1.5 **Contingencies to PPH's Payment of Advances.** PPH's obligation to make any Advances to NCR under this Agreement shall be contingent upon the following:

(a) Execution of the Professional Services Agreement on same date by both Parties.

(b) Commencement of services to be performed by NCR pursuant to the Professional Services Agreement.

(c) Documentation. NCR's submission to PPH, in form and substance satisfactory to PPH, this Agreement, the Note (as defined in Section 2.1(a)), the Security Agreement (as defined in Section 2.1(b)), and such other documents and instruments as PPH may reasonably request, all duly executed by NCR.

(d) Notice of Borrowing. NCR's submission to PPH of a Notice of Borrowing in which NCR certifies that as of the date of the Notice of Borrowing:

(i) all of NCR's representations and warranties contained in this Agreement shall be true, correct and complete in all material respects to the same extent as though made on and as of that date;

(ii) no Event of Default (as defined in Exhibit 2.1(b)) shall have occurred and shall continue, or shall result from, making the Advance;

(iii) no law or regulation shall prohibit, and no order, judgment or decree of any court, arbitrator or governmental authority shall purport to enjoin or restrain PPH from making the Advance; and

(iv) no change having a Material Adverse Effect on NCR, either individually or in the aggregate, shall have occurred since the Execution Date. "Material Adverse Effect" shall mean a material adverse effect upon NCR's purpose, function, operation or status or upon PPH's security interest in the Collateral (as defined in Exhibit 2.1(b) attached hereto) or the priority thereof.

(e) Perfection. The Account described in Exhibit 2.1(b) of this Agreement shall have been established in a manner satisfactory to PPH, in its sole discretion, and PPH shall be satisfied that all steps shall have been taken necessary to create and perfect in favor of PPH a first priority security interest in the Account and all other Collateral described in such Exhibit 2.1(b).

1.6 Repayment. Repayment of the Line of Credit is as follows:

(a) Repayment of outstanding principle on the Line of Credit will commence effective October 1, 2009, which is the tenth (10^{th}) month of the Agreement, and shall continue during its remaining term. Repayment shall be made in fifty (50) equal installments. Should the Agreement be terminated prior to its natural expiration, for any reason, any and all principle amounts and accrued interest then currently outstanding are immediately due and payable.

(b) The Line of Credit shall bear interest at the prime rate of interest on October 1, 2009, plus two percent (2%) and as may be adjusted pursuant to Section 1(b) of the Promissory Note. Interest shall accrue from the date of the draw. Notwithstanding the foregoing, should NCR provides PPH with documentation that it is able to obtain a creditworthy loan on similar terms and conditions as that contemplated under the Line of Credit from a reputable third party lending institution at a lower interest rate, the interest rate will be adjusted to match said documented fair market value rate.

(c) NCR, may, without penalty, repay any and all principle and accrued interest at any time during the term of the Agreement.

1.7 Promissory Note. NCR shall repay the Advances and accrued interest pursuant to the terms and conditions of the Note (as defined below). NCR authorizes PPH to record on the schedule annexed to the Note, the date and amount of each Advance made by PPH, the Interest Rate (as such term is defined in the Note) when each Advance is made, and each payment or prepayment of the Advances, and agrees that all such notations shall constitute *prima facie* evidence of the matters noted. NCR further authorizes PPH to attach to and make a part of the Note continuations of the schedule as necessary. No failure to make any such notations, nor any errors in making any such notations, shall affect the validity of NCR's obligations to repay the Advances or NCR's obligations under this Agreement, the Note, or any other document, contract or instrument delivered to PPH in connection with this Agreement (collectively, the "Line of Credit Documents").

ARTICLE II.
PROMISSORY NOTE; SECURITY AGREEMENT; GUARANTEE

2.1 NCR's Deliverables. Concurrently with the execution of this Agreement, NCR shall execute and deliver to PPH:

(a) the secured promissory note in the form attached as Exhibit 2.1(a) (the "Note"); and

(b) the security agreement in the form attached as Exhibit 2.1(b) (the "Security Agreement").

2.2 Further Cooperation. PPH and NCR shall perform, or ensure the performance of, all actions and execute, or ensure the execution of, all documents necessary to perfect the security interests granted in the Security Agreement, as reasonably requested by PPH from time to time.

ARTICLE III.
TERM AND TERMINATION

3.1 Term. This Agreement shall become effective on January 1, 2009 (the "Effective Date"), and shall continue until December 31, 2009 (the "Expiration Date"), subject to the termination provisions of this Agreement.

3.2 Termination by PPH. PPH shall have the right to terminate this Agreement upon the occurrence of any one or more of the following events:

(a) Breach of this Agreement by NCR where the breach is not cured within thirty (30) calendar days after PPH gives written notice of the breach to NCR;

(b) Breach by NCR of the requirements under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") (as set forth in Exhibit 4.2);

(c) NCR is rendered unable to comply with the terms of this Agreement for any reason;

(d) Upon ninety (90) calendar days written notice without cause to NCR in all other cases; or

(e) Termination, for whatever reason, of the Professional Services Agreement.

3.3 Termination by NCR. NCR shall have the right to terminate this Agreement according to the following terms and conditions:

(a) Breach of this Agreement by PPH where the breach is not cured within thirty (30) calendar days after NCR gives written notice of the breach to PPH or if the breach is not curable, then thirty (30) calendar days after NCR gives written notice of the breach to PPH;

(b) NCR is rendered legally unable to comply with the terms of this Agreement for any reason, in which case termination shall be coterminous with the date of such legal inability; or

(c) Upon ninety (90) calendar days written notice without cause to PPH in all other cases.

3.4 **Termination or Modification in the Event of Government Action.** If the Parties receive notice of any Government Action (defined below), the Parties shall attempt to amend this Agreement in order to comply with the Government Action. If the Parties, acting in good faith, are unable to agree to the amendments necessary to comply with the Government Action, or, alternatively, if either Party determines in good faith that compliance with the Government Action is impossible or infeasible, this Agreement shall be terminated ten days after one party gives notice to the other of such fact. For the purposes of this Section, "Government Action" shall mean any legislation, regulation, rule or procedure passed, adopted or implemented by any federal, state or local government or legislative body or any private agency, or any notice of a decision, interpretation, finding, or action by any governmental or private agency, court or other third-party which, in the opinion of counsel to PPH, because of the arrangement between the Parties pursuant to this Agreement, if or when implemented, would:

(a) revoke or jeopardize the status of any health facility license granted to PPH or any Affiliate (defined below) of PPH;

(b) prevent NCR from being able to access and use the facilities of PPH or any Affiliate of PPH; or

(c) subject PPH, any Affiliate of PPH, NCR, or any of their respective employees or agents, to civil or criminal prosecution (including any excise tax penalty under Internal Revenue Code Section 4958) on the basis of their participation in executing this Agreement or performing their respective obligations under this Agreement.

(d) For the purposes of this Section, "Affiliate" shall mean any entity which, directly or indirectly, controls, is controlled by or is under common control with PPH.

3.5 **Rights upon Termination.** Upon any termination or expiration of this Agreement, all rights and obligations of the Parties shall cease except those rights and obligations that have accrued or expressly survive such termination or expiration. Notwithstanding the above, upon termination of this Agreement by PPH and NCR pursuant to Sections 3.2 and 3.3, respectively, of this Agreement, the outstanding principal amount of the Advances and all accrued but unpaid interest shall automatically become due and payable.

ARTICLE IV.
GENERAL PROVISIONS

4.1 **Independent Contractor.** NCR is and shall at all times be an independent contractor with respect to PPH in meeting NCR's responsibilities under this Agreement. Nothing in this Agreement is intended nor shall be construed to create a partnership, employer-employee or joint venture relationship between PPH and NCR.

4.2 Compliance with HIPAA. PPH and NCR shall comply with the HIPAA requirements as defined and set forth in Exhibit 4.2. The HIPAA requirements shall survive the expiration or termination of this Agreement for any reason.

4.3 Amendment. This Agreement may be modified or amended only by mutual written agreement of the Parties. Any such modification or amendment must be in writing, dated, signed by the Parties and attached to this Agreement.

4.4 Dispute Resolution. In the event of any disagreement, dispute or claim (collectively, a "Dispute") arises between the Parties hereto with respect to whether an alleged breach hereof has or has not occurred, or with respect to any other matter related to or arising out of this Agreement, or the relationship or transactions contemplated hereby, the Dispute shall be resolved in accordance with the following procedures:

(a) Meet and Confer. In the event of a Dispute, either Party may give written notice to the other Party setting forth the nature of the Dispute (the "Dispute Notice"). The Parties shall meet and confer to discuss in good faith and attempt to resolve the Dispute within fifteen (15) days of the Party receiving the Dispute Notice. The representatives of the Parties shall meet at such date(s) and time(s) as are mutually convenient to the representatives of each Party within the fifteen (15) day period.

(b) Arbitration. Except as set forth below, any Dispute that cannot be resolved by the Parties under Section 8.4(a) within the thirty (30) day meet-and-confer period, shall be submitted to final binding arbitration, as follows:

(i) *Designation of an Arbitrator*. A single disinterested third party shall be selected by mutual agreement of the Parties. If the Parties are unable to mutually select an arbitrator within (15) days after each party notifies the other of its desire to arbitrate the Dispute, then the arbitrator shall be selected, and the arbitration shall be conducted, in accordance with JAMS's then-current Comprehensive Arbitration Rules and Procedures or Streamlined–Rules of Practice and Procedure, as appropriate, depending on the amount in dispute.

(ii) *Venue*. The arbitration shall be conducted in the County of San Diego, California, unless the Parties mutually determine that another venue would be more convenient.

(iii) *Arbitrator's Expenses and Fees.* JAMS' administrative fees and the expenses and fees of the arbitrator shall be divided among the Parties equally. Each Party shall pay its own counsel fees, witness fees, and other expenses incurred.

4.5 Assignment. Except for assignment by PPH to an entity owned, controlled by, or under common control with PPH, neither Party may assign any interest or obligation under this Agreement without the other Party's prior written consent. Subject to the foregoing, this Agreement shall be binding on and shall inure to the benefit of the Parties and their respective successors and assigns.

4.6 Attorneys' Fees. If either Party brings an action for any relief or collection against the other Party, declaratory or otherwise, arising out of the arrangement described in this Agreement, the losing Party shall pay to the prevailing Party a reasonable sum for attorneys' fees and costs actually incurred in bringing such action, all of which shall be deemed to have accrued upon the commencement of such action and shall be paid whether or not such action is prosecuted to judgment. Any judgment or order entered in such action shall contain a specific provision providing for the recovery of attorneys' fees and costs incurred in enforcing such judgment. For the purpose of this Section, attorneys' fees shall include fees incurred in connection with discovery, post judgment motions, contempt proceedings, garnishment and levy.

4.7 Authorized Persons. Whenever any consent, approval or determination of a Party is required pursuant to this Agreement, the consent, approval or determination shall be rendered on behalf of the Party by the person or persons duly authorized to do so, which the other Party shall be justified in assuming means any officer of the Party rendering such consent, approval or determination, or the Party's board of directors.

4.8 Choice of Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California, except choice of law rules that would require the application of the laws of any other jurisdiction.

4.9 Compliance with Laws. NCR shall comply with applicable laws, ordinances, codes and regulations of federal, state and local governments, including laws that require NCR to disclose any economic interest or relationship with PPH.

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

4.11 Entire Agreement. This Agreement is the entire understanding and agreement of the Parties regarding its subject matter, and supersedes any prior oral or written agreements, representations, understandings, discussions or past practices between the Parties. No other understanding between the Parties shall be binding on them unless set forth in writing, signed and attached to this Agreement.

4.12 Exhibits. The attached exhibits, together with all documents incorporated by reference in the exhibits, form an integral part of this Agreement and are incorporated into this Agreement wherever reference is made to them to the same extent as if they were set out in full at the point at which such reference is made.

4.13 Force Majeure. Except with respect to obligations imposed with regard to payments to be paid by NCR under this Agreement, neither Party is liable 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 reasons outside such Party's control, including acts of God, war (declared or undeclared), action of any governmental authority, riots, revolutions, fire, floods, explosions, sabotage, nuclear incidents, lightning, weather, earthquakes, storms, sinkholes, epidemics, failure of utilities, or strikes (or similar nonperformance or defective performance or late performance of employees, suppliers or subcontractors).

4.14 Further Assurances; Good Faith. Each Party shall, at the reasonable request of the other Party, execute and deliver to the other party all further instruments, assignments, assurances and other documents, and take any actions as the other Party reasonably requests in connection with the carrying out of this Agreement. In performing its obligations under this Agreement, each Party shall act in good faith.

4.15 Indemnification. To the extent that such acts or omissions are not covered by insurance, each Party shall indemnify, hold harmless and defend the other Party and its officers, agents or employees, against any loss or liability arising out of or resulting in any way from the acts or omissions of such Party or its own officers, employees or agents, except that any such obligation to indemnify and hold harmless shall be reduced by any amount of such loss or liability arising from the contributory acts or omissions of the indemnified Party and its owners, employees or agents. This obligation shall not be qualified or eliminated by an allegation or finding that the other Party or any of its personnel is responsible for a passively negligent act or omission. This section shall survive the termination of this Agreement.

4.16 Headings. The headings in this Agreement are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

4.17 Interruption of Services. Notwithstanding any provision in this Agreement to the contrary, PPH shall not be liable to NCR in damages or otherwise for any failure to advance any funds contemplated by this Agreement. This Agreement contemplates a close operating relationship between PPH and NCR that will exist over a long period of time. Accordingly, in approving this Agreement and directing its officers to enter into this Agreement on its behalf, the Parties shall mutually review the performance of both Parties to this Agreement, identifying deficiencies in the performance of either or both Parties to this Agreement, developing (as necessary) a plan for addressing any such deficiencies, discussing potential modifications to the terms and conditions of this Agreement and the responsibilities of the Parties as set forth herein reviewing the outstanding principal amount of Advances, including all accrued but unpaid interest thereon, made pursuant to this Agreement and addressing repayment of such amounts**,** and at the appropriate time addressing a plan for NCR to attain self-sufficiency.

4.18 Notices. All notices or communications required or permitted under this Agreement shall be given in writing and delivered personally or sent by United States registered or certified mail with postage prepaid and return receipt requested or by overnight delivery service (*e.g.*, Federal Express, DHL). Notice is deemed given when sent, if sent as specified in this Section, or otherwise deemed given when received. In each case, notice shall be delivered or sent to:

If to PPH, addressed to:	**With a copy to:**	**If to NCR, addressed to:**
Palomar Pomerado Health	Palomar Pomerado Health	______________________
456 E. Grand Avenue	15255 Innovation Drive	______________________
Escondido, CA 92025	San Diego, CA 92128	______________________
Attn: CFO	Attn: General Counsel	______________________

Either Party may provide for a different address by notifying the other Party of such change as provided for in this Section.

4.19 Severability. If any provision of this Agreement is determined to be illegal or unenforceable, that provision shall be severed from this Agreement, and such severance shall have no effect upon the enforceability of the remainder of this Agreement unless the purpose of this Agreement is thereby destroyed.

4.20 No Third-Party Beneficiary Rights. The Parties do not intend to confer and this Agreement shall not be construed to confer any rights or benefits to any person, firm, group, corporation or entity other than the Parties, including but not limited to the Personnel.

4.21 Waiver. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. Any waiver granted by a Party must be in writing to be effective, and shall apply solely to the specific instance expressly stated.

4.22 Meaning of Certain Words. Wherever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine, or neuter forms, and the singular form of nouns shall include the plural and vice versa.

The Parties have executed this Agreement on the date written below (the "Execution Date").

PALOMAR POMERADO HEALTH,
a California local health care district

Date:______________, 2009
By:____
Its:____

NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC.

Date: _____________, 2009
By:____
Its:____

EXHIBIT 1.4

NOTICE OF BORROWING

[LETTERHEAD OF NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC.]

[Address of North County Radiology Medical Group, Inc.]
___________ __, 2009

Re: Notice of Borrowing

To Whom It May Concern:

Please take notice that North County Radiology Medical Group, Inc. ("NCR"), desires to borrow an Advance of _______________ Dollars ($_________) from Palomar Pomerado Health, a local health care district organized under the laws of the State of California ("PPH"), on ___________ __, 2009 (the "Funding Date"). Advance requests exceeding One Hundred Thousand Dollars ($100,000.00) must be accompanied by signatures from PPH's Chief Executive Officer and Chief Financial Officer and NCR's President and Treasurer.

NCR hereby certifies that as of the date of this Notice:

(a) all of NCR's representations and warranties contained in the Professional Services Agreement (the "Agreement") and all exhibits to the Agreement shall be true, correct and complete in all material respects to the same extent as though made on and as of that date;

(b) NCR shall not be in default of the Agreement, nor shall any default occur, continue, or result from, making the Advance;

(c) no law or regulation of general application shall prohibit, nor any order, judgment or decree of any court, arbitrator or governmental authority specifically naming NCR and known to NCR, shall purport to enjoin or restrain PPH from making the Advance; and

(d) no change having a material adverse effect on NCR (as such term is defined in the Agreement), either individually or in the aggregate, shall have occurred since the Execution Date.

Sincerely,

____
Name: _______________________________
Title: _______________________________

As Approved By

PALOMAR POMERADO HEALTH,
a California health care district

Date: ______________ ____
By:
Its: Chief Executive Officer

PALOMAR POMERADO HEALTH,
a California health care district

Date: ______________ ____
By:
Its: Chief Financial Officer

NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC.

Date: ______________ ____
By:
Its: President

NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC.

Date: ______________ ____
By:
Its: Treasurer

EXHIBIT 2.1(a)

PROMISSORY NOTE

San Diego County

Not to Exceed $1,330,000.00 ________ __, 2009

FOR VALUE RECEIVED, North County Radiology Medical Group, Inc. ("NCR"), promises to pay to the order of Palomar Pomerado Health, a local health care district organized under the laws of the State of California ("PPH"), the principal sum equal to the outstanding amount of Advances paid to NCR pursuant to the Professional Services Agreement by and between NCR and PPH dated as of January 1, 2009 (the "Professional Services Agreement"). Unless otherwise defined in this Promissory Note (the "Note"), each capitalized term shall have the meaning given in the Management Services Agreement. The outstanding principal amount of the Advances provided to NCR pursuant to the Management Services Agreement (the "Principal") shall not exceed One Million Three Hundred Thirty Thousand Dollars ($1,330,000.00).

1. Advances of Principal; Interest.

(a) NCR hereby promises to pay to the order of PPH, at such place as PPH may from time to time designate in writing, in lawful money of the United States of America, the Principal and accrued interest thereon.

(b) Interest shall accrue on the Advances at a rate equal to two percent (2%) above the Prime Interest Rate at October 1, 2009 (the "Interest Rate"), computed annually on the basis of a 360-day year, and the number of days elapsed from the date each Advance is deposited into NCR's Account until the outstanding Advances are repaid. Accrued interest shall be paid monthly in arrears on the first Business Day of each month. The interest rate shall be adjusted quarterly to reflect changes in the prime rate. The first (1st) Advance shall fix the prime rate for that calendar quarter. Any subsequent Advance in that quarter shall be assigned the same prime rate. Notwithstanding any other provision of this Agreement, the Interest Rate shall not exceed the maximum rate permitted by applicable law (the "Permitted Rate"). If any payments in the nature of interest exceed the Permitted Rate, as finally determined by a court of competent jurisdiction, any such amount in excess shall be considered payment of Principal and the Principal outstanding shall be reduced accordingly.

2. Repayment.

(a) Notwithstanding any other provisions of this Note, Principal , accrued interest, and other applicable fees, costs and charges ("Costs"), if any, owing on this Note shall be payable as follows:

(b) Repayment. Principal and accrued interest thereon shall be payable commencing October 1, 2009, in fifty (50) equal monthly installments sufficient to fully amortize the unpaid balance of this Note. Principal and accrued interest thereon shall be payable on the first (1st) Business Day of each successive calendar month beginning on the Credit Line

Expiration Date and continuing until the earlier of (i) the date on which the Principal and all accrued interest thereon, and all Costs, if any, are paid in full, or (ii) the Maturity Date (as defined below). In all events, and subject to the remaining provisions of this Section 2, the entire then-outstanding balance of Principal and all accrued, unpaid interest thereon, and all Costs, if any, shall be due and payable by lopment to PPH no later than the Maturity Date, the "Maturity Date" shall mean the date that is sixty (60) months from the Credit Line Expiration Date

(c) Application of Payments. Unless otherwise agreed in writing in advance by PPH, each payment or forgiveness with respect to this Note shall be credited as follows: first, against NCR Expenses; second, against accrued and unpaid interest then due and owing; and third, against the Principal outstanding.

(d) Prepayment. NCR shall have the right to prepay the Principal outstanding in whole or in part without penalty. Any partial prepayment shall be applied against the Principal outstanding and shall not postpone the due date or alter the amount of any subsequent monthly installment. Any amounts prepaid prior to the Credit Line Expiration Date may be reborrowed.

3. Events of Default. The termination for any reason of the Professional Services Agreement or the occurrence of any Event of Default of the Management Services Agreement shall constitute an event of default ("Event of Default") under this Note.

4. Acceleration. If either an Event of Default (as defined in Exhibit 2.1(b) of this Agreement) occurs, or if this Agreement is terminated by either PPH or NCR pursuant to Section**s** 3.2 and 3.3, respectively, of the Agreement, PPH may, at its option, declare the entire Principal outstanding, together with accrued interest and all other NCR Expenses immediately due and payable to PPH; and PPH shall have all rights, powers and remedies available under the Line of Credit Documents, or accorded by law to a beneficiary or a secured party, including the right to resort to any or all of the Collateral or any other security for any of the obligations of NCR. PPH may exercise its rights and remedies with respect to the Collateral without resorting or regard to other security or sources for payment. All rights, powers and remedies of PPH in connection with each of the Line of Credit Documents may be exercised at any time by PPH, and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

5. Termination. Upon the occurrence of an Event of Default or upon termination of the Agreement by PPH or NCR pursuant to Section**s** 3.2 **a**nd 3.3, respectively, of the Agreement, the outstanding principal amount of the Advances, all accrued but unpaid interest and all other obligations of NCR under the Agreement may automatically become, or may be declared to be, due and payable in the manner, upon the conditions and with the effect provided in the Agreement.

6. Costs of Collection. If PPH exercises its acceleration rights pursuant to this Note, in addition to the Principal outstanding and accrued interest thereon, PPH shall entitled to collect all costs of collection, including reasonable attorneys' fees incurred in connection with the protection or realization of collateral and PPH's reasonable collection efforts, whether or not suit on this Note or any foreclosure proceeding is filed. Any and all such costs and expenses shall be payable on demand and secured by the Security Agreement.

7. **Continuing Liability.** Following the occurrence of an Event of Default, NCR's liability under this Note shall not be affected by PPH's pursuit or non-pursuit of any one or more of its rights, powers or remedies (including, without limitation, its option to accelerate the payment of this Note), regardless of the order in which or the extent to which PPH may pursue any of such rights, powers or remedies, it being understood that the liability of NCR shall cease only upon satisfaction in full of all of NCR's obligations arising under this Note and the Professional Services Agreement.

8. **No Waiver.** No failure on the part of PPH to exercise any right or remedy under this Note, whether before or after a default, shall constitute a waiver of such right or remedy, and no waiver of any past default shall constitute waiver of any future default. No acceptance of a past due installment or other indulgence granted for time to time shall constitute a waiver of the right to insist upon prompt payment, be deemed to be a novation of this Note or as a reinstatement of the debt evidenced by this Note, or be construed to preclude the exercise of any right which PPH may have under law, by agreement or otherwise. PPH and each endorser or guarantor hereby expressly waive the benefit of any statute or rule of law or equity which would produce a result contrary to or in conflict with the foregoing. NCR and endorsers of this Note consent to renewals and extensions of time at or after the maturity hereof, without notice, and hereby waive diligence, presentment, protest, demand and notice of every kind and, to the full extent permitted by law, the right to plead any statute of limitations as a defense to any demand under this Note.

9. **Waiver of Notice.** NCR and each endorser or guarantor of this Note hereby (i) waives presentment, demand, protest and notice of presentment, notice of protest and notice of dishonor of this debt and any other notice respecting this Note, and (ii) agrees that PPH, at any time without notice to such party or such party's consent, may grant extensions of time, without limit as to the number or the aggregate period of such extensions, for the payment of any Principal of or interest accrued thereon.

10. **Choice of Law.** This Note shall be construed in accordance with and governed by the laws of the State of California, without giving effect to any choice of law or conflict of law rules or provisions that would cause the application of the laws of any jurisdiction other than the State. NCR and each endorser or guarantor hereby submit to jurisdiction in said State for the enforcement of NCR's obligations under this Note and all other Line of Credit Documents, and waive any and all rights under the laws of any other state to object to jurisdiction within such State.

11. **Amendments.** This Note may be modified or amended only by mutual written agreement of the Parties. Any such modification or amendment must be in writing, dated, signed by the Parties and attached to this Note.

12. **Assignment.** NCR shall not assign, sell, transfer or delegate any of the NCR's rights or duties under this Note without the prior written consent of PPH. PPH may assign its rights and delegate its duties under this Note upon written notice to NCR.

13. Notices. Any notice required or permitted to be given in this Note shall be given in accordance with the notices provision of the Professional Services Agreement.

14. Security. This Note is secured by a first priority security interest granted by NCR to PPH in the Collateral described in that certain Security Agreement of even date herewith (the "Security Agreement") by and between NCR and PPH. All of the provisions contained in the Security Agreement are hereby made a part of this Note to the same extent and with the same effect as if they were fully set forth in this Note.

15. Severability. If any provision of this Note, in whole or in part, or the application of any provision, in whole or in part, is determined to be illegal, invalid or unenforceable by a court of competent jurisdiction, such provision or part of such provision shall be severed from this Note, and such severance shall have not effect upon the enforceability, performance or obligations of the remainder of this Note, including the remainder of such provision not determined to be illegal, invalid or unenforceable.

16. Successors and Assigns. The provisions of this Note shall inure to the benefit of and shall be binding upon the heirs, assigns, successors and representatives of NCR and PPH, respectively. The term "NCR" shall mean NCR and each heir, successor, assign, and representative of NCR as obligor of this Note. The term "PPH" shall mean PPH and each successor, assign, and representative of PPH as payee or holder of this Note.

NCR has executed and delivered this Note as of the date and at the place first above written.

North County Radiology Medical Group, Inc.

____
By:______________________________________
Its: ______________________________________

ATTACHMENT TO EXHIBIT 2.1(a)

SCHEDULE OF ADVANCES

Date	Advance	Current LIBOR Rate	Prepayment or Repayment	Outstanding Balance

EXHIBIT 2.1(b)

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Security Agreement"), executed and delivered as of January __, 2009, by NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC., ("Debtor"), for the benefit of PALOMAR POMERADO HEALTH, a local health care district organized under the laws of the State of California ("Secured Party").

RECITALS

A. Debtor and Secured Party desire to enter into this Security Agreement to grant a security interest to Secured Party in the Collateral, as hereinafter defined, to secure the performance of the obligations and duties of Debtor under the Agreement.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I.
COLLATERAL AND SECURITY INTEREST

1.1 Collateral and Grant of Security Interest. Debtor hereby grants to Secured Party a security interest of first priority in the Collateral, as described in Attachment A, to secure the payment and performance of all indebtedness, liabilities and obligations of Debtor to Secured Party under the Agreement and repayment of the principal amount of the Advances (as defined in Section 3.2 of the Agreement) and accrued interest thereon. The security interest created by this Security Agreement shall attach immediately on execution of this Security Agreement by Debtor.

1.2 Perfection and Priority. Debtor shall take all action necessary to perfect the security interest granted to Secured Party in Section 1.1 of this Security Agreement. Secured Party's security interest in the Collateral is, and will continue to be, a first priority security interest which is free and clear of all liens, claims, security interest and encumbrances, except with respect to any liens, claims, security interest and encumbrances granted by statute or pursuant to any other agreement executed by and between Secured Party and Debtor. Secured Party shall have no duty to collect or protect the Collateral, nor to preserve rights against prior parties or any other rights pertaining to the Collateral. Secured Party shall perfect its security interest in the Account (as defined in Section 1.5 herein) by sending to the appropriate financial institution a letter in the form of Attachment B.

1.3 Further Assurances. Debtor shall, from time to time, at Debtor's expense, execute and file any financing or continuation statements, or amendments thereto, and other instruments, endorsements or notices, and take other actions, reasonably necessary or as Secured Party reasonably requests, in order to perfect and preserve the assignments and security interests granted or purported to be granted by this Security Agreement. Debtor authorizes Secured Party to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without Debtor's signature where permitted by law. Copies of any such statement or amendment shall promptly be delivered to Debtor. Debtor shall notify Secured Party of any change in Debtor's name, identity or corporate structure at least fifteen (15) days prior to any such change.

1.4 Principal Place of Business. Debtor's principal place of operation, where Debtor shall keep records regarding the Collateral, is located at ________________, Escondido, CA 92025. Debtor shall not relocate Debtor's principal place of operation without providing at least sixty (60)-days prior written notice to Secured Party.

1.5 Business Deposit Account. Debtor shall establish and maintain business deposit accounts ("Accounts") with Bank of America, or such other financial institution as is mutually selected and approved in writing by Debtor and Secured Party (the "Depository Bank"). Debtor shall promptly deposit all donations and grants received by Debtor into the Account. If any Event of Default occurs, Secured Party may, by written notice to the Depository Bank, terminate Debtor's right to make any withdrawal from the Account and exercise any other right under this Agreement, at law, equity or otherwise applicable to the proceeds of the Account.

ARTICLE II.
REPRESENTATIONS AND WARRANTIES

Debtor makes the following representations and warranties to Secured Party, which shall be true and correct on and as of the date of this Agreement:

2.1 Authorization and Validity. This Security Agreement, and any other document, contract or instrument delivered to Secured Party in connection with this Security Agreement have been duly authorized by Debtor, and are legal, valid and binding agreements and obligations of Debtor, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.

2.2 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of Debtor is required in connection with the consummation of the transactions contemplated by this Security Agreement.

2.3 No Violation. The execution, delivery and performance by Debtor of this Security Agreement, and any other document, contract or instrument delivered to Secured Party in connection with this Security Agreement, do not violate any provision of any law or regulation or result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which Debtor is a party or by which Debtor may be bound, except for any such breach or default which has been duly waived or consented to by all necessary parties.

2.4 No Events of Default. Debtor is not in default under any debt or obligation of Debtor and no event has occurred which would become an event of default under any such debt or obligation with or without the giving of notice, the lapse of time, or both.

2.5 Collateral. Debtor owns the property granted by it as Collateral to Secured Party free and clear of any and all liens, claims, charges, pledges, security interests, deeds of trust, mortgages and other encumbrances in favor of third parties, or any other arrangements having the practical effect of the foregoing, or preferential arrangements of any other kind.

2.6 No Litigation. There is no action, proceeding or investigation pending or threatened, or any basis therefore known to Debtor that questions the validity of this Security Agreement or the right of Debtor to enter into this Security Agreement, or that would have, either individually or in the aggregate, a Material Adverse Effect. "Material Adverse Effect" shall mean a material adverse effect upon Debtor's purpose, function, operation or status or upon Secured Party's security interest in the Collateral. There is no judgment, decree or order of any court in effect against Debtor and Debtor is not in default with respect to any order of any governmental authority to which Debtor is a party or by which Debtor is bound.

2.7 Existence and Authority. Debtor is a public benefit corporation duly organized and validly existing in good standing under the laws of the State of California. Debtor has the power and authority, rights and franchises to own its properties and to carry on its operations as now conducted. Debtor has the power and authority to make and carry out this Security Agreement.

ARTICLE III.
COVENANTS OF DEBTOR

Debtor covenants that so long as any indebtedness, liabilities and obligations (whether direct or contingent, liquidated or unliquidated) of Debtor to Secured Party under the Agreement (including payment of NCR Expenses or repayment of the principal amount of the Advances and accrued interest thereon) remain outstanding, and until payment and performance in full of all obligations of Debtor under this Security Agreement:

3.1 Compliance with Laws. Debtor shall comply with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Debtor or its operation.

3.2 Performance and Compliance with Other Agreements. Debtor shall perform and comply in all material respects with each of the provisions of each material indenture, contract and other agreement by which Debtor or any of its properties is bound.

3.3 Taxes and Other Liabilities. Debtor shall pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal and including federal and state income taxes, which in the aggregate the nonpayment of which would have a Material Adverse Effect, except such as Debtor may in good faith contest or as to which a bona fide dispute may arise, so long as provision is made to the satisfaction of Secured Party for eventual payment thereof if it is found that payment is an obligation of Debtor.

3.4 Notices to Secured Party. Within ten (10) days after Debtor has actual knowledge of the occurrence of each such event or matter, Debtor shall give written notice to Secured Party of: (i) the occurrence of any Event of Default (defined below), or any condition, event or act which would become an Event of Default with or without the giving of notice; or (ii) the commencement, or threatened commencement (of which Debtor has received written notice) of any litigation, arbitration or other proceeding against Debtor involving a reasonably potential liability.

3.5 Records and Reports. Debtor shall maintain books and records pertaining to the Collateral in such detail, form and scope as is consistent with good business practice, ensure that such books and records reflect Secured Party's interest in the Collateral, and permit Secured Party or its agents to enter upon the premises of Debtor at any time and from time to time, during normal business hours and upon reasonable notice under the circumstances, and at any time at all on and after the occurrence of an Event of Default, for the purposes of inspecting and verifying the Collateral, and inspecting and/or copying (at Debtor's expense) any and all records pertaining to the Collateral.

3.6 Change in Collateral. Debtor shall not transfer or otherwise dispose of or encumber all or any part of the Collateral, without Secured Party's prior written consent; provided, however, that in the absence of an Event of Default under this Agreement Debtor shall be entitled to utilize the Collateral in the ordinary course of business for the payment of the debts and obligations of Debtor in accordance with the terms set forth in the Agreement and any agreements, documents and exhibits incorporated in or ancillary to the Agreement. Debtor shall give Secured Party thirty (30) days' prior written notice of any proposed change in the location of any Collateral or in the location of Debtor's place of operation, advise Secured Party promptly, in sufficient detail, of any change relating to the type, quantity or quality of the Collateral, or any event which could have an adverse effect on the value of the Collateral or on the security interests granted to Secured Party in the Collateral, and defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest in the Collateral.

3.7 Guaranties. Debtor shall not agree to any guarantee or liability or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Debtor as security for, any liabilities or obligations of any other person or entity, without Secured Party's prior written consent.

3.8 Change in Purpose and Operation. Debtor shall not make any substantial change in the present character of Debtor's purpose and operation, without Secured Party's prior written consent.

ARTICLE IV.
EVENTS OF DEFAULT

4.1 Events of Default. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Failure, breach or default in the performance of the obligations and duties of Debtor under the Agreement including the payment of NCR Expenses or repayment of the Advances as provided in Section 3.6 of the Agreement;

(b) Debtor fails to perform or satisfy when due any obligation, agreement, covenant or condition contained in this Security Agreement, and with respect to any such default which by its nature can be cured, such default continues for a period of thirty (30) days from its occurrence;

(c) Any representation or warranty made by Debtor in connection with this Security Agreement or the Agreement proves to be false, incorrect or incomplete in any material respect when furnished or made;

(d) Any levy upon, seizure or attachment of any of the Collateral, or any other event or circumstance pursuant to which Secured Party ceases to have a valid and perfected first priority security interest in the Collateral;

(e) Debtor admits in writing its inability to pay its debts as they mature, or commences any voluntary proceedings under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or other similar law of any jurisdiction;

(f) Any application or proceeding described in (d) above is filed or commenced against Debtor, and Debtor indicates its approval, consent or acquiescence thereto, or an order is entered adjudicating Debtor bankrupt or insolvent and such order remains in effect for thirty (30) days;

(g) Debtor transfers all or substantially all of its properties to, or merges with or into, any other entity; or

(i) Any change having a Material Adverse Effect on Debtor, or any other event or condition which Secured Party reasonably and in good faith believes impairs, or is substantially likely to impair either: (i) the prospect of payment or performance by Debtor of its obligations under this Security Agreement or the Agreement; or (ii) the rights and remedies of Secured Party under this Security Agreement or the Agreement.

4.2 Remedies. If an Event of Default occurs, Secured Party shall have all rights, powers and remedies available under this Security Agreement or the Agreement, or accorded by law to a beneficiary or a secured party, including the right to resort to any or all of the Collateral or any other security for any of the obligations of Debtor. Secured Party may exercise its rights and remedies with respect to the Collateral without resorting or regard to other security or sources for payment. All rights, powers and remedies of Secured Party in connection with this Security Agreement or the Agreement may be exercised at any time by Secured Party, and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

4.3 Action on Collateral. If any Event of Default occurs and continues, Secured Party may exercise with respect to the Collateral: (a) all the rights and remedies of a secured party on default under the Uniform Commercial Code of the State of California (the "Code") (whether or not the Code applies to the affected Collateral); (b) all of the rights and remedies provided for in this Security Agreement or the Agreement; and (c) such other rights and remedies as may be provided by law or otherwise.

4.4 Waiver. Debtor waives (to the extent permitted by applicable law): (a) notice of the acceptance of this Security Agreement and all other notices, demands or protests to which

Debtor might otherwise be entitled by law in respect to this Security Agreement, all other Line of Credit Documents or the Collateral; and (b) all rights of redemption, stay and/or appraisal which Debtor now has or may at any time in the future have under any rule of law or statue now existing or hereafter enacted.

ARTICLE V.
GENERAL PROVISIONS

5.1 Amendment. This Security Agreement may be modified or amended only by mutual written agreement of the Parties. Any such modification or amendment must be in writing, dated, signed by the Parties and attached to this Security Agreement.

5.2 Dispute Resolution. In the event of any controversy or dispute related to or arising out of this Security Agreement, the Parties agree to meet and confer in good faith to attempt to resolve the controversy or dispute without an adversary proceeding. If the controversy or dispute is not resolved to the mutual satisfaction of the Parties within five (5) business days of notice of the controversy or dispute, the Parties agree to waive their rights, if any, to a jury trial, and to submit the controversy or dispute to a retired judge or justice pursuant to Section 638 *et seq.* of the California Code of Civil Procedure, or any successor provision, for resolution in accordance with Chapter 6 (References and Trials by Referees), of Title 8 of Part 2 of the California Code of Civil Procedure, or any successor chapter. The Parties agree that the only proper venue for the submission of claims is the County of San Diego, California, and that the hearing before the referee shall be concluded within nine (9) months of the filing and service of the complaint. The Parties reserve the right to contest the referee's decision and to appeal from any award or order of any court.

5.3 Assignment. This Security Agreement shall be binding on and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the Parties; provided, however, that Debtor may not assign or transfer its interest or obligations under this Security Agreement without the prior written consent of Secured Party. Secured Party reserves the right to sell, assign, transfer, negotiate or grant participation in all or any part of, or any interest in, Secured Party's rights and benefits under this Security Agreement, the Note and any other Line of Credit Document.

5.4 Attorneys' Fees, Costs and Expenses. Debtor shall hold Secured Party harmless from, and pay to Secured Party immediately upon demand, the full amount of all costs and expenses, including reasonable attorneys' fees, incurred by Secured Party in connection with: (i) Secured Party's administration of this Security Agreement or the Agreement (including any costs or other expenses incurred in establishing or maintaining the Collateral); (ii) the enforcement of Secured Party's rights and/or the collection of any amounts which become due to Secured Party under the Agreement (including in connection with any bankruptcy, reorganization, or similar circumstance or proceeding); and (iii) the prosecution or defense of any claim, or action in any way arising out of or related to this Security Agreement, the Agreement or the transactions contemplated thereby, including without limitation any action for declaratory relief. Any judgment or order entered in such action shall contain a specific provision providing for the recovery of attorneys' fees and costs incurred in enforcing such judgment. For the purpose of this Agreement, "attorneys' fees" shall include fees incurred in connection with post judgment motions, contempt proceedings, garnishment, levy, and debtor and third-party examinations, discovery and bankruptcy litigation.

5.5 **Choice of Law.** This Security Agreement shall be construed in accordance with and governed by the laws of the State of California, except choice of law rules that would require the application of the laws of any other jurisdiction.

5.6 **Compliance with Laws.** Debtor shall comply with all applicable laws, ordinances, codes and regulations of federal, state and local governments, including without limitation laws that require Debtor to disclose any economic interest or relationship with Secured Party.

5.7 **Confidentiality.** Neither Party shall disclose this Security Agreement or any of its terms to any person or entity, other than its attorneys and accountants, without the prior written consent of the other Party, unless and only to the extent such disclosure is required by law.

5.8 **Counterparts.** This Security Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

5.9 **Entire Agreement.** This Security Agreement (including all agreements incorporated herein by referenced or mentioned herein) together with the Agreement constitutes the entire understanding and agreement of the Parties regarding its subject matter, and supersedes any prior oral or written agreements, representations, understandings or discussions between the Parties. No other understanding between the Parties shall be binding on them unless set forth in writing, signed and attached to this Security Agreement.

5.10 **Exhibits.** The attached exhibits, together with all documents incorporated by reference in the exhibits, form an integral part of this Security Agreement and are incorporated into this Security Agreement wherever reference is made to them to the same extent as if they were set out in full at the point at which such reference is made.

5.11 **Force Majeure.** Neither Party is liable for nonperformance or defective or late performance of any of its obligations under this Security Agreement to the extent and for such periods of time as such nonperformance, defective performance or late performance is due to reasons outside such Party's control, including acts of God, war (declared or undeclared), action of any governmental authority, riots, revolutions, fire, floods, explosions, sabotage, nuclear incidents, lightning, weather, earthquakes, storms, sinkholes, epidemics, or strikes (or similar nonperformance or defective performance or late performance of employees, suppliers or subcontractors).

5.12 **Headings.** The headings in this Security Agreement are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Security Agreement.

5.13 **Notices.** All notices or communications required or permitted under this Security Agreement shall be given in writing and delivered personally, sent by United States registered or certified mail with postage prepaid and return receipt requested or by overnight delivery service (*e.g.*, Federal Express). In each case, notice shall be delivered or sent to the address set forth for Debtor or Secured Party, as applicable, in the Agreement. Notice is deemed given when sent, if sent as specified in this paragraph, or otherwise deemed given when received.

5.14 Severability. If any provision of this Security Agreement is determined to be illegal or unenforceable, that provision shall be severed from this Security Agreement, and such severance shall have no effect upon the enforceability of the remainder of this Security Agreement, unless the purposes of this Security Agreement is thereby destroyed.

5.15 No Third-Party Beneficiary Rights. The Parties do not intend to confer and this Security Agreement shall not be construed to confer any rights or benefits to any person, firm, group, corporation or entity other than the Parties.

5.16 Termination. This Security Agreement and the security interest in Collateral created hereby shall terminate after payment and performance in full of all obligations arising under the Agreement. Upon such termination, the Collateral shall be released from the security interest hereby created, and Secured Party will execute and deliver to Debtor such documents as Debtor shall reasonably request to evidence such release.

5.17 Waiver. No delay, failure or discontinuance of Secured Party in exercising any right, power or remedy under this Security Agreement or the Agreement shall constitute a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Secured Party of any breach of or default under this Security Agreement or the Agreement must be in writing and shall be effective only to the extent expressly set forth in such writing.

Secured Party and Debtor have executed this Security Agreement on the date first above written.

SECURED PARTY

PALOMAR POMERADO HEALTH,
a local California health care district

____
By:___________________________
Its:___________________________

DEBTOR

NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC.

____
By:___________________________
Its:___________________________

ATTACHMENT A TO EXHIBIT 2.1(b)

DESCRIPTION OF COLLATERAL

Except to the extent the granting of a security interest is limited by application of law with respect to payments from governmental entities, all present and future right, title and interest of Debtor in and to: (a) accounts receivable from any and all professional services rendered pursuant to the Professional Services Agreement; (b) furniture, fixtures and equipment; (c) all monies from time to time on deposit in Debtor's business bank accounts as established in accordance with this Agreement and the Professional Services Agreement; (d) documents; (e) insurance proceeds; (l) all books and records in respect to the foregoing; and (m) to proceeds of all the foregoing, whether now existing or hereafter acquired or arising (collectively, the "Collateral").

ATTACHMENT B TO EXHIBIT 2.1(b)

[LETTERHEAD OF PALOMAR POMERADO HEALTH]

Bank of America
1655 Grant Street Bldg A-10th Floor
Concord, CA 94520-2445

January 1, 2009

Re: Notice of Security Interest in Account

Ladies and Gentlemen:

Please take notice that PALOMAR POMERADO HEALTH, a local health care district organized under the laws of the State of California ("PPH"), holds a security interest in a business deposit account, number 14596 24521at Bank of America, maintained for NORTH COUNTY RADIOLOGY MEDICAL GROUP, INC. ("NCR").

The security interest is held pursuant to that certain Security Agreement by and between PPH and NCR, dated as of January 1, 2009, a copy of which is enclosed.

Sincerely,

____
Name:__________________________
Title:__________________________

EXHIBIT 4.2

OBLIGATIONS UNDER THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996 ("HIPAA")

PPH and NCR shall execute a Business Associate Agreement which shall set forth the terms and conditions under which Protected Health Information ("PHI") that is created or received by NCR from or on behalf of PPH will be used, disclosed and otherwise handled by NCR, consistent with the following:

1. **Use of Protected Health Information.** NCR shall use PHI only as expressly permitted by the Business Associate Agreement and for the purpose of performing its obligations under this Agreement or as otherwise required by law. NCR shall not use PHI in any manner that would constitute a violation of HIPAA if done by PPH.

2. **Permitted Disclosures.** NCR shall disclose PHI, only as expressly permitted or by the Business Associate Agreement and for the purpose of performing its obligations under this Agreement or as otherwise required by law. NCR shall not disclose PHI in any manner that would constitute a violation of the HIPAA if done by PPH.

3. **Appropriate Safeguards.** NCR shall implement appropriate safeguards as are necessary to prevent the use or disclosure of PHI other than as permitted or required by the Business Associate Agreement.

4. **Reporting of Improper Use or Disclosure.** NCR shall notify PPH in writing of any use or disclosure of PHI that is not permitted or required by the Business Associate Agreement within two (2) days of becoming aware of such use or disclosure.

5. **Agents and Subcontractors.** NCR shall require all of its subcontractors and agents that receive, use, or have access to PHI to agree to adhere to the same restrictions and conditions that apply to NCR under the Business Associate Agreement

6. **Access to Records.** NCR shall make their respective internal practices, books and records relating to the use and disclosure of PHI available to PPH for purposes of determining NCR's compliance with the Business Associate Agreement or to the Secretary of the U.S. Department of Health and Human Services for purposes of determining PPH's compliance with the Privacy Rule.

7. **Access, Amendment and Accounting.** NCR shall comply with requests by PPH regarding individuals' rights of access, amendment and to receive an accounting of the uses and disclosures of their PHI in accordance with processes and time frames which shall be set forth in the Business Associate Agreement.

8. Security Rule Compliance. NCR shall (a) implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of electronic PHI, (b) ensure that any agent or subcontractor to whom it provides any electronic PHI agrees in writing to implement similar safeguards as those required of the Business Associate Agreement, and (c) report to PPH, in writing, any security incident of which it becomes aware within two (2) days of becoming aware of such security incident.

9. Term of Obligations. NCR's obligations shall commence as of the compliance date of the effective date of this Agreement, and shall terminate when the Business Associate Agreement is terminated and all of the PHI is destroyed or returned to PPH.

10. Effect of Termination. Upon expiration or termination of this Agreement or the Business Associate Agreement for any reason, NCR shall return or destroy all PHI that NCR still maintains in any form and shall retain no copies of such PHI. If return or destruction is not feasible, as determined by PPH, NCR shall continue to extend the protections discussed above to such information, and limit further use and disclosure of such PHI to those purposes that make the return or destruction of such PHI infeasible.

11. Amendment. The parties agree to take such action as is necessary to amend the Business Associate Agreement from time to time in order for PPH to comply with the requirements of HIPAA, and other applicable laws relating to the security or confidentiality of PHI.

12. Interpretation of Obligations. The obligations as set forth above shall be interpreted as broadly as necessary to allow PPH to implement and comply with its obligations under HIPAA . The parties acknowledge and agree that any ambiguity in the obligations set forth in the Business Associate Agreement shall be resolved in favor of a meaning that permits PPH to comply with its obligations under HIPAA.

13. Definitions.

a. "Privacy Rule" shall mean the Standards for Privacy of Individually Identifiable Health Information, 45 C.F.R. Part 160 and Part 164, Subparts A and E, as amended from time to time, under HIPAA.

b. "Security Rule" shall mean the Security Standards, 45 C.F.R. Part 160 and Part 164, Subpart C, as amended from time to time, under HIPAA.

c. "HIPAA" shall mean 42 U.S.C. 1320d-1 *et seq.*, the Privacy Rule, the Security Rule, and the Standards for Electronic Transactions, 45 C.F.R. Part 160 and Part 162, all as amended from time to time.

d. All other capitalized terms used, but not otherwise defined, in the Business Associate Agreement shall have the meaning set forth in the Privacy Rule and/or Security Rule as applicable.

Palomar Pomerado Health

Consolidated Financial Statements
as of and for the Years Ended
June 30, 2008 and 2007, and
Independent Auditors' Report

PALOMAR POMERADO HEALTH

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PALOMAR POMERADO HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

This section of Palomar Pomerado Health's (PPH) annual financial report presents our analysis of PPH's financial performance for the years ended June 30, 2008 and 2007. Although the 2006 condensed consolidated balance sheet, statement of revenue, expenses, and changes in net assets, and statement of cash flows are presented in this section, they are not presented in the accompanying consolidated financial statements and notes to the consolidated financial statements. Please read this analysis in conjunction with the consolidated financial statements that follow this section.

This annual financial report includes:

- Management's Discussion and Analysis
- Independent Auditors' Report
- Consolidated Financial Statements of Palomar Pomerado Health, including notes that explain in more detail some of the information in the consolidated financial statements

PPH's consolidated financial statements report information using accounting methods required by the Governmental Accounting Standards Board (GASB) which, while similar to those used by private sector healthcare organizations, include some differences as described further in this management's discussion and analysis. These consolidated financial statements contain short-term and long-term financial information about PPH's activities.

Required Financial Statements

Consolidated Balance Sheets — The consolidated balance sheets include all of PPH's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to PPH's creditors (liabilities), and net assets — the difference between assets and liabilities — of PPH and the changes in them. The balance sheets also provide the basis for evaluating the capital structure of PPH and assessing the liquidity and financial flexibility of PPH. Subsequent to the issuance of PPH's 2006 consolidated financial statements, PPH's management determined that it had improperly classified $41,294,000 in PPH's consolidated balance sheet as of June 30, 2006. As a result, the consolidated balance sheet has been restated from amounts previously reported to properly classify such amounts as invested in capital assets, net of related debt; restricted for prepayment of debt; and unrestricted net assets. This change is considered a restatement; however, it did not result in a change in the overall net assets.

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008, 2007, AND 2006
($000s)

	2008	2007	2006
ASSETS			
Current assets	$ 217,613	$ 236,948	$ 214,291
Capital assets	379,286	272,211	208,739
Noncurrent assets	351,425	165,152	65,316
TOTAL	$ 948,324	$ 674,311	$ 488,346
LIABILITIES AND NET ASSETS			
Current liabilities	$ 102,455	$ 77,105	$ 66,589
Other long-term liabilities (long-term workers' compensation)	2,511	5,024	5,697
Fair Value of Interest Rate Swap	6,025		
Long-term debt — net of current portion	531,954	294,724	151,347
Total liabilities	642,945	376,853	223,633
Minority interest			444
Invested in capital assets — net of related debt	126,940	92,944	74,835
Restricted for repayment of debt	20,708	29,698	12,361
Restricted for capital acquisitions	14,266	13,747	13,115
Restricted for other purposes	304	296	288
Unrestricted	143,161	160,773	163,670
Total net assets	305,379	297,458	264,269
TOTAL	$ 948,324	$ 674,311	$ 488,346

2008: Analysis of the Consolidated Balance Sheets

- Current assets decreased $19,335,000 in 2008 primarily due to a decreases in investments of $34,148,000; estimated third party payor settlements of $2,580,000 and the current portion of assets whose use is limited of $7,323,000 which were offset by increases in cash of $11,213,000; assets whose use is limited – GO Bonds - of $4,613,000; accounts receivable (net) of $6,741,000 and in prepaid expenses of $1,720,000.

- Capital assets increased by $107,075,000 primarily due to purchases related to PPH's major building projects of $128,511,000 offset by net disposals of $38,000, and depreciation expense of $21,391,000.

- Noncurrent assets increased by $293,349,000 primarily due to the increase of trustee-held funds of $169,955,000; an increase in capital assets (net) of $107,075,000 and an increase in Board Designated funds of $12,117,000.

- Current liabilities increased by $25,350,000, primarily due to a $17,000,000 increase in accounts payable owed for the building project, and a $6,159,000 increase in accrued interest payable for the 2007 General Obligation bonds.

- Long-term debt increased by $234,717,000 primarily as a result of the issuance of $241,083,000 of Series 2007 General Obligation Bonds, plus the original issue premium of $5,708,000 less the principal payments on all PPH's bond issues of $13,220,000

- Net assets increased $7,921,000 primarily due to investment income, and tax revenue.

2007: Analysis of the Consolidated Balance Sheets

- Current assets increased $22,657,000 in 2007 primarily due to increases in accounts receivable (net) of $8,514,000 and the current portion of the bond trustee funds of $15,360,000.

- Capital assets increased by $63,472,000 primarily due to purchases related to PPH's major building projects of $83,071,000 offset by net disposals of $166,000 and depreciation expense of $19,453,000.

- Noncurrent assets increased by $99,836,000 primarily due to the increase of trustee-held funds of $105,745,000, less a decrease in board-designated funds of $9,268,000.

- Current liabilities increased by $10,516,000 primarily due to a $4,346,000 increase in accounts payable owed for the building project, a $3,451,000 increase in salaries and vacation payable, and an increase of $475,000 in the current portion of long-term debt.

- Long-term debt increased by $143,377,000 primarily as a result of the issuance of $180,000,000 of Series 2006 Certificates of Participation, less the principal payments on PPH's other bond issues of $12,745,000 and the refunded portion of the 1993 bond issue of $23,245,000.

- Net assets increased $33,189,000 primarily due to results of operations, investment income, and tax revenue.

Consolidated Statements of Revenue, Expenses, and Changes in Net Assets — All of PPH's revenue, expenses, and other changes in net assets are accounted for in the consolidated statements of revenue, expenses, and changes in net assets. This statement measures the success of PPH's operations during the years presented and can be used to determine whether PPH has successfully recovered all of its costs through its fees and other sources of revenue. It also shows profitability and creditworthiness. Over time, increases or decreases in PPH's net assets are one indicator of whether its financial health is improving or deteriorating.

CONDENSED CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008, 2007, AND 2006
($000s)

	2008	2007	2006
OPERATING REVENUE:			
Net patient service revenue	$ 370,661	$ 336,292	$ 312,329
Net premium revenue	38,003	40,404	41,953
Other revenue	10,904	9,299	9,835
Total operating revenue	419,568	385,995	364,117
OPERATING EXPENSES	429,010	385,356	364,120
(LOSS) INCOME FROM OPERATIONS	(9,442)	639	(3)
NONOPERATING INCOME (EXPENSES):			
Investment income	6,698	7,275	4,088
Unrealized (loss) gain on interest rate swap	(10,398)	4,373	
Interest expense	(4,514)	(3,337)	(4,406)
Property tax revenue	13,346	12,562	11,495
Property tax revenue — general obligation bonds	11,708	11,016	9,423
Other — net	252	468	384
Total non operating income — net	17,092	32,357	20,984
EXCESS OF REVENUE OVER EXPENSES	7,650	32,996	20,981
OTHER CHANGES IN NET ASSETS	271	193	22
INCREASE IN NET ASSETS	7,921	33,189	21,003
NET ASSETS — Beginning of year	297,458	264,269	243,266
NET ASSETS — End of year	$ 305,379	$ 297,458	$ 264,269
AVERAGE DAILY CENSUS	310	308	308

2008: Analysis of the Consolidated Statement of Revenue, Expenses, and Changes in Net Assets

- In accordance with generally accepted accounting principles for governmental healthcare providers, the District's consolidated statements of revenue and expenses and changes in net assets reflect the following: (1) net patient service revenues includes the provision for bad debts, which for nongovernmental hospitals is shown as an operating expense, and (2) net operating income (expenses) includes interest expense, which for nongovernmental hospitals is typically grouped as an operating expense. While these GASB requirements make district hospitals conform to other governmental entities, such as colleges and universities, they are less comparable to nongovernment hospitals because the GASB requirements do not apply to them. This must be considered in order to compare the District to nonprofit and for-profit hospitals. The provision for bad debts was $41,357,000 in fiscal year 2008 and $41,968,000 in fiscal year 2007, and interest expense was $4,514,000, in fiscal year 2008 and $3,337,000 in fiscal year 2007.

- The average daily census is the number of acute care inpatients in PPH's hospitals every day and is consistent in 2008 and 2007. Although this volume measure is not formally a part of the statement of revenue, expenses, and changes in net assets, it does assist in interpreting the statement because revenue and expenses are closely tied to patient activity. Not included in this number are the skilled nursing facilities patients.

- Operating revenue is generated by PPH's primary activity of treating patients. Operating revenue increased $33,572,000 in 2008 primarily due to an increase in inpatient and outpatient ancillary revenue and negotiated increases in contracted rates, resulting in an increase in net charges during the year.

- Operating expenses are those expenses related to the treatment of patients, including overhead and administration expenses. Operating expenses increased by $43,654,000 in 2008 primarily due to increases in labor costs of approximately $21,895,000, purchased services of $4,873,000, professional fees of $4,458,000, depreciation expense of $1,938,000, supplies expense of $5,319,000, and rent expense of $3,704,000. The labor increase is due to PPH's commitment to its employees through contracted wage increases and an enhanced Deferred Compensation Program; which provides for an employer match component. Additionally, premium pay for overtime and contract labor to clinical workforce exceeded budgeted amounts. Increases in purchased services are primarily the result of license and maintenance fees associated with financial and clinical information technology systems. There was also an increase in hospital equipment maintenance. The increase in professional fees is for consulting fees used for information technology systems recently installed and upgraded. PPH's investment in its physician for trauma and emergency on-call coverage also contributed to the increase in professional fees. The increase in supplies is due to increased complexity of cases, increased implantable activity, and implementation of da Vinci Robot technology. The increase in other direct is due to lease rent expense associated with ambulatory services in the new Pomerado Outpatient Pavilion on the Pomerado Hospital campus.

- Operating loss in 2008 was $(9,442,000). This operating loss is a result of operating expenses in excess of revenues.

- Non operating income (expenses) consists of interest earned on invested monies, interest expense, and PPH's share of property taxes collected by the County of San Diego. PPH's non operating income was $17,092,000 in 2008 and $32,357,000 in 2007. The unrealized loss on the 2006 Certificates of Participation of $10,398,000 in 2008 compares unfavorably to the unrealized gain of $4,373,000 posted in 2007. PPH experienced increased property tax revenue of $1,477,000. Property tax revenues applicable to Measure BB ad valorem taxes for general obligation bonds were $11,708,000 and are in addition to the unrestricted property tax revenues of $13,346.000. In June 2008 PPH performed an organization restructure and reduction of system-wide positions. Severance packages paid amounted to $1,452,000 and is included in other nonoperating expenses.

- As a result of the factors noted above, net assets increased by $7,921,000 in 2008, which is $25,268,000 less than the 2007 increase in net assets of $33,189,000.

2007: Analysis of the Consolidated Statement of Revenue, Expenses, and Changes in Net Assets

- In accordance with generally accepted accounting principles for governmental healthcare providers, the District's consolidated statements of revenue and expenses and changes in net assets reflect the following: (1) net patient service revenues includes the provision for bad debts, which for nongovernmental hospitals is shown as an operating expense, and (2) no operating income (expenses) includes interest expense, which for nongovernmental hospitals is typically grouped as an operating expense. While these GASB requirements make district hospitals conform to other governmental entities, such as colleges and universities, they are less comparable to nongovernment hospitals because the GASB requirements do not apply to them. This must be considered in order to compare the District to nonprofit and for-profit hospitals. The provision for bad debts was $41,968,000 in fiscal year 2007 and $22,113,000 in fiscal year 2006, and interest expense was $3,337,000 in fiscal year 2007 and $4,406,000 in fiscal year 2006.

- The average daily census is the number of acute care inpatients in PPH's hospitals every day and is consistent in 2007 and 2006. Although this volume measure is not formally a part of the statement of revenue, expenses, and changes in net assets, it does assist in interpreting the statement because revenue and expenses are closely tied to patient activity. Not included in this number are the skilled nursing facilities patients.

- Operating revenue is generated by PPH's primary activity of treating patients. Operating revenue increased $21,878,000 in 2007 primarily due to an increase in inpatient and outpatient ancillary revenue and negotiated increases in contracted rates, resulting in an increase in net charges during the year.

- Operating expenses are those expenses related to the treatment of patients, including overhead and administration expenses. Operating expenses increased by $21,236,000 in 2007 primarily due to increases in labor costs of approximately $16,413,000, purchased services of $1,097,000, professional fees of $3,310,000, depreciation expense of $716,000, and a decrease in supplies expense of $2,853,000. The labor increase is due to PPH investment in its employees through wage increases and the implementation of a new benefit; where the employer provides a 50% match, up to limits, of the employee's contribution to the Deferred Compensation Program. Increases in purchased services are primarily the result of license, consulting, and maintenance fees for the replacement of all financial and clinical information technology (IT) systems during fiscal years 2004 to 2007, collection fees on bad debt recoveries, and administration of the Medi-Cal Administrative Activities Program. The increase in professional fees represents PPH's commitment to healthcare, especially in pediatrics, trauma, and emergency on-call doctors. Devising strategic business plans and implementing revenue cycle management also attributed to increased professional costs. The decrease in supplies is due to improved contracts with vendors and management of supplies.

- Operating income in 2007 was $639,000. This favorable operating gain is a result of operating revenues in excess of expenses.

- Non operating income (expenses) consists of interest earned on invested monies, interest expense, and PPH's share of property taxes collected by the County of San Diego (the County). PPH's non operating income was $32,357,000 in 2007 and $20,984,000 in 2006, due to the 2006 interest rate swap amount of $4,373,000 and increased property tax revenue received of $2,660,000. Property tax revenues applicable to Measure BB ad valorem taxes for general obligation bonds were $11,016,000 and are in addition to the unrestricted property tax revenues of $12,562,000.

- As a result of the factors noted above, net assets increased by $33,189,000 in 2007, which is $12,186,000 greater than the 2006 increase in net assets of $21,003,000.

Consolidated Statements of Cash Flows — The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities, which provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008, 2007, AND 2006
($000s)

	2008	2007	2006
CASH FLOWS FROM:			
Operating activities	$ 9,980	$ 15,687	$ 13,496
Noncapital financing activities	20,203	13,754	11,830
Capital and related financing activities	115,282	50,067	13,290
Investing activities	(134,252)	(80,143)	(49,278)
NET DECREASE IN CASH AND CASH EQUIVALENTS	11,213	(635)	(10,662)
CASH AND CASH EQUIVALENTS — Beginning of year	1,366	2,001	12,663
CASH AND CASH EQUIVALENTS — End of year	$ 12,579	$ 1,366	$ 2,001

See notes to consolidated financial statements.

2008: Analysis of the Consolidated Statement of Cash Flows

- Operating activities cash inflows reflected a decrease of approximately $5,707,000 in 2008 over 2007. This decrease is attributed to increased payments to suppliers and employees of $46,474,000 offset by increases in cash collections of patient accounts of $36,628,000.

- Noncapital financing activities consist primarily of property taxes received, which increased by $785,000 in 2008 compared to 2007 due to increased property values in the district.

- Net cash inflows from capital and related financing activities in 2008 were $115,282,000 primarily due to the receipt of $241,083,000 of proceeds from the 2007 General Obligation Bonds and $11,708,000 of property taxes for debt service, offset by the funding of PPH's building projects of $107,156,000, the payment of long-term debt of $13,220,000.

- Investing activities cash outflows were $134,000 in 2008. This outflow is mainly comprised of the remaining proceeds of the 2007 Certificates of Participation, which were invested in money market funds.

- The ending cash and cash equivalents of $12,579,000 reflect the checking account and overnight investment balances held by PPH. In addition, there were current investments of $73,700,000 at June 30, 2008.

2007: Analysis of the Consolidated Statement of Cash Flows

- Operating activities cash inflows reflected an increase of approximately $2,191,000 in 2007 over 2006. This increase is attributed to increased payments to suppliers and employees of $7,221,000 offset by increases in cash collections of patient accounts of $12,095,000.

- Noncapital financing activities consist primarily of property taxes received, which increased by $1,131,000 in 2007 compared to 2006 due to increased property values in the district.

- Net cash inflows from capital and related financing activities in 2007 were $50,067,000 primarily due to the receipt of $180,000,000 of proceeds from the 2006 Certificates of Participation and $11,016,000 of property taxes for debt service, offset by the funding of PPH's building projects of $83,071,000, the payment of long-term debt of $12,745,000, and a refund of debt of 23,245,000 and deferred financing fees of $9,986,000.

- Investing activities cash outflows were $80,143,000 in 2007. This outflow is mainly comprised of the remaining proceeds of the 2006 Certificates of Participation, which were invested in money market funds.

- The ending cash and cash equivalents of $1,366,000 reflect the checking account and overnight investment balances held by PPH. In addition, there were current investments of $107,848,000 at June 30, 2007.

2008: Capital Assets and Long-Term Debt

The Board of Directors has approved a Master Facility Plan project that is estimated at approximately $983,000,000. In November 2004, the residents of the District voted and approved to fund $496,000,000 of this expansion by the issuance of general obligation bonds. Payment for these bonds will be funded by ad valorem property tax levied on the District residents. The approximate amount for each resident is $17.75 per $100,000 of assessed value.

The major building expansion will include a new acute care hospital and trauma center in the North Inland San Diego area, a significant expansion of the Pomerado Hospital in Poway, renovation on the Palomar Medical Center site, and adding satellite facilities in various geographical locations of the District.

In connection with the major building expansion, three new buildings were purchased during fiscal year 2008 to expand the Palomar Medical Center site. Land purchases of $55 million are reflected in construction in progress to facilitate the overall accounting of the major building expansion. Permitting for the new hospital and Pomerado Hospital expansion has been submitted to the Office of Statewide Health Planning and Development.

PPH has two outstanding insured revenue bond issues that are classified as long-term debt. These are the 1999 Insured Revenue Bonds and the 2006 Certificates of Participation. PPH made principal payments on these issues totaling $7,765,000, bringing the net long-term bond principal to $225,095,000. All debt payments were made timely and PPH was in good standing on all bond covenants throughout the year. More detailed information about the PPH debt is presented in Note 8 to the consolidated financial statements. PPH has an underlying Moody's rating of A3, outlook of negative, the underlying rating to the PPH 2006 Revenue and Refunding Certificates of Participation that were issued on December 7, 2006. This rating is still effective as of June 30, 2008. In July 2005, PPH issued its first series of general obligation bonds in the amount of $80,000,000 for use in funding the building expansion project. In December 2007, PPH issued its second series of general obligation bonds in the amount of $241,083,000. A principal payment of $5,455,000 reduced the general obligation bond principal to $309,443,000.

2007: Capital Assets and Long-Term Debt

The Board of Directors has approved a Master Facility Plan project that is estimated at approximately $983,000,000. In November 2004, the residents of the District voted and approved to fund $496,000,000 of this expansion by the issuance of general obligation bonds. Payment for these bonds will be funded by ad valorem property tax levied on the District residents. The approximate amount for each resident is $17.75 per $100,000 of assessed value.

The major building expansion will include a new acute care hospital and trauma center in the North Inland San Diego area, a significant expansion of the Pomerado Hospital in Poway, renovation on the Palomar Medical Center site, and adding satellite facilities in various geographical locations of the District.

During fiscal years 2005 through 2007, PPH completed the design and purchased land and for the new hospital campus and a new satellite facility. In connection with the major building expansion, two buildings were purchased during fiscal year 2007 for an additional satellite facility and to expand the Palomar Medical Center site. The land purchases are reflected in construction in progress. Permitting for the new hospital and Pomerado Hospital expansion has been submitted to the Office of Statewide Health Planning and Development.

PPH has two outstanding insured revenue bond issues that are classified as long-term debt. During 2007, PPH issued $180,000,000 Certificates of Participation and refunded the remaining portion ($23,245,000) of the 1993 revenue bonds. PPH made principal payments on these issues totaling $6,560,000, bringing the net long-term bond principal to $232,860,000. All debt payments were made timely and PPH was in good standing on all bond covenants throughout the year. More detailed information about the PPH debt is presented in Note 8 to the consolidated financial statements. PPH has an underlying Moody's rating of A3, stable, the underlying rating to the PPH 2006 Revenue and Refunding Certificates of Participation that were issued on December 7, 2006. This rating is still effective as of June 30, 2007. In July 2005, PPH issued its first series of general obligation bonds in the amount of $80,000,000 for use in funding the building expansion project. A principal payment of $6,185,000 reduced the general obligation bond principal to $73,815,000.

Liquidity and Capital Resources

PPH's unrestricted liquidity position as of June 30, 2008, was $86,278,000, including $12,578,000 in operating cash and $73,700,000 in unrestricted investments stated at fair market value. PPH's unrestricted liquidity position as of June 30, 2007, was $109,213,000, including $1,366,000 in operating cash and $107,848,000 in unrestricted investments stated at fair market value. The available liquidity of $86,278,000 represents a 21% decrease over the $109,213,000 in available liquidity as of June 30, 2007, and equaled 40% of total outstanding debt exclusive of the general obligation bonds, which are funded separately from ad valorem taxes as of June 30, 2008 (as compared to available liquidity representing 47% of total outstanding debt as of June 30, 2007).

Economic and Other Factors

A number of significant factors are affecting the financial health of healthcare providers. Some major factors working in favor of healthcare providers are as follows:

Insurance Reimbursement — Healthcare providers are taking advantage of higher premium increases by insurers in recent years by negotiating improved reimbursements and restoring cost coverage and profitability to the commercial managed care business segment.

Medicare Reimbursement — The Benefits Improvement and Protection Act and the Balanced Budget Relief Act allow for a declining adverse financial impact originally imposed by the Balanced Budget Act of 1997. Medicare reimbursements are not expected to increase materially.

Demand for Services — Due to the aging of the population and a steady growth in overall population in PPH's primary and secondary service areas, there is a continued increase in hospital admissions and overall demand for healthcare services.

Some major factors working against healthcare providers are as follows:

Labor Shortages — Lack of availability for nursing and other key technical positions increases the cost for providers significantly. Additionally, the State of California mandated nurse staff ratios have increased demand for nursing personnel and increased salary and wages expenses.

Pharmaceutical Costs — the continued escalation of pharmaceutical drug costs remains a challenge for providers.

State Budget Difficulties — This has a multiple effect on providers as state Medicaid budget is impacted, investment portfolios are depressed, and employers shift more of the cost of healthcare to employees.

Heightened Competition — Services that have a profit margin are becoming more competitive as entrepreneurial physicians and for-profit entities migrate to services with a return on investment, putting further stress on hospital providers that traditionally cover core and safety net services with returns on profitable services.

HIPAA — The Health Insurance Portability and Accountability Act (HIPAA) among other things establishes privacy and security regulations over patient information that may have significant cost implications for healthcare providers.

Seismic Compliance — California Senate Bill 1953 (SB 1953) requires hospitals to meet more stringent seismic guidelines, which represent an unfunded mandate and impose a financial burden by 2008 under current regulation. Under certain criteria, it is possible to extend the SB 1953 deadline to 2013. The District applied for an extension from the California Department of Health Services, moving our deadline to 2013, and has received approval for the extension.

Finance Contact

PPH's financial statements are designed to present users with a general overview of PPH's finances and to demonstrate PPH's accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer, Palomar Pomerado Health, 15255 Innovation Drive, San Diego, California 92128.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Palomar Pomerado Health:

We have audited the accompanying consolidated balance sheets of Palomar Pomerado Health (PPH) as of June 30, 2008 and 2007, and the related consolidated statements of revenue, expenses, and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of PPH's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PPH's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PPH as of June 30, 2008 and 2007, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1–10 is not a required part of the basic consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of PPH's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

________, 2008

PALOMAR POMERADO HEALTH

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,578,422	$ 1,365,825
Investments	73,699,656	107,847,524
Patient accounts receivable — net of allowances for uncollectible accounts of $18,680,880 in 2008 and $25,091,024 in 2007	86,222,040	79,480,764
Other receivables	5,722,105	5,094,079
Supplies/inventories	6,826,298	7,025,980
Prepaid expenses and other	3,790,644	2,071,008
Estimated third-party payor settlements		2,579,788
Assets whose use is limited — current portion	13,100,285	20,423,102
Assets whose use is limited — general obligation bonds — current portion	15,673,263	11,059,835
Total current assets	217,612,713	236,947,905
ASSETS WHOSE USE IS LIMITED:		
Held by trustee under indenture agreements	74,383,931	143,415,962
Held by trustee under general obligation bonds indenture	254,417,149	15,948,450
Held in escrow for street improvements	14,266,048	13,747,385
Board-designated for capital improvements	12,117,325	
Restricted by donor	303,600	296,184
Total assets whose use is limited	355,488,053	173,407,981
Less current portion	28,773,548	31,482,937
Total assets whose use is limited — long-term portion	326,714,505	141,925,044
CAPITAL ASSETS — Net	379,286,440	272,211,204
OTHER ASSETS:		
Deferred financing costs — net	15,644,785	12,872,644
Fair value of interest rate swap		4,372,610
Investment in and amounts due from affiliated entities	4,413,999	922,555
Other	4,651,618	5,058,653
Total other assets	24,710,402	23,226,462
TOTAL	$948,324,060	$674,310,615

(Continued)

PALOMAR POMERADO HEALTH

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES:		
Accounts payable	$ 44,500,881	$ 27,500,589
Accrued compensation and related liabilities	23,606,587	22,392,538
Current portion of long-term debt	8,785,000	7,765,000
Current portion of general obligation bonds	875,000	5,455,000
Estimated third-party payor settlements	807,165	
Other accrued liabilities	15,815,317	12,085,067
Accrued interest payable	8,065,133	1,906,574
Total current liabilities	102,455,083	77,104,768
WORKERS' COMPENSATION — Net of current portion	2,510,539	5,024,092
LONG-TERM DEBT — General obligation bonds — net of current portion	317,477,705	71,887,529
LONG-TERM DEBT — Net of current portion	214,476,441	222,836,295
Fair Value of Interest Rate Swap	6,025,221	
Total liabilities	642,944,989	376,852,684
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET ASSETS:		
Invested in capital assets — net of related debt	126,939,548	92,943,745
Restricted for repayment of debt	20,708,414	29,697,684
Restricted for capital acquisitions	14,266,048	13,747,385
Restricted for other purposes	303,600	296,184
Unrestricted	143,161,461	160,772,933
Total net assets	305,379,071	297,457,931
TOTAL	$948,324,060	$674,310,615

See notes to consolidated financial statements. (Concluded)

PALOMAR POMERADO HEALTH

CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUE:		
Net patient service revenue	$ 370,660,715	$ 336,292,010
Net premium revenue	38,002,581	40,404,661
Other revenue	10,904,475	9,298,680
Total operating revenue	419,567,771	385,995,351
OPERATING EXPENSES:		
Salaries, wages, and benefits	250,318,616	228,423,416
Professional fees	28,651,792	24,194,148
Supplies	66,020,102	60,701,511
Purchased services	34,116,714	29,243,490
Depreciation and amortization	21,391,200	19,453,012
Rent expense	7,495,277	3,791,199
Utilities expense	4,978,704	4,380,474
Other	16,037,810	15,168,756
Total operating expenses	429,010,215	385,356,006
(LOSS) INCOME FROM OPERATIONS	(9,442,444)	639,345
NONOPERATING INCOME (EXPENSES):		
Investment income	6,697,732	7,275,455
Unrealized (loss) gain on interest rate swap	(10,397,831)	4,372,610
Interest expense	(4,514,350)	(3,336,726)
Property tax revenue	13,346,453	12,561,796
Property tax revenue — general obligation bonds	11,708,250	11,015,695
Other — net	251,648	468,491
Total nonoperating income — net	17,091,902	32,357,321
EXCESS OF REVENUE OVER EXPENSES	7,649,458	32,996,666
OTHER CHANGES IN NET ASSETS	271,682	192,678
INCREASE IN NET ASSETS	7,921,140	33,189,344
NET ASSETS — Beginning of year	297,457,931	264,268,587
NET ASSETS — End of year	$ 305,379,071	$ 297,457,931

See notes to consolidated financial statements.

PALOMAR POMERADO HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from:		
Patients, insurers, and other third-party payors	$ 431,941,146	$ 395,313,638
Other sources	8,827,258	4,926,968
Payments to:		
Employees	(251,618,120)	(225,644,550)
Suppliers	(179,170,616)	(158,909,078)
Net cash provided by operating activities	9,979,668	15,686,978
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipt of District taxes	13,346,453	12,561,795
Other	6,856,603	1,192,150
Net cash provided by noncapital financing activities	20,203,056	13,753,945
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(107,155,701)	(84,606,632)
Proceeds from the sale of capital assets		97,225
Interest paid	(13,868,483)	(10,463,983)
Deferred financing costs	(3,265,502)	(9,985,588)
Proceeds from issuance of debt	241,083,318	180,000,000
Repayment of long-term debt	(13,220,000)	(35,990,000)
Receipt of property taxes restricted for debt service on general obligation bonds	11,708,250	11,015,694
Net cash provided by capital and related financing activities	115,281,882	50,066,716
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(567,037,203)	(387,468,888)
Sale of investments	432,216,720	303,045,970
Interest received on investments and notes receivable	568,474	4,695,139
Net distributions and payments from affiliated entities and others		(415,316)
Net cash used in investing activities	(134,252,009)	(80,143,095)
NET DECREASE IN CASH AND CASH EQUIVALENTS	11,212,597	(635,456)
CASH AND CASH EQUIVALENTS — Beginning of year	1,365,825	2,001,281
CASH AND CASH EQUIVALENTS — End of year	$ 12,578,422	$ 1,365,825

(Continued)

PALOMAR POMERADO HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
(Loss) Income from operations	$ (9,442,444)	$ 639,345
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	21,391,200	19,453,012
Provision for bad debts	41,357,543	41,968,210
Equity in earnings of affiliates	(831,444)	(623,763)
Minority interest		(28,297)
Changes in assets and liabilities — net of effect of acquisition of controlling interest in Escondido Surgery Center:		
Patient accounts receivable	(48,098,819)	(50,482,348)
Other receivables	(628,026)	(1,255,766)
Supplies/inventories	199,682	(88,334)
Prepaid expenses and other	(1,719,636)	222,985
Accounts payable	2,551,660	4,549,545
Accrued compensation and related liabilities	(1,299,504)	2,778,866
Other accrued liabilities	1,070,250	2,602,145
Estimated third-party payor settlements	3,386,953	(1,584,736)
Other — net	2,042,253	(2,463,886)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,979,668	$ 15,686,978
NONCASH INVESTING AND CAPITAL AND FINANCING ACTIVITIES — Capital expenditures included in accounts payable	$ 26,405,064	$ 11,956,432

See notes to consolidated financial statements. (Concluded)

PALOMAR POMERADO HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Palomar Pomerado Health (PPH or the "District") is organized under the provisions of the Health and Safety Code of the state of California to provide and operate healthcare facilities. The accompanying consolidated financial statements include the accounts of the following commonly controlled divisions of PPH:

- Palomar Medical Center, located in Escondido, CA, including Palomar Continuing Care Center, a convalescent facility
- Pomerado Hospital, located in Poway, CA, includes Villa Pomerado, a convalescent facility and Pomerado Outpatient Pavilion, an ambulatory center.
- San Marcos Ambulatory Care Center, located in San Marcos, CA
- Central Office, providing management, financial, data processing, materials management, and public affairs services to the other divisions
- Health Development, a charitable nonprofit organization created to provide assistance and support for PPH by obtaining grant funding from federal, state, local, and private sources
- PPH expresscare, located in the Albertson's store in Escondido and Rancho Penasquitos, retail health centers

In fiscal year 2008, PPH agreed to a joint venture with US Radiosurgery using the latest in Trilogy stereotactic radio-surgery system. This new technology starts in fiscal year 2009.

During fiscal year 2008, two partnerships were dissolved. The partnership with Escondido Surgery Center (EASCI Investors, L.P.) was dissolved on September 17, 2007, and partnership with 343 E. 2nd Avenue Investors, LTD was dissolved on November 12, 2007. PPH owned 100% of EASCI Investors, L.P. upon dissolution. Escondido Surgery Center is now one of the outpatient departments of PPH effective December 1, 2007. The purpose of the partnership with 343 E. 2nd Avenue Investors, LTD was to lease property located at 343 E. 2nd Avenue to Escondido Surgery Center. PPH acquired 100% of the land from this partnership in dissolution. All transactions between the District's divisions and with the Escondido Surgery Center have been eliminated in the accompanying consolidated financial statements. All assets and liabilities of Escondido Surgery Center became assets and liabilities of PPH.

Basis of Presentation — The consolidated financial statements have been prepared in accordance with the applicable provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide, Health Care Organizations, and pronouncements of the Governmental Accounting Standards Board (GASB). PPH uses proprietary (enterprise) fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting — PPH utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis.

Accounting Standards — Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, PPH has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents — Cash and cash equivalents include highly liquid debt instruments with original maturities of three months or less and are intended for use in daily operations.

Investments — Investments in debt securities are carried at fair value, as determined by quoted market prices, in the consolidated balance sheets. Investment income or loss is included in nonoperating income, unless the income or loss is restricted by donor or law.

Supplies/Inventories — Inventories are stated at the lower of cost (first-in, first-out) or market value.

Assets Whose use is Limited — Assets whose use is limited primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of PPH have been classified as current assets in the accompanying consolidated balance sheets.

PPH has entered into an agreement with the City of Escondido (the “City”) to finance jointly street improvements near the site of PPH’s new hospital to be constructed in the City. Under the agreement, PPH was required to deposit $13 million into an escrow account. The balance in the escrow account of $14,266,000 and $13,747,000 on June 30, 2008 and 2007, respectively, is included in assets whose use is limited in the accompanying 2008 consolidated balance sheet.

Capital Assets — Property, plant, and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of each class of depreciable asset (the shorter of the estimated useful life or the lease term for leasehold improvements) as follows:

	Years
Land improvements	15
Buildings and building improvements	10–40
Leasehold improvements	3–15
Equipment	3–15

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of interest earned of $6,982,000 and $5,010,000 for the years ended June 30, 2008 and 2007, respectively, on temporary investments of the proceeds for construction projects funded by tax-exempt borrowings, is capitalized as a component of the cost of acquiring those assets. Net interest cost capitalized was $10,960,000 and $3,313,000 for the years ended June 30, 2008 and 2007, respectively.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support in other changes in net assets and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support in other changes in net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained and expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal lifecycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment, or approval of laws or regulations or other changes in environmental factors; technological changes or evidence of obsolescence; changes in the manner or duration of use of a capital asset; and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses are recorded in the consolidated statements of revenue, expenses, and changes in net assets. There were no impairment losses recorded in the years ended June 30, 2008 and 2007.

Debt Discounts and Deferred Financing Costs — Debt discounts and deferred financing costs are amortized by the bonds' outstanding method over the life of the related bonds. Deferred financing costs included $18,924,000 and $15,033,000, net of accumulated amortization of $3,279,000 and $2,160,000, as of June 30, 2008 and 2007, respectively.

Interest Rate Swap — PPH has entered into a variable-to-fixed interest rate swap, which is reflected at fair value in the 2008 consolidated balance sheets. The fair value of the interest rate swap will fluctuate based generally on changes in market rates of interest. Any unrealized gains or losses resulting from changes in fair value are reported as nonoperating gains or losses in the statements of revenue, expenses, and changes in net assets. Interest cost on variable interest rate debt is reported based on the fixed interest rate paid by PPH under the interest rate swap. Severe fluctuations in the municipal bond market resulted in an interest rate increase of PPH's bond obligations. This translated into a year-end exposure of $6,025,000.

Net Assets — Net assets of the District are classified in four components. Net assets invested in capital assets — net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets. Net assets restricted for repayment of debt are amounts deposited with trustees as required by bond indentures, as described in Note 8. Net assets restricted for other purposes are noncapital net assets that must be used for a particular purpose, as specified by contributors external to the District. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets — net of related debt or restricted.

Consolidated Statements of Revenue, Expenses, and Changes in Net Assets — All revenues and expenses directly related to the delivery of healthcare services are included in operating revenue and expenses in the consolidated statements of revenue, expenses, and changes in net assets. Nonoperating income and expenses consist of those revenues and expenses that result from nonexchange transactions and interest expense and investment income.

Net Patient Service Revenue — PPH has agreements with third-party payors that provide for payments to PPH at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Premium Revenue — PPH has agreements with various third-party payors to provide medical services to subscribing participants. Under these agreements, PPH receives monthly capitation payments based on the number of each payor's participants, regardless of services actually performed by PPH. Under some of these agreements, PPH also participates in shared risk pools with medical groups, through which it could receive additional reimbursement or pay additional amounts to the medical groups. In conjunction with the risk pools, PPH estimates incurred but not reported (IBNR) claims for medical services provided to patients. IBNR liabilities of $5,090,000 and $5,656,000 are included in other accrued liabilities in the accompanying consolidated balance sheets as of June 30, 2008 and 2007, respectively.

Charity Care — PPH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as revenue in the accompanying consolidated financial statements. Charity care charges forgone, at established rates, for the years ended June 30, 2008 and 2007, were approximately $22,601,000 and $22,473,000, respectively.

Property Taxes — PPH receives financial support from property taxes. Property taxes are levied by the county on behalf of PPH to finance PPH's activities. Amounts levied are based on assessed property values. Property tax revenue for the years ended June 30, 2008 and 2007, consists of the following:

	2008	2007
To support operations	$ 13,346,453	$ 12,561,796
For debt service on general obligation bonds	11,708,250	11,015,695
Total	$ 25,054,703	$ 23,577,491

Recent Accounting Pronouncements — In September 2006, the GASB issued GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. PPH adopted GASB Statement No. 48 effective for the fiscal year beginning July 1, 2007. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. Adoption of the statement did not have a material effect on PPH's net assets or revenue, expenses, and changes in net assets.

In May 2007, the GASB issued GASB Statement No. 50, *Pension Disclosure*. The District has adopted GASB Statement No. 50 effective for the fiscal year beginning July 1, 2007. GASB Statement No. 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. Adoption of this statement did not have a material effect on the District's consolidated net assets or revenue, expenses, and changes in net assets.

In June 2007, the GASB issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. PPH will adopt GASB Statement No. 51 effective for the fiscal year beginning July 1, 2009. GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. This statement also provides guidance on recognition and amortization of intangible assets. Management is currently evaluating the impact of applying the provisions of this statement on PPH's consolidated financial statements.

In November 2007, the GASB issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments as Endowments.* GASB Statement No. 52 is effective for periods beginning after June 15, 2008, and establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Management does not believe that implementation of this statement will have a material effect on the District's consolidated net assets or revenue, expenses, and changes in net assets.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* GASB Statement No. 53 is effective for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Management is currently evaluating the impact of applying the provisions of this statement on PPH's consolidated financial statements.

Income Taxes — PPH is a governmental subdivision of the state of California and is exempt from federal income and state franchise taxes.

2. NET PATIENT SERVICE REVENUE

PPH renders services to certain patients under contractual arrangements with the Medicare and Medi-Cal programs and various health maintenance and preferred provider organizations. The Medicare program generally pays a prospectively determined fee for services rendered to Medicare patients. Additionally, Medicare reimburses PPH for certain inpatient services (primarily mental health unit services) on the basis of costs incurred. The Medi-Cal program provides for payment on a prospectively negotiated contractual rate per day, percentage-of-charges for services rendered, or capitated payment arrangement.

Revenue from the Medicare and Medi-Cal programs, inclusive of risk (capitated) and nonrisk managed care programs, accounted for approximately 59% of PPH's net patient service revenue for the year ended June 30, 2008, and 60% for the year ended June 30, 2007.

The administrative procedures for the cost-based programs preclude final determination of the amounts payable or receivable until after cost reports of PPH are audited or otherwise reviewed and settled with the respective agencies. The cost reports for Medicare and Medi-Cal programs have been settled through fiscal 2002 and 2004, respectively. Results of cost report settlements, as well as estimates for settlements of all fiscal years through 2008, have been reflected in the accompanying consolidated financial statements.

At June 30, 2008, estimated third-party settlements resulted in an $807,000 liability. Conversely, June 30, 2007, estimated third-party settlement resulted in a $2,580,000 receivable. During fiscal 2008 and 2007, PPH settled various prior-year cost reports and appeal issues. These settlements resulted in approximately $1,722,000 and $1,677,000 of additional revenues in fiscal 2008 and 2007, respectively, which are included in net patient service revenue in the accompanying consolidated statements of revenue, expenses, and changes in net assets.

PPH also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to PPH under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

3. CASH AND CASH EQUIVALENTS INVESTMENTS

The State of California Government Code (the "Government Code") generally authorizes the District to invest unrestricted and board-designated assets in obligations of the U.S. Treasury and certain U.S. government agencies, obligations of the state of California and local government entities, bankers' acceptances, commercial paper, certificates of deposit, repurchase agreements, and mortgage securities. Certain of these investments may be purchased only in limited amounts, as defined in the Government Code.

The District's bond indenture agreements authorize trustee-held assets to be invested in obligations of the U.S. Treasury and certain U.S. government agencies, repurchase agreements, and obligations of financial institutions meeting certain criteria defined in the indentures.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. PPH is a voluntary participant in the LAIF. The fair value of PPH's investments in the LAIF is reported in the accompanying consolidated financial statements based on PPH's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio.

As of June 30, 2008 and 2007, PPH had investments and maturities as follows:

	2008			
		Investment Maturities (in years)		
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**More Than 5**
LAIF	$ 166,167,864	$ 166,167,864	$ -	$ -
U.S. Government Bonds	29,630,045	6,374,208	23,255,837	
U.S. Treasury Bills	28,453,053	5,068,805	23,384,248	
Corporate Bonds	10,497,944	1,001,389	9,496,555	
Money Market Mutual Funds	194,438,803	194,438,803		
Total	$ 429,187,709	$ 373,051,069	$ 56,136,640	$ -

	2007			
		Investment Maturities (in years)		
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**More Than 5**
LAIF	$ 576,618	$ 576,618	$ -	$ -
U.S. Government Bonds	23,538,638	2,326,311	21,212,327	
U.S. Treasury Bills	31,890,686	3,803,767	28,086,919	
Corporate Bonds	11,600,798	5,468,367	6,132,431	
Money Market Mutual Funds	213,648,765	213,648,765		
Total	$ 281,255,505	$ 225,823,828	$ 55,431,677	$ -

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Interest Rate Risk — Interest rate risk is the risk that the value of fixed income securities will decline due to increasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. As a means of limiting exposure to fair value losses arising from increasing interest rates, the District's investment policy limits the term of any investment to a maturity not exceeding five years.

Similarly, PPH has an exposure to variable interest rate risk stemming from volatility in the auction-rate bond market. The auction-rate bond market allows public agencies to issue long-term debt at short-term rates that typically reset in weekly or monthly auctions.

Credit Risk — Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. State law limits the District's investment in commercial paper, corporate bonds, and bond mutual funds with an "A" rating issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit investment choices. As of June 30, 2008 and 2007, PPH's investments, excluding U.S. government obligations, consisted of the following: corporate bond investments rated "A" or better by Standard & Poor's and Moody's Investor Services, U.S. Government Agency investments rated "AAA" by Standard & Poor's and Moody's Investor Services, negotiable CDs rated Superior or better by Interactive Data Corp., and the District's investments in LAIF, were not rated.

Concentration of Credit Risk — Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the District to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as LAIF, are not considered subject to concentration of credit risk. In accordance with state law, no more than 5% of total investments may be invested in the securities of any one issuer, except obligations of the U.S. government, no more than 10% may be invested in any one mutual fund, and no more than 30% may be invested in bankers' acceptances of any one commercial bank.

Investments in any one issuer (other than U.S. Treasury securities and external investment pools) that represent 5% or more of the total investments at June 30, 2008 and 2007, are as follows:

Issuer	Investment Type	2008	2007
US Bank, Trustee	First Amer Treas Oblig, Class D	$ 64,427,857	$ 133,567,962
AAA Inst Money Trust	Money Market (Morgan Stanley)		39,363,317
Wells Fargo Advantage Government Money Market	US Government Money Market Funds	118,878,337	29,824,421
Total		$ 183,306,194	$ 202,755,700

Custodial Credit Risk — Investments — All of the District's investments are insured or registered or are held by the District's agent in the agent's nominee name, with subsidiary records listing the District as the legal owner. For these reasons, the District is not exposed to custodial credit risk for its investments.

Custodial Credit Risk — Deposits — Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2008 and 2007, the District's bank balances totaled $14,394,000 and $3,768,000, respectively, and were not exposed to custodial credit risk, as the uninsured deposits are with financial institutions that are individually required by state law to have government deposits collateralized at a rate of 110% of the deposits.

4. CONCENTRATIONS OF CREDIT RISK

PPH grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2008 and 2007, was as follows:

	2008	2007
Medicare	20 %	20 %
Medi-Cal	13	12
HMO/PPO/commercial	40	43
Patient	16	18
Others	11	7
Total	100 %	100 %

5. CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2008 and 2007, is as follows:

	Beginning Balance Fiscal 2008	Additions	Disposals	Transfers	Ending Balance Fiscal 2008
Land improvements	$ 5,220,870	$ -	$ (188,188)	$ 4,800	$ 5,037,482
Buildings and leasehold improvements	172,598,980	15,979,366	(370,304)	2,212,404	190,420,446
Equipment	185,819,139	4,104,615	(16,202,612)	7,886,003	181,607,145
Land	9,632,103	714,140			10,346,243
Construction in progress	121,244,344	107,713,342		(10,103,207)	218,854,479
	494,515,436	128,511,463	(16,761,104)	-	606,265,795
Less accumulated depreciation and amortization	(222,304,232)	(21,398,118)	16,722,995		(226,979,355)
Capital assets — net	$ 272,211,204	$107,113,345	$ (38,109)	$	$ 379,286,440

	Beginning Balance Fiscal 2007	Additions	Disposals	Transfers	Ending Balance Fiscal 2007
Land improvements	$ 5,967,718	$ -	$ (746,848)	$ -	$ 5,220,870
Buildings and leasehold improvements	139,817,526	129,259	(6,292,056)	38,944,251	172,598,980
Equipment	187,918,226	6,303,557	(10,710,833)	2,308,189	185,819,139
Land	9,632,103				9,632,103
Construction in progress	85,858,904	76,637,880		(41,252,440)	121,244,344
	429,194,477	83,070,696	(17,749,737)	-	494,515,436
Less accumulated depreciation and amortization	(220,455,460)	(19,432,400)	17,583,628		(222,304,232)
Capital assets — net	$ 208,739,017	$ 63,638,296	$ (166,109)	$ -	$ 272,211,204

6. INVESTMENT IN AND AMOUNTS DUE FROM AFFILIATED ENTITIES

PPH's investment in affiliated entities, which are accounted for under the equity method because PPH does not control the entities, was $3,218,000 and $265,000 at June 30, 2008 and 2007, respectively.

During fiscal year 2008, two partnerships were dissolved. The partnership with Escondido Surgery Center (EASCI Investors, L.P.) was dissolved on September 17, 2007, and partnership with 343 E. 2nd Avenue Investors, LTD was dissolved on November 12, 2007. Escondido Surgery Center is now one of the outpatient departments of PPH effective December 1, 2007. Since Escondido Surgery Center is 100% owned by PPH, all the intercompany transactions including partnership investment accounts were eliminated.

During fiscal 2007, PPH increased its ownership of Escondido Surgery Center (the Surgery Center) to 100% by purchasing an additional 8.5 units for $757,000. Consequently, PPH consolidated the Surgery Center's results in fiscal 2007. Prior to fiscal 2007, PPH accounted for its investment in the Surgery Center using the equity method of accounting.

7. RELATED ORGANIZATIONS

Palomar Pomerado Health Foundation — Palomar Pomerado Health Foundation (the “Foundation”) is a charitable nonprofit organization created to provide assistance and support for PPH. The Foundation is a separately governed organization. Its net assets and results of operations are not included in the accompanying consolidated financial statements of PPH.

The Foundation funds various programs on behalf of PPH. Funding for these programs provided by the Foundation totaled $1,667,000 and $498,000 in the years ended June 30, 2008 and 2007, respectively.

In September 2005, PPH entered into a management services agreement with the Foundation, whereby PPH provides administrative support to the Foundation. Support provided to the Foundation totaled $2,494,000 and $1,568,000 in the years ended June 30, 2008 and 2007, respectively. The management services agreement includes a line of credit with a $5,000,000 limit that expires on June 30, 2010. The amount drawn on the line of credit was $1,341,000 and $1,078,000 as of June 30, 2008 and 2007, respectively.

A summary of the Foundation’s unaudited assets, liabilities, and net assets at June 30, 2008 and 2007, is as follows:

	2008	2007
Assets	$ 8,207,092	$ 6,568,286
Liabilities	$ 4,381,834	$ 2,648,827
Net assets	3,825,258	3,919,459
Total liabilities and net assets	$ 8,207,092	$ 6,568,286

8. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

PPH's long-term debt and other noncurrent liabilities for 2008 and 2007 were as follows:

	Beginning Balance Fiscal 2008	Additions	Reductions	Ending Balance Fiscal 2008	Amounts Due Within One Year
Bonds payable:					
Series 2007 general obligation bonds	$ -	$ 246,663,242	$ -	$ 246,663,242	$ -
Series 2006 certificates of participation	179,176,214	98,691	(2,225,000)	177,049,905	3,000,000
Series 2005 general obligation bonds	77,342,529		(5,653,066)	71,689,463	875,000
Series 1999 insured refunding revenue bonds	51,425,081	363,961	(5,577,506)	46,211,536	5,785,000
Total long-term debt	307,943,824	247,125,894	(13,455,572)	541,614,146	9,660,000
Other liabilities — workers' compensation reserves	6,820,001	618,408	(4,054,370)	3,384,039	873,500
Total long-term liabilities	$ 314,763,825	$ 247,744,302	$ (17,509,942)	$ 544,998,185	$ 10,533,500

	Beginning Balance Fiscal 2007	Additions	Reductions	Ending Balance Fiscal 2007	Amounts Due Within One Year
Bonds payable:					
Series 2006 certificates of participation	$ -	$ 180,883,604	$ (1,707,390)	$ 179,176,214	$ 2,225,000
Series 2005 general obligation bonds	83,741,472	59,817	(6,458,760)	77,342,529	5,455,000
Series 1999 insured refunding revenue bonds	56,379,859	404,391	(5,359,169)	51,425,081	5,540,000
Series 1993 insured refunding revenue bonds	23,971,064		(23,971,064)		
Total long-term debt	164,092,395	181,347,812	(37,496,383)	307,943,824	13,220,000
Other liabilities — workers' compensation reserves	7,324,498	3,271,776	(3,776,273)	6,820,001	1,795,908
Total long-term liabilities	$ 171,416,893	$ 184,619,588	$ (41,272,656)	$ 314,763,825	$ 15,015,908

The terms and due dates of PPH's long-term debt at June 30, 2008 and 2007, are as follows:

- Series 2007A General Obligation Bonds, interest at 4.50% to 5.125% due semiannually on $175,000,000 of Current Interest Bonds and interest at 3.67% to 4.92% on $66,083,000 Capital Appreciation Bonds. Principal amounts due in annual amounts ranging from $635,000 in fiscal 2012 to $21,585,000 in fiscal 2038 net of unamortized premium of $5,580,000 in 2008.

- Series 2006 Certificates of Participation, which refunded the 1993 insured revenue bonds, interest at 3.218%, which is the fixed rate to be paid by PPH under the swap agreement, due semiannually, principal due in annual amounts ranging from $2,225,000 in fiscal 2008 to $12,350,000 in fiscal 2037, net of unamortized loss on refunding of $725,000 and $824,000 at June 30, 2007, collateralized by PPH revenues as defined in the indenture.

- Series 2005A general obligation bonds, interest at 3.00% to 5.00% due semiannually, principal due in annual amounts ranging from $5,455,000 in fiscal 2008 to $5,115,000 in fiscal 2035, net of unamortized premium of $3,329,000 and $3,528,000 at June 30, 2008 and 2007, respectively.

- Series 1999 insured refunding revenue bonds, interest at 4.375% to 5.375% due semiannually, principal due in annual amounts ranging from $5,540,000 in fiscal 2008 to $7,855,000 in fiscal 2015, net of unamortized premium of $128,000 and $165,000 and June 30, 2008 and 2007, respectively, and unamortized loss on defeasance of $1,236,000 and $1,600,000 at June 30, 2008 and 2007, respectively, collateralized by PPH revenues as defined in the indenture agreement.

During December 2007, the District issued $241,083,000 of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the “2007 G.O. Bonds”). The net proceeds of the 2007 G.O. Bonds will be used by the District to pay a portion of the costs to construct a new acute care and trauma hospital facility, expand Pomerado Hospital, renovate Palomar Medical Center, and open satellite ambulatory care facilities in the District’s service area (see Note 12).

During December 2006, the District issued $180,000,000 of Palomar Pomerado Health Certificates of Participation. The net proceeds of the 2006 Certificates of Participation will be used by the District to pay a portion of the costs to construct a new acute care and trauma hospital facility, expand Pomerado Hospital, renovate Palomar Medical Center, and open satellite ambulatory care facilities in the District’s service area (see Note 12). The refunding resulted in a loss on extinguishment of debt of $884,000, which has been deferred and is being amortized as a component of interest expense over 16 years.

During July 2005, the District issued $80,000,000 of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A (the “2005 G.O. Bonds”). The net proceeds of the 2005 G.O. Bonds will be used by the District to pay a portion of the costs to construct a new acute care and trauma hospital facility, expand Pomerado Hospital, renovate Palomar Medical Center, and open satellite ambulatory care facilities in the District’s service area (see Note 12).

The 2005 G.O. Bonds represent the general obligation of the District, and the District has the power and is obligated to cause to be levied and collected by the County of San Diego annual ad valorem taxes upon all property within the District’s boundaries subject to taxation by the District for payment when due of the principal of and interest on the bonds. However, PPH is legally required to repay the 2005 G.O. Bonds if ad valorem taxes are insufficient.

In June 1999, PPH issued its Series 1999 insured refunding revenue bonds to refund its Series 1989A bonds. The refunding resulted in a loss on extinguishment of debt of $5,241,000, which has been deferred and is being amortized as a component of interest expense over 15 years.

Under the indenture agreements of the 2006 Certificates of Participation, the 2005 G.O. Bonds, and the Series 1999, PPH is subject to compliance with certain debt covenants, including restrictions on additional indebtedness.

The estimated fair value of PPH’s long-term debt was approximately $501 million and $310 million as of June 30, 2008 and 2007, respectively, based on quotations from independent third parties.

Future principal and interest payments on long-term debt are as follows:

Years Ending June 30	Principal	Interest	Total
2009	$ 9,660,000	$ 16,861,703	$ 26,521,703
2010	9,780,000	19,848,737	29,628,737
2011	7,395,000	19,403,735	26,798,735
2012	8,366,793	19,108,804	27,475,597
2013	9,311,650	18,880,612	28,192,262
2014–2018	51,377,816	91,843,186	143,221,002
2019–2023	64,241,098	97,098,399	161,339,497
2024–2028	82,230,962	111,740,784	193,971,746
2029–2033	141,340,000	53,664,543	195,004,543
2034–2038	150,835,000	19,898,327	170,733,327
Total	$ 534,538,319	$ 468,348,830	$ 1,002,887,149

9. OPERATING LEASES

PPH leases certain office space and equipment under operating leases. Lease expense on all such leases for the years ended June 30, 2008 and 2007, totaled $7,495,000 and $3,875,000, respectively. PPH also leases to others office space under operating leases. Future minimum lease payments and receipts under noncancelable operating leases are as follows:

Years Ending June 30	Lease Payments	Lease Receipts
2009	$ 4,461,428	$ 1,142,599
2010	4,356,255	936,313
2011	4,341,052	941,294
2012	4,129,520	316,025
2013	3,890,982	
2014–2018	20,383,518	
2019–2023	21,718,077	
2024–2028	17,182,181	
Total	$ 80,463,013	$ 3,336,231

10. DEFERRED ANNUITY CONTRACTS

PPH offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. Employees who elect to participate in the plan make contributions through a reduction in salary. All employee contributions are invested by a funding agency selected by PPH.

The investments of PPH's IRC Section 457 plan and earnings thereon are held in trust for the exclusive benefit of the plan participants and their beneficiaries. Accordingly, the accompanying consolidated balance sheets do not include the funds deposited with financial institutions pursuant to deferred annuity contracts.

11. RETIREMENT PLAN

PPH sponsors a defined contribution retirement plan under which benefits are limited to amounts accumulated from total contributions by PPH and by the employees, plus accrued interest. Prior to January 1, 2004, all employees with three years of service are covered by the plan. On January 1, 2004, the plan was revised to change the eligibility for all employees with one year of service. Contributions under the plan by PPH equal 6% of covered employees' basic compensation and are funded as accrued. Total PPH contributions expensed for the years ended June 30, 2008 and 2007, were $10,922,000 and $9,511,000, respectively.

12. COMMITMENTS AND CONTINGENCIES

Legal Matters — The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medi-Cal programs, are subject to government review and interpretation, as well as regulatory actions. Claims for payment for services rendered to Medicare and Medi-Cal beneficiaries must meet applicable billing laws and regulations, which, among other things, require that the services are medically necessary, accurately coded, and sufficiently documented in the beneficiaries' medical records. Allegations concerning possible violations of regulations can result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenues for patient services.

PPH has ongoing efforts to comply with laws and regulations and to assess its prior compliance and the potential impact of noncompliance. PPH with its ongoing compliance program will continue to monitor, investigate, and correct any potential areas of noncompliance. No regulatory action has been asserted against PPH to date; although, such action could occur in the future.

PPH is a party to certain other legal actions arising in the ordinary course of business. In the opinion of PPH management, the liability, if any, under these claims is adequately covered by insurance. PPH is insured for medical malpractice under a claims made basis policy.

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Workers' Compensation Program — PPH is a participant in the Association of California Hospital Districts ALPHA Fund (ALPHA Fund) that administers a self-insured workers' compensation plan for participating districts' and other qualifying nonprofit entity employees. PPH pays premiums to ALPHA Fund that are adjusted annually. Effective July 1, 2002, PPH changed its participation in ALPHA Fund from first dollar coverage of workers' compensation claims to self-insurance by PPH of the first $350,000 of each claim. Effective July 1, 2003, PPH increased its self-insurance level to the first $500,000 of each claim. Effective July 1, 2004, PPH increased its self-insurance level to the first $750,000 of each claim. At June 30, 2008 and 2007, estimated claims liabilities for workers' compensation total $3,384,000 and $6,820,000, respectively.

ALPHA Fund has been in a deficit position for several years as actuarial claims estimates have exceeded revenues. However, ALPHA Fund has been able to maintain positive cash flow. If ALPHA Fund were terminated, PPH would be liable for its share of any additional premiums necessary for final disposition of claims and losses covered by ALPHA Fund. If PPH were to withdraw from ALPHA Fund, it would be required to fund its share of the deficit as defined under the joint powers agreement. In fiscal years 2007 and 2008, the ALPHA Fund has been in a surplus position. PPH accounts for their investment in the ALPHA Fund under the equity method and has recorded its share of $1,304,000 and $657,000 as an asset within other assets at June 30, 2008 and 2007, respectively.

Seismic Compliance — California Senate Bill 1953 (SB 1953) requires hospital acute care buildings to meet more stringent seismic guidelines by 2008. In fiscal 2005, the District received approval from the Office of Statewide Health Planning and Development of a time extension for compliance with SB 1953 until January 1, 2013. The Board of Directors of PPH has approved a $982 million expansion plan, which includes building a new hospital in the City of Escondido, downsizing the existing facility in the City (altering the use of the sections that are not compliant with SB 1953), expanding the hospital facility in Poway, and building new outpatient satellite clinics. This plan will enable PPH to comply with SB 1953 seismic guidelines. The financing for this expansion plan has multiple parts, including $496 million of general obligation bonds to be repaid through ad valorem property taxes of the residents of the District (see Note 8). Additionally, PPH expects to issue revenue bonds to raise approximately $210 million and use future income to repay them over 30 years. The remaining funds are expected to be obtained from fundraising and/or cash reserves. The new hospital is scheduled to be completed in calendar year 2010.

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PALOMAR POMERADO HEALTH

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

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

REPORT TO THE AUDIT AND FINANCE COMMITTEES ON THE AUDIT OF THE FISCAL 2008 CONSOLIDATED FINANCIAL STATEMENTS

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Section 1

Summary of Significant Conclusions

We have performed an audit of the consolidated financial statements of Palomar Pomerado Health ("PPH") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America and expect to issue our report thereon shortly.

Based on our work performed:

- We expect to issue an unqualified opinion on the consolidated financial statements of PPH.
- Our audit scope was described to you in our engagement letter dated May 20, 2008, and was not restricted in any way throughout the course of the audit.
- No significant scope changes resulted from the execution of this audit plan.
- Our auditing procedures addressed the risks identified during our planning procedures; no new risk areas were identified during the course of our audit.

This report is intended solely for the information and use of the Audit and Finance Committees, the Board of Directors, management and others within PPH and is not intended to be and should not be used by anyone other than these specified parties.

Section 2

Required Communications with the Audit Committee

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of PPH is responsible.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility under auditing standards generally accepted in the United States of America ("generally accepted auditing standards") has been described to you in our engagement letter dated May 20, 2008, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of PPH's consolidated financial statements for the year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the consolidated financial statements that have been prepared by management with the oversight of the Audit and Finance Committees are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the consolidated financial statements does not relieve management or the Audit and Finance Committees of their responsibilities.

We considered PPH's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PPH's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PPH's internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events.

Significant accounting estimates reflected in PPH's 2008 consolidated financial statements include:

- Contractual allowances
- Allowance for bad debts
- Evaluation of long-lived assets for impairment
- Capitated contracts
- Workers' compensation liabilities:
    - Incurred But Not Reported
    - Alpha Fund

During the year ended June 30, 2008, there were no significant changes in accounting estimates or in management's judgments relating to such estimates.

Uncorrected Misstatements

Our audit was designed to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix A, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period and prior period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

Material Corrected Misstatements

Our audit of the consolidated financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. The following material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period:

	Assets	Liabilities	Net Assets Beg of Year	Statement of Activities
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Current Year Known Misstatements-Corrected				
1. Expensing of items inappropriately recorded to bond issuance costs	($104,111)			$104,111
2. Write off HBOC credit balances	267,091			(267,091)
3. Record additional accrual of pension expense		(328,140)		328,140
4. Record AP invoices that had not been accrued at year end		(256,705)		256,705
5. To record investment in PDP, record amortization on PPH's books of the liability, and also to eliminate amortization of 55-year lease with investee	2,551,190	(2,551,190)		
6. To eliminate goodwill for the Escondido Surgery Center, and adjust asset balances accordingly as a result of a fair value analysis	1,635,218			
	(1,635,218)			
Total Current Year Known Misstatements	$2,714,170	($3,136,035)	0	$421,865

Significant Accounting Policies

PPH's significant accounting policies are set forth in Note 1 to PPH's 2008 consolidated financial statements. During the year ended June 30, 2008, there were no significant changes in previously adopted accounting policies or their application.

We will discuss with you our views about the quality, not just the acceptability, of PPH's accounting policies as applied in its financial reporting. Objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity's accounting policies as applied in its consolidated financial statements. However, we will discuss with you the consistency of PPH's accounting policies and their application, and the clarity and completeness of PPH's consolidated financial statements, which include related disclosures. We will also discuss, as applicable, any items that have a significant impact on the representational faithfulness, verifiability, and neutrality of the accounting information included in the consolidated financial statements.

We had no discussions with management regarding alternative accounting treatments within U.S. GAAP for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions or general accounting policies, related to the year ended June 30, 2008.

Documents Containing Audited Financial Statements

When audited financial statements are included in documents containing other information such as the pending Offering Documents related to the Series 2008A General Obligation Bond Offering, and the conversion and remarketing of the Series 2006A, 2006B and 2006C Certificates of Participation, we read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the consolidated financial statements audited by us. We have read the other information in PPH's pending Offering Documents as referred to above, and have inquired as to the methods of measurement and presentation of such information. If we noted a material inconsistency or if we obtained any knowledge of a material misstatement of fact in the other information, we discussed this matter with management.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to PPH's June 30, 2008, consolidated financial statements.

Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during the year ended June 30, 2008.

Significant Issues Discussed, or Subject of Correspondence, with Management Prior to Our Retention

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that occurred, transactions that were contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as independent auditors.

Significant Difficulties Encountered in Performing the Audit

In our judgment, we received the full cooperation of PPH's management and staff and had unrestricted access to its senior management in the performance of our audits.

Management's Representations

We have made specific inquiries of PPH's management about the representations embodied in the consolidated financial statements. Additionally, we will request that management provide to us the written representations PPH is required to provide to its independent auditors under generally accepted auditing standards.

Control-Related Matters

We plan to issue a separate report to you containing certain matters involving PPH's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

* * * * * *

Appendix A

Uncorrected Misstatements

	Assets	Liabilities	Retained Earnings Beg of Year	Statement of Activities
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Current Year Known Misstatements-Uncorrected				
PY uncorrected misstatements identified in the CY: 1. Correction of current year expensing of PY 2006 bond issuance amortization			($232,905)	$232,905
2. Correction of current year expensing of HOA fees related to ERTC that were inappropriately capitalized in the prior year			(430,459)	430,459
3. Recording of CIP invoices not recorded at year end	$3,539,293	($3,539,293)		
Total Current Year Known Misstatements	$3,539,293	($3,539,293)	($663,364)	$663,364

ADDENDUM D

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

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Board Finance Committee Meeting
Attendance Roster & Meeting Minutes
Calendar Year 2008

Members	**Meeting Dates:** 1/22/08	2/26/08	3/25/08	4/29/08	5/27/08	7/1/08	7/29/08	8/26/08	9/30/08	10/28/08	12/2/08
Nancy Bassett, R.N.	P	P	P	P							
Ted Kleiter – Chair	P	P	P	P	P	P	P	P	P		
Bruce Krider, M.A.	P	P	P	P	P	E	P	P	E		
Marcelo Rivera, M.D.	P	P	P	P	P	E	P[1]	A	P		
Michael Covert, FACHE	P	P	P	P	P	P	E[2]	P	P		
Ben Kanter, M.D.	E	P	P	P	P	E	P	P	E		
John Lilley, M.D.	P	E	P	E	A	P	E	A	E		
Linda Greer – Alternate			Guest			P	P[1]				
Linda Bailey – 2nd Alternate						E	Guest		P		
Alan Larson, M.D. – 3rd Alternate						E					
Nancy Bassett, R.N. – 4th Alternate						P	Guest				
Staff Attendees											
Bob Hemker	P	P	P	P	P	P	P	P	P		
Gerald Bracht	P	P	P	P	P	P	P	P	P		
David Tam			P	P	P	E	P	E	P		
Steve Gold	P	P									
Tanya Howell – Secretary	P	P	P	P	P	P	P	P	P		
Invited Guests	**See Text of Minutes For Names of Guest Presenters**										

[1] Director Rivera left the meeting following the Plan of Finance update, and was replaced by Linda Greer as the Finance Committee Alternate
[2] Sheila Brown attended as Interim CEO, with full voting privileges

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BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008				
AGENDA ITEM	**DISCUSSION**	**CONCLUSION/ACTION**	**FOLLOW UP/ RESPONSIBLE PARTY**	**FINAL ?**
MEETING LOCATION	Graybill Auditorium, Palomar Medical Center, 555 East Valley Parkway, Escondido, CA			
MEETING CALLED TO ORDER	6:05 p.m. by Chair Ted Kleiter			
ESTABLISHMENT OF QUORUM	See roster			
PUBLIC COMMENTS	There were no public comments			
ADJOURNMENT TO CLOSED SESSION	**THE MEETING ADJOURNED TO CLOSED SESSION AT 6:05 P.M., PURSUANT TO CALIFORNIA GOVERNMENT CODE §54956.9 (B)(3)(A): CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION. SIGNIFICANT EXPOSURE TO LITIGATION (1 CASE). *ANTICIPATED ACTION.***			
OPEN SESSION RESUMED	Chairman Kleiter resumed the Open Session at 7:04 p.m.			
ACTION RESULTING FROM CLOSED SESSION DISCUSSION	Discussion: PPH has a proposed 2-year capitation agreement (Calendar Year 2009-2010) with PacifiCare/United, to be memorialized with PacifiCare/United. Current status on discussions with capitated groups/IPA were reviewed, and the terms and conditions under which PPH would be willing and able to maintain a capitated risk relationship with them. Each group/IPA will be included in the risk contract if acceptable terms and conditions can be reached.	**MOTION:** By CEO Covert, seconded by Director Bailey and carried to recommend that PPH enter into an agreement for two (2) years with PacifiCare/United for Commercial Capitation and with Secure Horizons for Senior Capitation, in accordance with specifics negotiated with them to date, in addition to working with our current Medical Groups and IPA Risk Partners based on an outline of direction given to CFO Bob Hemker in negotiated agreements with them. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.	Y
INFORMATION ITEM(S)	• Final property on Valley Boulevard, owned by the Hrnjak Family Trust • One of the tenants requested us and also through the City Council of Escondido to help them remain in their lease o PPH negotiated an extended escrow time with the Hrnjaks, in recognition that their tenants will need to have plenty of time to relocate ▪ We have no obligation to the tenancy going forward, as it is a matter	***Information Only***		

BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008

AGENDA ITEM	**DISCUSSION**	**CONCLUSION/ACTION**	**FOLLOW UP/ RESPONSIBLE PARTY**	**FINAL ?**
	between a landlord and their tenant ▪ PPH will not consent to close of escrow with tenants on property ▪ Escrow papers demanded that property be delivered vacant of tenants o All tenants are in month-to-month tenancy ▪ No lease structure ▪ 30 days' notice only is required ▪ With extended escrow, actually turned into a 90-day notice o §1033 had nothing to do with tenants • Committee members expressed concerns about some of the comments in the newspapers o Incorrect statements about requirements for anything done at the locations to have medical purposes ▪ MOU with the City of Escondido calls for PPH to go to the City once all properties have been acquired and make a request that they close the street ▪ City to close the street upon request by PPH			
MINUTES – AUGUST 26, 2008	No discussion	**MOTION:** By Director Bailey, seconded by Director Rivera and carried to approve the minutes of the August 26, 2008, Board Finance Committee meeting as presented. All in favor. None opposed.		Y
ISSUANCE OF GO BONDS, ELECTION OF 2004, SERIES 2007A AND CONVERSION OF CERTIFICATES OF PARTICIPATION – ARS 2006	Bob Hemker introduced the members of the PPH Financing Team in attendance ((Robert Barna and Chad Kenan of Citigroup; Carlos Bohorquez of Kaufman Hall; and Kathleen Leak of Orrick) and thanked them for their work. He stated that we are dealing with two bond issues, as well as the uncertainty in the current marketplace, and we need to reduce our exposure to the current variable rate debt. Utilizing the attached presentation *(Attachment 1)* the team led a discussion on the complex issues involved in the issuance of the next tranche of General Obligation (GO) Bonds, as well as the resolution of issues dealing with the pending conversion of the Certificates of Participation (CoPs) issued in 2006. • Pages 3 & 4 graphically summarize the historical occurrences on Wall Street the week of September 15th, as well as the actions of investors in reaction to those occurrences • As PPH cannot control market conditions, we need to: o Rationalize our decisions	**MOTION:** By Director Bailey, seconded by Director Rivera and carried to recommend approval of the Resolution and requisite documents and delegation to Management of the authority to take the appropriate action necessary to finalize the documents and matters necessary to issue the third tranche of General Obligation Bonds, not to exceed $110M par, to close on or about November 20, 2008, through a negotiated sale utilizing the previously established Joint Exercise of Powers Authority. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with recommendations for approval.	Y

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AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
	o Minimize risk exposure points o Take out controllable risk • Conversion is a solution for the 2006 CoPs-ARS o Preserves refunding in the future as an option • Chad Kenan briefly reviewed what has happened in the market o US Treasuries were yielding 0% for 30 days, so there were no investors for other yields ■ Left a huge supply of bonds in the marketplace with no demand o Over $80B was pulled out of the marketplace in one day ■ Page 5 details the exodus of cash from the marketplace ■ The market needs to have inflow for investments o Municipal Bond ("Muni") Market must improve before we can issue bonds (Page 6) ■ Only a few $50M tranches have sold since September 15th ⅄ As opposed to $6B scheduled for sale each week in prior weeks ■ Even though GO Bonds are a no-risk instrument, there are no buyers in the Muni Market due to the globalized uncertainty ⅄ Only activity in market right now is retail for personal accounts ⅄ Institutions are not participating at all (a) If bonds are not AAA paper, would cause an exposure when having to sell ■ Sellers are currently holding off ⅄ If others go to market at the same time as PPH, it could become a buyers market ■ Need to maintain a constant review of the market with issuance scheduled for in mid-November ■ Only 45 days in which to shore up uncertainty and hope that the market will stabilizes so there will be bids for the bonds o Rating agency reviews are next week ■ All 3 agencies have agreed to conference calls vs. in-person meetings ■ Positive for PPH that they are willing to do the reviews without face-to-face interviews ⅄ They know who we are, our projects, etc. ■ Review of the District's ability to issue debt	**MOTION:** By Director Bailey, seconded by Director Rivera and carried to recommend approval Resolution and requisite documents and delegation to Management of the authority to take the appropriate action necessary to finalize the documents and matters necessary to convert/restructure the 2006 CoP-Auction Rage Securities to fixed rate bonds/CoPs and to terminate the SWAP transaction for the 2006 CoP–Auction Rate Securities, to close on or about November 20, 2008, through a negotiated sale utilizing the previously established Joint Exercise of Powers Authority. All in favor. None opposed.		

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AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
	• Issuance instrument schedule switched in the last Board-approved Plan of Finance (PoF) o Flipped the Revenue and GO schedules ■ Allowed us to stabilize and enhance credit aspects on the Revenue bond side ■ Ability to support the promised tax levy amounts by issuing now ⅄ Agreed to in the PoF was a level tax levy throughout the next 30 years ⅄ Issuing now, we're still at the same tax levy of $17.75/$100K of assessed value ⅄ Assessed value is up about 2% (a) San Diego County appears to have been proactive in assessments based on the fires (i) Previously voter approved Prop 8 allows homeowners to appeal to the assessor 1. Can have home revalued based on neighbors' assessment, which will go back up when the market does (b) We notify the County what to levy (c) There is a little bit of a reserve fund, from which we will also be able to draw ⅄ Good from a taxpayer perspective (a) Seeing the same tax bill every year • Of the $320M in bond monies that have been issued o $80M from the series 2005A bonds is totally spent down o As of August the was $241M from the Series 2007A bonds remaining ■ There have been a couple of draws since then totaling about $20 to 25M • Keeping in sync with the draw-down schedule o Must issue $110M in GO Bonds by 2009 o ARS conversion will provide swap-out monies o Will carry us down to a FY2010 issue ■ Preparation will begin about 15 months out from this issue ■ Likely the 2nd or 3rd quarter of FY2010 • Exec summary o Paid premium for insurance on the 2006 CoPs ■ Insurance is convertible to new issue			

BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008				
AGENDA ITEM	**DISCUSSION**	**CONCLUSION/ACTION**	**FOLLOW UP/ RESPONSIBLE PARTY**	**FINAL ?**
	■ Don't want to get rid of it if there is value added by keeping it o Swap termination is negative – any probability that it would minimize or reduce? ■ Reduction of approximately $11M o Resolutions and primary documents – need to move through process of Board approval ■ Documents do contain "holes" that will be filled in right up until the final issuance o ARS resets continue to fluctuate ■ The week of 9/8 they were at 4% ■ Week of 9/15 they were down to 1% ■ Last 2 weeks they have been up to 8% ■ 12-wk rolling is at about 5% ⅄ It was about 3.5% just before the fluctuations started in February ■ Individual weeks and series show no predictability ■ The risk component is out of hand ■ Can't tell if this is a temporary situation, but the market is decimated • Revenue Bond Index (RBI) vs. SIFMA Rates *(Page 11)* o Overall borrowing costs have increased • Conversion *(Page 12)* o Value to having insurance in place o Bond structure is still on the same 30-year maturity schedule o Sold at either a premium or discount ■ Premium is desirable as it covers the cost of issuance money o Adjusting to maximum debt service that must be paid o Target for sale is November 2008 o Plusses and minuses on interest rate we have enjoyed are pretty much neutral at this point ■ Lost some positive value ■ The mark to market on the swap payment is about $8M • GO Bond issue *(Page 14)* o Traditional fixed is required for GO Bonds o Insurance only if value added o Capital Appreciation Bonds			

BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008				
AGENDA ITEM	**DISCUSSION**	**CONCLUSION/ACTION**	**FOLLOW UP/ RESPONSIBLE PARTY**	**FINAL ?**
	■ Allows handling of when principle reduction is done ■ Interest accrued at maturity o Costs of issuance are funded as part of issuance proceeds • Several instruments are involved in the issuance of the GO Bonds o All documents are similar to those used in prior issues o Will distribute the most current draft of Appendix A • ARS Reset utilizes a Preliminary Remarketing Agreement as opposed to Preliminary Offering Statement o Same type of documents, otherwise o Delineates what we're committing to as an organization • Discussion o If we go to market and orders are not offered at appropriate rates, we can reject the rates o Some flexibility to back out if—with advice from Citigroup and Kaufman Hall—we determine there is still too much volatility in the market ■ Would have to bring back to the Board for approval o Federal bail-out and elections will have occurred before we go to market and could influence the market			
HEALTH DEVELOPMENT LINE OF CREDIT (LOC)	Before the Committee is a request from Health Development to increase their LoC to fund the Research Institute and Health Development operating deficits • In conjunction with approval of the FY09 Operating Budget o Correlating the LoC with the Budget o Operating expenses embedded in the budget, but cash flow needs not in conjunction with budget presentation ■ Needs to go through separate entities ■ Also allows funding for Research Institute to be separated out	**MOTION:** By Director Bailey, seconded by CEO Covert and carried to recommend approval of the increased LoC with Health Development from $2.9 million to $3.4 million as requested. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.	Y
FIRST AMENDMENT TO MEDICAL DIRECTOR AGREEMENT – ALAN CONRAD, MD				

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BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008				
AGENDA ITEM	**DISCUSSION**	**CONCLUSION/ACTION**	**FOLLOW UP/ RESPONSIBLE PARTY**	**FINAL ?**
DIABETESHEALTH FOR PPH	• No discussion	**MOTION:** By Director Bailey, seconded by Director Rivera and carried to approve the First Amendment to Medical Director Agreement between PPH and Alan Conrad, M.D., for DiabetesHealth Services, extending the agreement for two years **[November 1, 2008 through October 31, 2010]**. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.	Y
FIRST AMENDMENT TO CLINICAL DIRECTOR SERVICES AGREEMENT – MARINA KATZ, MD				
OUTPATIENT BEHAVIORAL HEALTH	• No discussion	**MOTION:** By Director Bailey, seconded by CEO Covert and carried to approve the First Amendment to Clinical Director Services Agreement Between PPH and Marina Katz, M.D., wherein Dr. Katz will also provide Clinical Director coverage and medical leadership for the Outpatient Behavioral Health Program at Palomar Medical Center, beginning on November 1, 2008, and continuing through the expiration of the original agreement on August 31, 2010. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.	Y
INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE (ICOC)				

DRAFT

BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
ANNUAL REPORT FOR DISTRICT FISCAL YEAR 2007-2008	At the Annual meeting of the ICOC, the expenditures paid for by the District from General Obligation funds as approved by Measure BB were reviewed and approved by the ICOC. The Annual Report for District Fiscal Year 2007-2008 was included as Addendum C in the agenda packet. There were no exceptions noted as related to annual submittals. • Voluntary oversight committee o Ramping up and getting comfortable with their duties ■ They are validators of expenditures ⅄ Some concerns that they're not involved in decision-making o Dedication toward duties evidenced by the fact that one member came in prior to the meeting and reviewed all draws at the invoice level ■ Discussion regarding hiring of an external auditor to review for them ⅄ Defeats purpose of their duties ⅄ No funds from which to pay ■ Will ensure documents continue to be available for members who wish to review prior to meeting	**MOTION:** Motion by Director Bailey, seconded by Director Rivera and carried to recommend approval of the ICOC Annual Report for District Fiscal Year 2007-2008 as presented. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.	Y
APPOINTMENT OF OFFICERS	At the Annual meeting, the ICOC initially nominated the incumbent officers for re-election • After the meeting, it was discovered that there are term limits for the position of Chair, and that Chair Steve Yerxa could not be re-nominated • A poll was taken by email with the resultant nominations: o Vice-Chair Bob Wells was nominated for Chair o Margaret Moir was nominated to replace Mr. Wells as Vice-Chair o The nomination for John McIver as Secretary stood as made at the meeting • The Board has delegated the authority to appoint the officers of the ICOC to the Chairs of the Board and the Board Finance Committee o Chairman Kleiter recommended acceptance of the ICOC recommendations at this level, with discussion at the next Board meeting when Chairman of the Board Krider will be available ■ Action to be taken by the Board and Board Finance Chair—as delegated to them—at the Board meeting	**MOTION:** By Director Bailey, seconded by CEO Covert and carried to accept the nominations by the ICOC for Officers and to recommend that the Board and Board Finance Committee Chair appoint the following nominees at the Board meeting: Bob Wells – Chair; Margaret Moir – Vice-Chair; John McIver - Secretary. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.	Y

<table>
<tr><th colspan="5">BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008</th></tr>
<tr><th>AGENDA ITEM</th><th>DISCUSSION</th><th>CONCLUSION/ACTION</th><th>FOLLOW UP/ RESPONSIBLE PARTY</th><th>FINAL ?</th></tr>
<tr><td>VACANCY ON THE ICOC</td><td>Member Ed Lehman sent a letter to Acting Chair Steve Yerxa, notifying him of his resignation from the ICOC.
Resignation in effect creates two vacancies
Vacancy in number, as it reduces membership from required nine members down to eight
Vacancy of required seat by a member of a Senior Citizens’ organization
Current member Bill Bonner meets the criteria of active participation in a Senior Citizens’ organization
Management recommends appointing Mr. Bonner to fill the required specialty seat
If approved, will allow recruitment for an At Large vacancy with the potential for more applicants
Date for deadline of application receipt to be set at approximately 30 calendar days from initial date of posting (ie, if posted the day after final approval by the Board, deadline would be Tuesday, November 18, 2008)
Allows time for applications to be reviewed prior to the December 2nd Board Finance Committee meeting
Informational notes
ICOC are moving to semi-annual meetings, with a mid-year meeting currently set for April 21, 2009
At the next meeting, the ICOC will have an opportunity to tour the site at PMC West</td><td>MOTION: By Director Bailey, seconded by Director Rivera and carried to recommend the appointment of Bill Bonner to fill the vacant seat required of a member of a Senior Citizens’ organization and to open the application process for the filling of an At Large seat, with deadline for receipt of applications to be set for Tuesday, November 18, 2008. All in favor. None opposed.</td><td>Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.
Secretary to the Finance Committee Tanya Howell will ensure that the notice of vacancy and deadlines are posted following final approval by the Board.
Applications received timely from qualified applicants will be reviewed at the December 2, 2008 Board Finance Committee meeting.</td><td>N</td></tr>
<tr><td>LEGAL SERVICES STRATEGIC PLAN</td><td>Utilizing the attached presentation (Attachment 2), General Counsel Janine Sarti outlined the strategic plan for the Legal Services Department.
Meets once a week with the Risk Manager who handles issues with BETA
Board is developing discipline regarding use of in-house counsel
Legal Fees Cost Comparison
Charts continued usages of outside counsel by various factions (ie, Board, Medical Staff, for real estate transactions, etc.) vs. prior to having in-house counsel
Too soon for determination of cost savings vs. Salary/Benefits costs for Department
Current contract for most outside counsel services is with Fulbright
Retainer at $2K/month
Some items also bear extra charges</td><td>Information only</td><td>Forwarded to the October 20, 2008, Board of Directors meeting as information.
Chairman Kleiter requested that a report of total costs, including what we’re paying for the department, be brought back to the Committee. Bob Hemker to assist</td><td>Y</td></tr>
</table>

BOARD FINANCE COMMITTEE – MEETING MINUTES – TUESDAY, SEPTEMBER 30, 2008				
AGENDA ITEM	**DISCUSSION**	**CONCLUSION/ACTION**	**FOLLOW UP/ RESPONSIBLE PARTY**	**FINAL ?**

	• Department is still in need of a contract lawyer and a compliance person
	  o RAC audits must go through legal for the appeals process
	    ■ Anticipating between 1500-2000 appeals per year
	    ■ May investigate hiring another attorney or a paralegal to cover those
	• Legal costs for issuance of bond monies have historically been several hundred thousand dollars per issue
	  o Now internal review by Mrs. Sarti
	• Average size of legal services departments at facilities/districts of similar size to PPH is between 6&8 attorneys at an average cost of one-half of 1% of gross charges
			Janine Sarti in making those calculations	

FINANCIAL REPORT
AUGUST 2008 & YTD 2009
	Bob Hemker provided a summary review of the August 2008 & YTD FY2009 financial report, utilizing portions of the presentation distributed as Addendum E in the agenda packet.
	• Key Variances *(Pages 11-12)*
	  o Net revenues are about $350K positive to budget
	  o Salaries & Wages show a positive variance to budget of $950K
	    ■ Offset in part by the negative $740K in Contract Labor
	    ■ Due in part to the nursing graduate new-hires
	      ⅄ Budgeted specifically for additional expenses to be incurred during preceptorships - should continue for 8-16 weeks
	      ⅄ Should drop off in November/December when trained
	      ⅄ Would pick back up with January new-hires, then drop off again on the same cycle
	  o Supplies are positive $84K to budget
	    ■ Implantables are still negative, with technology continuing to be a challenge
	    ■ Pharmaceutical vendor of choice just changed
	      ⅄ Rate is about 70% better
	      ⅄ Should see significant improvement
	• Cash Collections *(Page 50)*
	  o In excess of $10M on hold from Medi-Cal due to the State budget delay
	    ■ Just under $8M came in yesterday, so still short over $2M
	    ■ $39.2M for month of September
	  o Medicare processing delays are about $1M
		MOTION: By Director Rivera, seconded by Director Bailey and carried to recommend approval of the August 2008 & YTD FY2009 Financial Report as presented. All in favor. None opposed.	Forwarded to the October 20, 2008, Board of Directors meeting with a recommendation for approval.	Y

AGENDA ITEM	DISCUSSION	CONCLUSION/ACTION	FOLLOW UP/ RESPONSIBLE PARTY	FINAL ?
	o Also about $1M short of anticipated funding for Section 1011 undocumented monies ■ Used to get $500K per quarter ■ Government has cut back on those fundings ⅄ They are doing more document review regarding identity issues o YTD we are just under $100M through against a $108M flat line budget ■ New monies are just now catching up with the cycle o Very encouraged by the redesign of PFS and charge capture issues in the Revenue Optimization Committee (ROC) • Discussion regarding spending authority limits for Administration o With all the construction going on, do we need to increase limit? ■ If lack of approvals causes a delay, it can be expensive ■ Bob Hemker & David Tam reviewed the topic based on recommendations by DPR ⅄ Rarely is anything sitting over 24 hours due to the signing authorities already afforded to Bob Hemker and Michael Covert ⅄ Potential for adding David Tam as a signatory o Consensus that it should be discussed at the Facilities and Grounds Committee meeting on Monday of next week ■ If recommended there, bring topic forward to Finance Committee			
ADJOURNMENT	**The meeting was adjourned at 8:49 p.m.**			
SIGNATURES: • COMMITTEE CHAIR ____________ Ted Kleiter • COMMITTEE SECRETARY ____________ Tanya Howell				

ATTACHMENT 1

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Palomar Pomerado Health

Issuance of GO Bonds Series 2008A and

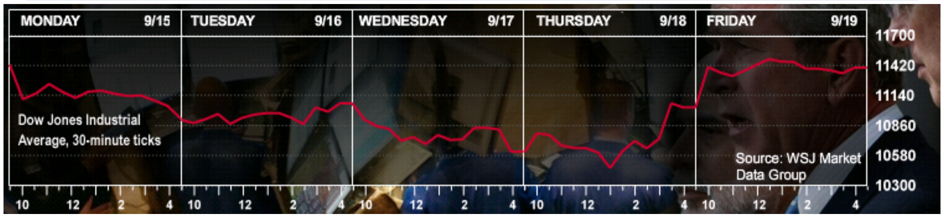
Conversion of 2006 Auction Rate Securities

September 30, 2008

Market Update

Att 1-2

Historical Week On Wall Street



Monday	Tuesday	Wednesday	Thursday	Friday
• Bank of America announces buyout of ML • LEH files for Bankruptcy • AIG downgraded	• **Reserve Primary Fund "breaks the buck"** • Government seizes control of AIG with $85 billion bailout	• **Investors rushed to Treasuries driving 3-month yields to near zero** • SEC rolls out rules to crack down on short-selling	• **Investors pull out nearly $80 billion from MMFs** • Global central banks join to unfreeze credit markets • Treasury and Federal Reserve explore plan to take over bad debts	• Equity markets soar on news of government Bailout Plan • Treasury and Fed bolster Money Market Funds with a Guaranty Program

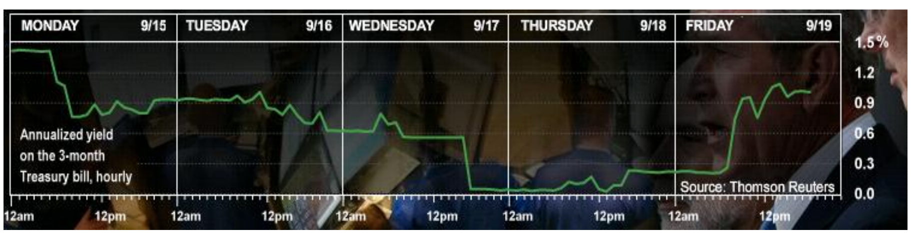
Weekend
• Treasury announces $700 billion bailout plan; seeks swift Congressional approval • GS and MS receive approval to become bank holding companies

3

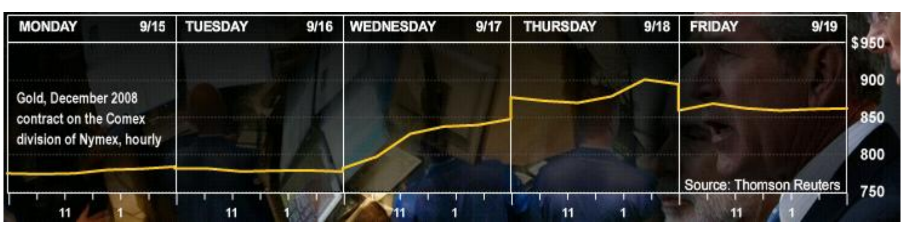
PALOMAR POMERADO HEALTH

Volatility Accelerates Flight To Quality

- Short-term Treasury yields dropped to near zero as Money Market Funds and other investors fled to safety.



- Gold prices also increased dramatically as another alternative safe haven for investors.



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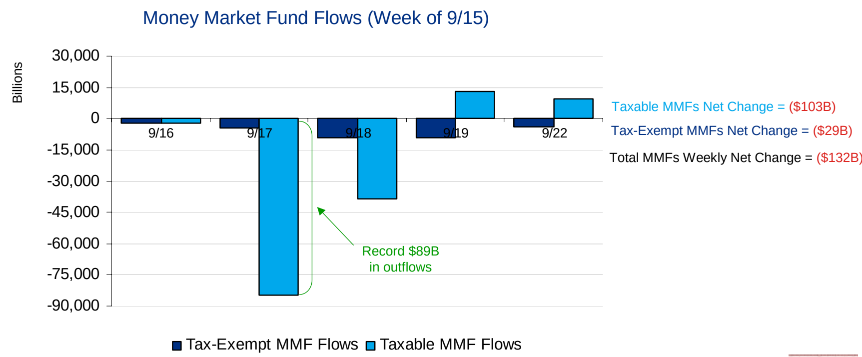
PALOMAR POMERADO HEALTH

Att 1-3

Massive Money Market Redemptions Have Drained Liquidity

- Money Funds had net outflows of $132 billion last week.
  - On Wednesday, investors pulled a record $89 billion out of Money Market Funds.
- By the end of the week, news of the Treasury Department's Guaranty Program calmed the money markets somewhat.
  - Taxable money market funds (total 1,263) saw some net inflows on Friday and Monday
  - On the other hand, tax-exempt money market funds continued to suffer net redemptions



Source: IMoneynet

PALOMAR POMERADO HEALTH

What Has to Happen for Muni Market to Improve?

- Fear needs to subside and confidence restored.
- Retail buyer interest continues to be strong.
- Cash from Auction Rate Buybacks (estimated at $40 billion) in Oct-Nov redirected towards short and long-term municipals.
- Retail needs to channel money into the Municipal Bond Funds – the traditional aggregators in the municipal market.
- Broker-Dealers need to re-commit capital to improve liquidity in marketplace.
- New Issue volume and/or secondary market portfolio unwinding (e.g., market supply) needs to recede.
- Crossover buyers need to return to the market, lured by relative upside and cheapness of municipals.

PALOMAR POMERADO HEALTH

Current Strategy and Financings

PALOMAR POMERADO HEALTH

Executive Summary

- Volatile and uncertain markets combined with a continued deterioration of the credit markets has influenced the plan of finance
  - $174.775 million of Series 2006 Auction Rate Securities ("ARS") to be converted to traditional fixed rate bonds
    - Shifts the risk to the investors
    - Retention of FSA Insurance if still providing value
    - Secures committed funding - provides certainty of annual debt service
    - Provide PPH with most prudent restructuring option weighing internal and external credit concerns
  - Terminate Floating to Fixed interest rate swap
- Continue funding for Master Facility plan with General Obligations bonds
  - Issue $110 million Series 2008A General Obligations bonds targeted to close in November
- Request Board approval to move forward with restructuring of Series 2006 ARS to fixed rate debt & Issuance of GO Bonds Series 2008A – Resolution and various Bond Documents

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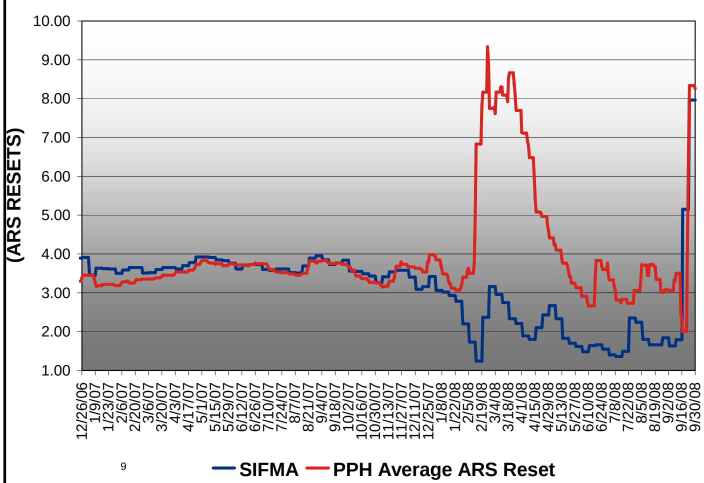
PALOMAR POMERADO HEALTH

PPH ARS Rate Performance

Since inception in December 2006, PPH's Series 2006A-C ARS have averaged 3.96%, resetting 88 bps higher than the Securities Industry and Financial Markets Association (SIFMA) average.

Series 2006A-C Historical Performance



Series 2006 Reset Statistics:

Average Reset:	**3.96%**
Average SIFMA:	**3.08%**
Average Spread:	**+0.88%**

Current Reset (9/29):	**8.00%**
Current SIFMA:	**7.96%**
Current Spread:	**+0.04%**

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PPH ARS Interest Rate Resets – Historical Recap

Week of:	2006 Series A	2006 Series B	2006 Series C	Combined Average Weekly Reset Rate	Combined 12 Week Rolling Average Reset Rate	12 Week Rolling Average Reset Rate	12 Week Rolling Average Reset Rate	12 Week Rolling Average Reset Rate
2/4/08	3.75%	3.50%	3.25%	3.50%	3.56%	3.58%	3.54%	3.57%
2/11/08	4.50%	7.00%	9.00%	6.83%	3.83%	3.67%	3.80%	4.00%
2/18/08	10.00%	10.00%	10.00%	10.00%	4.35%	4.19%	4.33%	4.53%
2/25/08	8.00%	8.50%	6.74%	7.75%	4.69%	4.55%	4.74%	4.78%
3/3/08	8.10%	8.00%	8.40%	8.17%	5.07%	4.92%	5.11%	5.17%
3/10/08	8.50%	8.00%	7.77%	8.09%	5.45%	5.33%	5.48%	5.53%
3/17/08	8.00%	9.77%	8.22%	8.66%	5.84%	5.67%	5.97%	5.87%
3/24/08	7.11%	8.88%	7.09%	7.69%	6.16%	5.93%	6.38%	6.15%
3/31/08	7.11%	7.20%	7.03%	7.11%	6.46%	6.23%	6.69%	6.45%
4/7/08	6.48%	6.88%	6.08%	6.48%	6.73%	6.49%	7.01%	6.69%
4/14/08	5.00%	5.24%	5.00%	5.08%	6.90%	6.65%	7.19%	6.85%
4/21/08	4.91%	4.98%	5.00%	4.96%	7.03%	6.79%	7.33%	6.97%
4/28/08	4.25%	4.50%	4.48%	4.41%	7.10%	6.83%	7.41%	7.07%
5/5/08	3.70%	4.60%	4.00%	4.10%	6.88%	6.76%	7.21%	6.65%
5/12/08	3.70%	3.89%	3.70%	3.76%	6.36%	6.24%	6.70%	6.13%
5/19/08	3.50%	3.50%	3.25%	3.42%	6.00%	5.86%	6.29%	5.84%
5/23/08	3.00%	3.39%	3.00%	3.13%	5.58%	5.44%	5.90%	5.39%
6/2/08	2.99%	2.75%	3.00%	2.91%	5.14%	4.98%	5.47%	4.99%
6/9/08	2.50%	2.49%	2.99%	2.66%	4.64%	4.52%	4.86%	4.55%
6/16/08	2.50%	4.50%	4.50%	3.83%	4.32%	4.14%	4.49%	4.34%
6/23/08	2.50%	4.09%	4.21%	3.60%	4.03%	3.75%	4.23%	4.10%
6/30/08	3.00%	3.00%	3.99%	3.33%	3.77%	3.46%	3.91%	3.93%
7/7/08	2.50%	2.75%	3.19%	2.81%	3.58%	3.25%	3.70%	3.78%
7/14/08	2.30%	3.00%	3.19%	2.83%	3.40%	3.04%	3.54%	3.63%
7/21/08	2.00%	3.00%	3.18%	2.73%	3.26%	2.85%	3.41%	3.52%
7/28/08	3.00%	2.99%	3.18%	3.06%	3.17%	2.79%	3.28%	3.45%
8/4/08	4.00%	3.99%	3.15%	3.71%	3.17%	2.82%	3.29%	3.40%
8/11/08	3.19%	3.99%	3.99%	3.72%	3.19%	2.79%	3.33%	3.46%
8/18/08	3.04%	3.99%	3.00%	3.34%	3.21%	2.79%	3.38%	3.46%
8/25/08	3.01%	3.04%	3.00%	3.02%	3.22%	2.80%	3.40%	3.46%
9/1/08	3.19%	3.00%	3.00%	3.06%	3.25%	2.85%	3.45%	3.46%
9/8/08	4.00%	2.90%	3.60%	3.50%	3.23%	2.98%	3.31%	3.39%
9/15/08	1.00%	2.00%	3.00%	2.00%	3.09%	2.85%	3.14%	3.29%
9/22/08	8.00%	8.50%	8.50%	8.33%	3.51%	3.27%	3.60%	3.66%
9/29/08	8.00%					3.73%		

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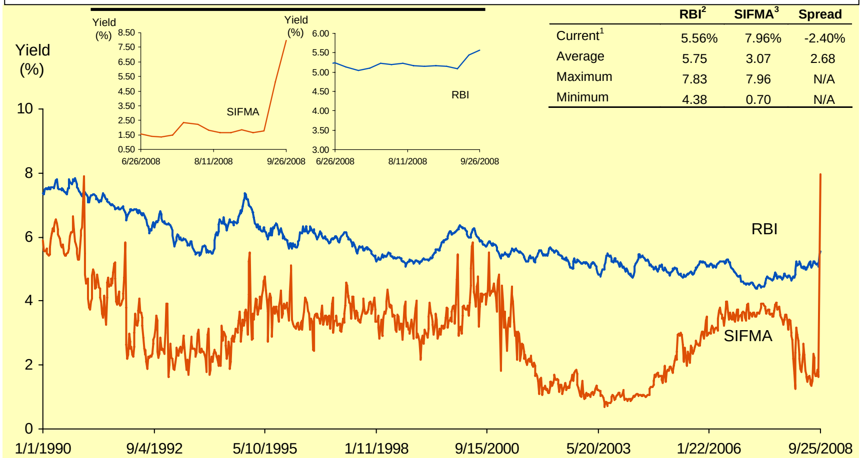
Interest Rates Have Continued to Increase

Along with increasing interest rates, credit spreads have widened out increase PPH's overall borrowing cost.

RBI vs. SIFMA Rates



	RBI[2]	SIFMA[3]	Spread
Current[1]	5.56%	7.96%	-2.40%
Average	5.75	3.07	2.68
Maximum	7.83	7.96	N/A
Minimum	4.38	0.70	N/A

[1] Reflects market conditions as of September 29, 2008
[2] The Revenue Bond Index (RBI) is based on 30-year bonds issued by 25 different revenue bond issuers for a variety of purposes including housing, transportation, hospitals and pollution control. The RBI is widely used as a benchmark for long-term revenue bonds
[3] The Securities Industry and Financial Markets Association (SIFMA) Index is calculated by taking the weighted-average of the clearing rates for 250 of high-grade tax-exempt short-term issues with weekly resets. The SIFMA Index is a widely used proxy for high-grade weekly bonds

PALOMAR POMERADO HEALTH SPECIALIZING IN YOU

Conversion of Series 2006 ARS

$174.775 million of Series 2006 Auction Rate Securities ("ARS") will be converted to traditional fixed rate bonds

- FSA Insurance will be retained
  - Currently providing 20-40 basis points of benefit
  - No additional fee
- Bond structure/amortization will match the existing structure
- Bonds will be sold at either a premium or a discount
- The Series 2006 floating to fixed interest rate swap will be terminated
- The existing Debt Service Reserve Fund will need to be increased
- Cost of Issuance expenses will be incurred
- Bonds will be sold based on the rating of FSA (currently Aaa/AAA/AAA) with the underlying rating of PPH (currently A3)

PALOMAR POMERADO HEALTH SPECIALIZING IN YOU

Att 1-7

Termination of the Series 2006 Interest Rate Swap

- PPH executed a floating to fixed interest rate swap in November 2006
- When the swap was executed, the fixed swap rate of 3.478% (3.218% plus 0.26% auction agent fee) was approximately 75 basis points below the traditional insured fixed rate
  - Including basis risk from inception through February 11th
    - PPH had a net benefit of approximately 31 basis points, or $558,000 annually on $180 million of debt when compared to traditional fixed rate bonds
  - Incorporating the basis risk from inception through the market dislocation to date
    - PPH is paying an additional 61 basis points, or $1.1 million annually on $180 million of debt when compared to traditional fixed rate bonds
- Current swap rates are lower than when PPH executed in November 2006
  - The mark to market as of September 26th, 2008 on the swap is ($8.4 million)

Note: Synthetic fixed rates assuming PPH pays a fixed rate and receives 56% of LIBOR + 0.23% on 21-year average life. Includes 0.26% for variable rate bonds fees which are estimates and subject to change over the life of the transaction and may impact total debt service costs. When comparing to traditional fixed rates bonds it is assumed that the traditional fixed rate bonds were issued as AAA insured on November 17th, 2006
For illustration purposes only, past performance may not indicate future results.

PALOMAR POMERADO HEALTH SPECIALIZING IN YOU

Series 2008 General Obligation Bonds

$110 million of Series 2008A General Obligation Bonds will be issued as traditional fixed rate bonds

- Insurance will be utilized if economical
  - Currently only FSA and Assured Guaranty may provide value
- Bonds will be structured to minimize the impact on the tax payers
- Bonds will structured as Capital Appreciation Bonds
- Bonds will be sold at either a premium or a discount
- Cost of Issuance expenses will be incurred and funded as part of issuance proceeds
- Bonds will be sold on the rating of the District, currently (Aa3/AA-/A+)

PALOMAR POMERADO HEALTH SPECIALIZING IN YOU

Steps to Execution

- **September 2008**
  - Finance Committee: Review of current conditions, review financing strategy, review and recommend approval of associated Resolutions and Bond related documents and instruments
- **October 2008**
  - Update Rating agencies
  - Finalize Preliminary Official Statement
  - Board meeting for final approval
  - Audit Committee meeting for approval
  - JPA meeting for approval
  - Mail Preliminary Official Statement
- **November 2008**
  - Marketing of bonds
  - Investor conference call
  - Price bonds
  - Finalize documents
  - Close financing (Targeted: November 20, 2008)

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PALOMAR POMERADO HEALTH SPECIALIZING IN YOU

Resolutions, Documents & Agreements

- **GENERAL OBLIGATION BONDS**
  - GO Bond Resolution
  - Second Supplemental Paying Agent Agreement
  - Preliminary Official Statement (POS)
  - Appendix A to Preliminary Official Statement
  - Appendix C to Preliminary Official Statement
  - Continuing Disclosure Undertaking
  - Bond Purchase Agreement
- **CONVERSION OF 2006 CoP – ARS TO FIXED RATE BONDS:**
  - Conversion Resolution
  - Second Supplemental Trust Agreement
  - Preliminary Remarketing Agreement
  - Appendix A to Preliminary Remarketing Agreement
  - Remarketing Agreement

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PALOMAR POMERADO HEALTH SPECIALIZING IN YOU

Board Authorization results in:

- Authorize the issuance of General Obligation Bonds, Election of 2004, Series 2008A, closing November 20, 2008, not to exceed $110 million Par
- Authorize the conversion of the 2006 CoP – Auction Rate Securities to fixed rate bonds / CoPs
- Authorize the termination of the SWAP transaction for the 2006 ARS
- Authorize the issuance of the G.O. bonds and the fixed rate conversion bonds / CoPs through a negotiated sale and utilize the previously established Joint Exercise of Powers Authority.
- Approve the Resolutions and requisite documents and agreements to consummate the GO Bond Issuance and the conversion of the 2006 ARS

PALOMAR POMERADO HEALTH

ATTACHMENT 2

PALOMAR
POMERADO
HEALTH

Legal Services Department

Strategic Plan

Janine Sarti
General Counsel
September, 2008

Legal Services Department Vision Statement

- To have an unwavering focus on quality, cost and access to legal services.

Legal Services Department Mission Statement

*W*e believe:

– our customers are our most valued assets.
– the relationships we develop are integral to our work.
– honesty and integrity are the cornerstones of this department.

*W*e promise:

– quality legal advice that is responsive to your needs and sets the standard of excellence for legal services;
– to demonstrate respect and compassion to all persons;
– to work with you as part of a team to achieve our mutual goals of quality care, creating healthy communities, and being a leader in the professions we serve.

Trusted Advisor

- Knows the law
- Excellent communicator
- Has a confident style with high emotional intelligence
- Sound knowledge of the business and strategy
- Has excellent judgment
- Willing to put skin in the game
- Has a strong work ethic and sense of urgency

......Every minute of every day

Att 2-2

Legal Services Department Goals

Reduce reliance on outside legal counsel

- Cost savings
- Improved service and response time to legal issues

Create, develop and implement a successful contract management process

- Improve communication and process
- Eliminate unnecessary payments
- Assure compliance with regulations and policies

Legal Services Department Goals (continued)

Review and enhance Best Governance Practices

- Ensure compliance with good governance and ethical practices.

Develop guide book for specific recurring legal issues

- Brown Act, HIPAA, witness preparation
- Reduce liability and increase awareness of issues
- Reduce outside counsel legal fees

Legal Services Department Goals (continued)

Improve process for response to public records requests

- Ensure an organized and timely response to requests

Develop a Legal Department webpage on PPH Intranet

- Provide informational updates to customers
- Increase awareness of educational opportunities
- Access to Legal Department forms

Legal Services Department Goals (continued)

Develop policies and agreement templates regarding physician relationships

- Reduce liability through education on legal matters
- Ensure compliance with state and federal laws

Raise Medical Staff awareness of Legal Department and available resources

- Reduce outside legal counsel fees
- Provide timely response to legal questions

Legal Services Department Goals (continued)

Create and organize a repository for key organizational documents

- Provide clear understanding of PPH entities
- Provide unified resource and location

Develop Intellectual Property portfolio

- Protect the ideas and creations of PPH
- Reduce outside counsel fees

Legal Services Department Goals (continued)

Develop Legal Department customer satisfaction survey

- Increase awareness of improved delivery of legal services
- Opportunity for customers to provide input

Develop Independent Contractor guide and checklist

- Assure compliance with IRS regulations
- Reduce PPH risk and liability
- Clarify contractual requirements

Legal Services Department Goals (continued)

Develop Legal Department operations manual

- Concise resource for day-to-day legal operations
- Maintain continuity of Legal Department workflow

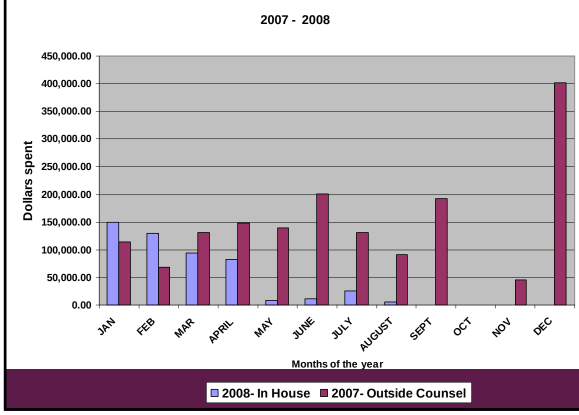
Identify volunteer and professional development opportunities

- Enhance community awareness of PPH
- Demonstrate involvement in CBISA standards

Legal Services Department Day-to-Day Responsibilities

- Major Transactions
- Litigation
- General Legal Advice and Counsel regarding matters such as the Brown Act, RAC Audits, peer review, district law, human resources and eminent domain
- Governance
- Compliance
- Contracts
- Community outreach

Legal Fees Cost Comparison



Legal Services Department Team

- Janine Sarti – General Counsel
- Kate Philbin – Asst. General Counsel
- Michele Gilmore – Executive Assistant

Legal Services Department Strategic Plan

- QUESTIONS?

Legal Services Department

- THANK YOU!

Att 2-5

ADDENDUM E

OPERATING AGREEMENT

FOR

PALOMAR POMERADO HEALTH RETAIL GROUP, LLC

This Operating Agreement is entered into as of the ___ day of ______________, 2008, by the person who has executed the signature page hereof (the “Member”).

A. The Member desires to form a limited liability company (the “Company”) under the Beverly-Killea Limited Liability Company Act.

B. The Member enters into this Operating Agreement in order to form and provide for the governance of the Company and the conduct of its business and to specify its relative rights and obligations.

NOW, THEREFORE, the Member hereby agrees as follows:

ARTICLE 1
DEFINITIONS

The following capitalized terms used in this Agreement have the meanings specified in this Article or elsewhere in this Agreement and when not so defined shall have the meanings set forth in the California Corporations Code Section 17001:

1.1 ***“Act”*** means the Beverly-Killea Limited Liability Company Act (California Corporations Code Sections 17000-17705), including amendments from time to time.

1.2 ***“Agreement”*** means this Operating Agreement, as originally executed and as amended from time to time.

1.3 ***“Articles of Organization”*** is defined in California Corporations Code Section 17001(b).

1.4 ***“Capital Contribution”*** means the amount of the money and the Fair Market Value of any property (other than money) contributed to the Company in consideration of a Percentage Interest held by the Member. A Capital Contribution shall not be deemed a loan.

1.5 ***“Capital Event”*** means a sale or disposition of any of the Company’s capital assets, the receipt of insurance and other proceeds derived from the involuntary conversion of Company property, the receipt of proceeds from a refinancing of Company property or a similar event with respect to Company property or assets.

1.6 ***“Code”*** or “***IRC***” means the Internal Revenue Code of 1986, as amended, and any successor provision.

1.7 ***“Company”*** means the limited liability company.

1.8 ***“Economic Interest”*** means a Person’s right to share in the income, gains, losses, deductions, credit or similar items of, and to receive distributions from, the Company, but does not include any other rights of a Member, including the right to vote or to participate in management.

1.9 ***“Encumber”*** means the act of creating or purporting to create an Encumbrance, whether or not perfected under applicable law.

1.10 ***“Encumbrance”*** means a mortgage, pledge, security interest, lien, proxy coupled with an interest (other than as contemplated in this Agreement), option or preferential right to purchase.

1.11 ***“Fair Market Value”*** means, with respect to any item of property of the Company, the item's adjusted basis for federal income tax purposes, except as follows:

(a) The Fair Market Value of any property contributed by the Member to the Company shall be the value of such property, as mutually agreed by the Member and the Company.

(b) The Fair Market Value of any item of Company property distributed to the Member shall be the value of such item of property on the date of distribution, as mutually agreed by the Member and the Company.

1.12 ***“Involuntary Transfer”*** means, with respect to the Membership Interest, or any element thereof, any Transfer or Encumbrance, whether by operation of law, pursuant to court order, foreclosure of a security interest, execution of a judgment or other legal process, or otherwise, including a purported transfer to or from a trustee in bankruptcy, receiver or assignee for the benefit of creditors.

1.13 ***“Losses”*** See “Profits” and “Losses”.

1.14 “***Manager”*** means the individual who shall have day to day responsibility for operations of Company.

1.15 ***“Member”*** means the Member who acquires a Membership Interest, as permitted under this Agreement, and whom remains a Member.

1.16 ***“Notice”*** means a written notice required or permitted under this Agreement. A notice shall be deemed given or sent when deposited, as certified mail or for overnight delivery, postage and fees prepaid, in the United States mail; when delivered to Federal Express, United Parcel Service, DHL Worldwide Express or Airborne Express, for overnight delivery, charges prepaid or charged to the sender’s account; when personally delivered to the recipient; when transmitted by electronic means, and such transmission is electronically confirmed as having been successfully transmitted; or when delivered to the home or office of a recipient in the care of a person whom the sender has reason to believe will promptly communicate the notice to the recipient.

1.17 ***"Percentage Interest"*** means a fraction, expressed as a percentage, the numerator of which is the total of a Member's Capital Account and the denominator of which is the total of all Capital Accounts of all Members.

1.18 ***"Person"*** means an individual, partnership, limited partnership, trust, estate, association, corporation, limited liability company or other entity, whether domestic or foreign.

1.19 ***"Profits and Losses"*** means, for each fiscal year or other period specified in this Agreement, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with IRC Section 703(a).

1.209 ***"Regulations"*** ("Reg") means the income tax regulations promulgated by the United States Department of the Treasury and published in the Federal Register for the purpose of interpreting and applying the provisions of the Code, as such Regulations may be amended from time to time, including corresponding provisions of applicable successor regulations.

1.21 ***"Transfer"*** means, with respect to a Membership Interest or any element of a Membership Interest, any sale, assignment, gift, Involuntary Transfer, or other disposition of a Membership Interest or any element of such a Membership Interest, directly or indirectly, other than an Encumbrance that is expressly permitted under this Agreement.

1.22 ***"Vote"*** means a written consent or approval, a ballot cast at a meeting or a voice vote.

1.23 ***"Voting Interest"*** means, with respect to a Member, the right to Vote or participate in management and any right to information concerning the business and affairs of the Company provided under the Act, except as limited by the provisions of this Agreement. A Member's Voting Interest shall be directly proportional to that Member's Percentage Interest.

ARTICLE 2
ARTICLES OF ORGANIZATION

2.1 The Member has caused Articles of Organization, in the form attached to this Agreement as Exhibit A, to be filed with the California Secretary of State.

2.2 The name of the Company shall be Palomar Pomerado Health Retail Group, LLC.

2.3 The principal executive office of the Company shall be at 15255 Innovation Drive, San Diego, California 92128, or such other place or places as may be determined by the Member from time to time.

2.4 The initial agent for service of process on the Company shall be Janine Sarti, Esq. The Member may from time to time change the Company's agent for service of process.

2.5 The Company will be formed for the purpose of engaging in healthcare related retail businesses and operations.

2.6 The term of existence of the Company shall commence on the effective date of filing of Articles of Organization with the California Secretary of State, and shall continue indefinitely unless sooner terminated by the provisions of this Agreement or as provided by law.

2.7 Palomar Pomerado Health, a California health district organized under Section 23 of the Health and Safety Code, shall be the sole Member and manager of the Company.

ARTICLE 3
CAPITALIZATION

3.1 The Member shall contribute capital to the Company as the Member's Capital Contribution the money and property specified in Exhibit B to this Agreement. The Fair Market Value of each item of contributed property as agreed between the Company and the Member is set forth in Exhibit B. The Member shall not be required to make additional Capital Contributions.

3.2 A Member shall not be bound by, or be personally liable for, the expenses, liabilities or obligations of the Company except as otherwise provided in the Act or in this Agreement.

ARTICLE 4
ALLOCATIONS AND DISTRIBUTIONS

4.1 The Profits and Losses of the Company and all items of Company income, gain, loss, deduction or credit shall be allocated, for Company book purposes and for tax purposes, to the Member at such times as the Member determines.

4.2 All cash resulting from the normal business operations of the Company and from a Capital Event shall be distributed to the Member at such times as the Member may determine.

4.3 If the proceeds from a sale or other disposition of an item of the Company consist of property other than cash, the value of such property shall be as determined by the Member. If such non-cash proceeds are subsequently reduced to cash, such cash shall be distributed to the Member in accordance with Section 4.2.

ARTICLE 5
MANAGEMENT

5.1 The business of the Company shall be managed by the Member set forth in Section 2.7. Unless otherwise provided in this Agreement, all decisions concerning the management of the Company's business shall be made by the Manager.

5.2 The Manager shall serve until the Manager's resignation, retirement, death or disability.

5.3 The Manager is not required to hold meetings.

5.4 The Manager shall not be entitled to compensation for his or her services.

5.5 The Company may have Officers. At a minimum, there shall be a President, who shall be an Officer of the Company. The Member may provide for additional Officers of the Company and for their election, and may alter the powers, duties and compensation of the President and of all other Officers. The President shall attend any meetings of Manager. The initial Officer shall be:

Michael H. Covert, President

5.6 All assets of the Company, whether real or personal, shall be held in the name of the Company.

5.7 All funds of the Company shall be deposited in one or more accounts with one or more recognized financial institutions in the name of the Company, at such locations as shall be determined by the Member.

ARTICLE 6
ACCOUNTS AND RECORDS

6.1 Complete books of account of the Company's business, in which each Company transaction shall be fully and accurately entered, shall be kept at the Company's principal executive office.

6.2 Financial books and records of the Company shall be kept on the accrual method of accounting, which shall be the method of accounting followed by the Company for federal income tax purposes. A balance sheet and income statement of the Company shall be prepared promptly following the close of each fiscal year in a manner appropriate to and adequate for the Company's business and for carrying out the provisions of this Agreement. The fiscal year of the Company shall be July 1st through June 30th of each year.

6.3 At all times during the term of existence of the Company, and beyond that term if the Member deems it necessary, the Member shall keep or cause to be kept the books of account referred to in Section 6.2, and also the following:

(a) A current list of the full name and last known business or residence address of each Member, together with the Capital Contribution and the Profits and Losses of the Member.

(b) A copy of the Articles of Organization, as amended.

(c) Copies of the Company's federal, state and local income tax or information returns and reports, if any, for the six (6) most recent taxable years.

(d) Executed counterparts of this Agreement, as amended.

(e) Any powers of attorney under which the Articles of Organization or any amendments thereto were executed.

(f) Financial statements of the Company for the six (6) most recent fiscal years.

(g) The books and records of the Company as they relate to the Company's internal affairs for the current and past four (4) fiscal years.

6.4 Within one hundred-twenty (120) days after the end of each taxable year of the Company the Company shall send to the Member all information necessary for the Member to complete its federal and state income tax or information returns, and a copy of the Company's federal, state and local income tax or information returns for such year.

6.5 PPH shall act as the Tax Matters Member of the Company under Internal Revenue Code section 6231(a)(7).

ARTICLE 7
DISSOLUTION AND WINDING UP

7.1 The Company shall be dissolved on the first to occur of the following events:

(a) The incapacity or withdrawal of the Member; or the bankruptcy or corporate dissolution of the Member.

(b) The expiration of the term of existence of the Company.

(c) The written authorization of the Member to dissolve the Company.

(d) The sale or other disposition of substantially all of the Company assets.

(e) Entry of a decree of judicial dissolution pursuant to California Corporations Code Section 17351.

7.2 Upon the notice to and/or decision to dissolve the Company, the Company shall engage in no further business other than that necessary to wind up the business and affairs of the Company. The Persons winding up the affairs of the Company shall give written Notice of the commencement of winding up by mail to all known creditors and claimants against the Company whose addresses appear in the records of the Company. After paying or adequately providing for the payment of all known debts of the Company (except debts owing to the Member) the remaining assets of the Company shall be distributed in the following order of priority:

(a) To pay the expenses of liquidation.

(b) To repay outstanding loans to the Member. Such repayment shall first be credited to accrued and unpaid interest due and the remainder shall be credited to principal.

(c) To the Member in accordance with the provisions of Article 4, Section 4.2.

ARTICLE 8
GENERAL PROVISIONS

8.1 This Agreement constitutes the whole and entire agreement with respect to the subject matter of this Agreement, and it shall not be modified or amended in any respect except by a written instrument executed by all the parties.

8.2 This Agreement shall be construed and enforced in accordance with the internal laws of the State of California. If any provision of this Agreement is determined by any court of competent jurisdiction or arbitrator to be invalid, illegal or unenforceable to any extent, that provision shall, if possible, be construed as though more narrowly drawn, if a narrower construction would avoid such invalidity, illegality or unenforceability, be severed, and the remaining provisions of this Agreement shall remain in effect.

8.3 This Agreement shall be binding on and inure to the benefit of the parties and their heirs, personal representatives and permitted successors and assigns.

8.4 Whenever used in this Agreement, the singular shall include the plural, the plural shall include the singular, the male gender shall include the female, and the neuter gender shall include the male and female as well as a trust, firm, company or corporation, all as the context and meaning of this Agreement may require.

8.5 The parties to this Agreement shall promptly execute and deliver any and all additional documents, instruments, notices and other assurances, and shall do any and all other acts and things, reasonably necessary in connection with the performance of their respective obligations under this Agreement and to carry out the intent of the parties.

8.6 Except as provided in this Agreement, no provision of this Agreement shall be construed to limit the Member in any manner in the carrying on of their own respective businesses or activities.

8.7 Except as provided in this Agreement, no provision of this Agreement shall be construed to constitute a Member, in the Member's capacity as such, the agent of any other Member.

8.8 The Member represents that the Member has the capacity and authority to enter into this Agreement.

8.9 The article, section and paragraph titles and headings contained in this Agreement are inserted as matter of convenience and for ease of reference only and shall be disregarded for all other purposes, including the construction or enforcement of this Agreement or any of its provisions.

8.10 This Agreement may be altered, amended or repealed only by a writing signed by the Member.

8.11 Time is of the essence of every provision of this Agreement that specifies a time for performance.

8.12 This Agreement is made solely for the benefit of the parties to this Agreement and their respective permitted successors and assigns, and no other person or entity shall have or acquire any right by virtue of this Agreement.

The Member intends the Company to be a limited liability company under the Beverly-Killea Limited Liability Company Act.

8.13 . The Member shall not take any action inconsistent with this express intent.

IN WITNESS WHEREOF, the party has executed or caused to be executed this Agreement on the day and year first above written.

"Member

Palomar Pomerado Health

By: ________________________

Its: ________________________

Dated: _____________________

Dated: -------------------------------------

EXHIBIT A

ARTICLES OF ORGANIZATION

(Attached)

EXHIBIT B

MEMBER CAPITAL
CONTRIBUTIONS AND PERCENTAGE INTERESTS

Member	Contribution	Percentage Interest
Palomar Pomerado Health		100%

ADDENDUM F

Financial Statements

September 2008

PALOMAR
POMERADO
HEALTH

SPECIALIZING IN YOU

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Table of Contents

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

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FISCAL YEAR 2009

Balanced Scorecard
Financial Indicators

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Jul	Aug	September					YTD 2009			
Actual	Actual	Actual	Budget	Variance	% Actual to Budget		Actual	Budget	Variance	% Actual to Budget
						PPH Indicators:				
10.7%	10.8%	9.4%	9.5%	(0.1%)	98.9%	OEBITDA Margin w/Prop Tax	10.3%	9.8%	0.5%	105.1%
$ 10,018.96	$ 10,407.25	$ 11,123.45	$ 11,229.33	$ 105.88	99.1%	Expenses/Adj Discharge	$ 10,500.86	$ 10,854.64	$ 353.78	96.7%
$ 6,123.13	$ 6,206.92	$ 6,470.33	$ 6,684.38	$ 214.05	96.8%	SWB/Adj Discharge	$ 6,262.06	$ 6,502.94	$ 240.88	96.3%
6.29	6.43	6.50	6.64	0.14	97.9%	Prod FTE's/Adj Occupied Bed	6.40	6.63	0.23	96.5%
3,600	3,481	3,293	3,173	120	103.8%	Adjusted Discharges	10,373	9,989	384	103.8%
						PPH North Indicators:				
6.1%	13.8%	13.9%	10.4%	3.5%	133.7%	OEBITDA Margin w/Prop Tax	11.4%	10.7%	0.7%	106.5%
$ 9,371.63	$ 9,612.09	$ 10,465.44	$ 10,324.26	$ (141.18)	101.4%	Expenses/Adj Discharge	$ 9,798.49	$ 10,068.34	$ 269.86	97.3%
$ 5,098.18	$ 4,840.46	$ 5,376.98	$ 5,411.91	$ 34.93	99.4%	SWB/Adj Discharge	$ 5,099.01	$ 5,311.77	$ 212.76	96.0%
5.12	5.34	5.42	5.44	0.02	99.6%	Prod FTE's/Adj Occupied Bed	5.29	5.43	0.14	97.4%
2,582	2,528	2,359	2,321	38	101.6%	Adjusted Discharges	7,469	7,245	224	103.1%
						PPH South Indicators:				
19.3%	3.3%	(8.9%)	5.7%	(14.6%)	-156.1%	OEBITDA Margin w/Prop Tax	5.8%	6.2%	(0.4%)	93.5%
$ 10,610.55	$ 11,342.11	$ 12,012.37	$ 12,599.46	$ 587.09	95.3%	Expenses/Adj Discharge	$ 11,309.51	$ 11,868.13	$ 558.62	95.3%
$ 5,470.52	$ 5,529.79	$ 5,611.61	$ 6,439.34	$ 827.73	87.1%	SWB/Adj Discharge	$ 5,539.26	$ 6,106.80	$ 567.54	90.7%
6.12	6.17	6.26	6.43	0.17	97.4%	Prod FTE's/Adj Occupied Bed	6.18	6.40	0.22	96.6%
999	933	918	830	88	110.6%	Adjusted Discharges	2,848	2,682	166	106.2%

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Financial Results
Executive Summary of Key Indicators

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	September 2008			FY 09 Y-T-D @ September 2008			
	Actual	Budget	Variance	Actual	Budget	Variance	Moody Benchmark
Statistics:							
Acute Admissions	2,367	2,421	(54)	7,361	7,425	(64)	
Acute Patient Days	9,098	9,341	(243)	28,176	28,649	(473)	
Acute ALOS	3.87	3.86	0.01	3.81	3.86	(0.05)	
Case Mix Index (w/o Births)	1.43	1.40	0.03	1.41	1.40	0.01	
Total Surgeries	1,866	1,605	261	4,948	4,921	27	
Births	441	440	1	1,412	1,348	64	
E/R Visits & Admissions	7,688	7,449	239	22,455	22,845	(390)	
ER to Admit Rate	17.0%	16.5%	0.5%	17.5%	16.5%	1.0%	
Productivity %	99.1%	100%	(0.9%)	99.6%	100.0%	(0.4%)	
Income Statement:							
Net Patient Revenue	36,592,681	35,399,916	1,192,765	109,885,716	108,335,687	1,550,029	
Total Net Revenue	37,111,101	36,006,735	1,104,366	111,216,513	110,156,144	1,060,369	
Sal., Wages, Cont. Lbr	17,159,435	17,060,398	(99,037)	52,135,858	52,245,507	109,649	
Supplies	5,960,700	5,466,487	(494,213)	17,154,488	16,744,835	(409,653)	
Total Expenses	36,629,508	35,630,660	(998,848)	108,925,418	108,427,009	(498,409)	
Net Inc. (Loss) before Non-Op	**481,593**	**376,075**	**105,518**	**2,291,095**	**1,729,135**	**561,960**	
Net Income (Loss)	**1,033,854**	**1,718,025**	**(684,171)**	**5,393,946**	**5,754,985**	**(361,039)**	
Cash Flow:							
Cash Collections	39,300,000	36,000,000	3,300,000	99,400,000	108,000,000	(8,600,000)	
Days in A/R - Gross				49.2	52.4	(3.2)	
Days Cash on Hand				85	80	5	
Ratios:							
OEBITDA w/ Prop. Tax	9.4%	9.5%	(0.1%)	10.3%	9.8%	0.5%	
Net Income Margin	2.5%	4.4%	(1.9%)	4.3%	4.8%	(0.5%)	
Bad Debt % of Net Revenue	12.5%	10.1%	(2.4%)	14.9%	10.2%	(4.7%)	6.6%
Return On Assets				3.0%	3.2%	0.2%	4.7%
Annual Debt Service Coverage				2.9			4.5
Cushion Ratio				5.6			15.5

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PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Statistics

CONSOLIDATED	Aug	Sep	Aug vs Sep % Change	Sep Budget	Act vs Bud % Variance
Patient Days Acute	9,491	9,098	(4.1%)	9,341	(2.6%)
Patient Days SNF	6,497	6,313	(2.8%)	6,322	(0.1%)
ADC Acute	306.16	303.28	(0.9%)	311.37	(2.6%)
ADC SNF	209.58	210.43	0.4%	210.73	(0.1%)
Surgeries CVS Cases	10	10	0.0%	13	(23.1%)
*Surgeries Total	1,327	1,866	40.6%	1,605	16.3%
Number of Births	471	441	(6.4%)	440	0.2%

*Escondido Surgery Center Aug-08 total is corrected in Sep-08.

NORTH					
Patient Days Acute	6,920	6,757	(2.4%)	6,923	(2.4%)
Patient Days SNF	2,698	2,694	(0.1%)	2,632	2.4%
ADC Acute	223.24	225.24	0.9%	230.77	(2.4%)
ADC SNF	87.03	89.80	3.2%	87.73	2.4%

SOUTH					
Patient Days Acute	2,571	2,341	(8.9%)	2,418	(3.2%)
Patient Days SNF	3,799	3,619	(4.7%)	3,690	(1.9%)
ADC Acute	82.95	78.03	(5.9%)	80.59	(3.2%)
ADC SNF	122.55	120.63	(1.6%)	123.00	(1.9%)

Balance Sheet

Current Cash & Cash Equivalents increased $9.5 million from $78.4 million in August to $87.9 million in September. Total Cash and Investments are $95.9 million, compared to $89.9 million at August 31, 2008. Days Cash on Hand went from 81 days in August to 85 days in September.

Net Accounts Receivable decreased $2.5 million from $98.2 million in August to $95.7 million in September. Gross A/R days decreased from 51.4 days in August to 49.2 days in September.

September YTD collections including capitation are $99.4 million compared to budget of $108.0 million.

Construction in Progress increased $12.4 million from $231.8 million in August to $244.2 million in September. The increase is attributed to Building Expansion A & E Services and construction costs of $11.3 million, Cerner Optimization project $0.4 million, POP Building tenant improvements $0.6 million and Other $0.1 million.

Other Current Liabilities decreased by $0.8 million from $29.6 million to $28.8 million primarily due to the realization of deferred property tax revenue of $1.2 million.

Income Statement

Gross Patient Revenue reflects a YTD favorable budget variance of $12.8 million. The variance breakdown is as follows.

	North	South	Outreach	Total
Consolidated	6,779,389	6,317,833	(282,895)	12,814,327
Routine	(145,273)	(145,803)	-	(291,076)
IP Ancillary	(1,850,772)	3,905,163	-	2,054,391
OP	8,775,434	2,558,473	(282,895)	11,051,012

Deductions from Revenue reflect a YTD unfavorable budget variance of $11.3 million. Total Deductions from Revenue is 71.85% of gross revenue compared to a budget of 71.31%. Deductions from Revenue (excluding Bad Debt/Charity/Undocumented expenses) are 70.84% of YTD Gross Revenue compared to budget of 66.95%.

Net Capitation reflects a YTD unfavorable budget variance of $0.4 million. Cap Premium shows a favorable budget variance of $4.7 million. This favorable variance is due to retro 2007 premium adjustments in July and August. Cap Valuation and Out of Network Claim Expense both show an unfavorable budget variance of $1.4 million and $3.7 million, respectively.

Other Operating Revenue reflects a YTD unfavorable budget variance of $0.5 million. This is comprised of a $0.2 million unfavorable budget variance from a new department, Weight Solutions; a $0.1 million unfavorable budget variance from Health Development and the Research Institute, combined, and Other unfavorable of $0.2 million.

Income Statement (cont'd)

Salaries, Wages & Contract Labor has a YTD favorable budget variance of $0.1 million. The breakdown is as follows:

	YTD Actual	YTD Budget	Variance
Consolidated	52,135,858	52,245,507	109,649
North	30,641,578	31,150,091	508,513
South	12,789,269	13,366,562	577,293
Central	6,983,993	6,185,452	(798,541)
Outreach	1,721,018	1,543,402	(177,616)

Employee Benefits Expense has a YTD unfavorable budget variance of $0.1 million. This variance can be broken down into the following categories: Work Comp Insurance – unfavorable by $0.07 million and Other - unfavorable by $0.03 million.

Supplies Expense reflects a YTD favorable budget variance of $0.4 million. The breakdown is Prosthesis Supplies – unfavorable $0.7 million and Other Supplies favorable at $0.3 million.

Professional Fees & Purchased Services reflect a YTD favorable budget variance of $0.01 million. The breakdown is Repairs & Maintenance - unfavorable $0.25 million, Consulting – unfavorable $0.15 million, Dr. Recruitment Income Guarantee – favorable $0.18 million and Other – favorable $0.23 million.

Non-Operating Income reflects a YTD unfavorable variance of $0.9 million. This is due to an unfavorable investment income variance of $1.2 million partially offset by a favorable $0.3 million variance in interest expense.

Ratios & Margins

All required Bond Covenant Ratios were achieved in September, 2008.

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Stat	MTD	Budget	YTD	Budget	PY
Patient Days - Acute	9,098	9,341	28,176	28,649	28,527
Discharge - Acute	2,351	2,421	7,405	7,425	7,231
OP Regs	4,099	3,985	12,799	12,223	12,058
ER Visits	6,383	6,220	18,528	19,074	17,632
Deliveries	441	440	1,412	1,348	1,444

Profit & Loss (in millions)	MTD	Budget	YTD	Budget	PY
Capitation	(0.2)	Break-even	(0.5)	(0.1)	0.9
Net Patient Revenue	36.6	35.4	109.9	108.3	104.3
Total Revenue	37.1	36.0	111.2	110.2	106.7
SWB	20.4	20.8	62.6	63.9	59.3
Contract Labor	0.9	0.4	2.4	1.1	2.7
Supplies	6.0	5.5	17.2	16.7	15.8
Total Expense	36.6	35.6	109.0	108.5	104.5
Net Income from Ops	0.5	0.4	2.3	1.7	2.2
Net Income	1.0	1.7	5.4	5.8	7.2

Key Variance Explanations Month-To-Date

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	Actual	Budget	Variance Detail	Variance
Net Income From Operations	**481,593**	**376,075**		**105,518**
Total Net Revenue				**1,192,765**
Net Patient Revenue			1,192,765	
Other Operating Revenue				**(88,399)**
Weight Solutions			(60,309)	
PPNC Health Development and Research Institute			(36,801)	
Other			8,711	
Salaries & Wages				**447,476**
Volume Variance			(631,799)	
Rate & Efficiency (Nursing & Non-Nursing)			1,079,275	
Benefits				**1,774**
No Significant Variances			1,774	
Contract Labor				**(546,513)**
Volume Variance			(13,409)	
Rate & Efficiency (Nursing & Non-Nursing)			(533,104)	

Key Variance Explanations Month-To-Date (cont'd)

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	Actual	Budget	Variance Detail	Variance
Professional Fees				**(45,143)**
Consulting			(120,098)	
Dr. Recruitment Income Guarantee			101,708	
Other			(26,753)	
Supplies				**(494,213)**
Volume Variance			(206,738)	
Rate & Efficiency			(287,475)	
Prosthesis (502,681)				
Other 8,468				
Purchased Services				**(166,510)**
Repairs & Maintenance			(178,445)	
Replace x-ray tube in imaging machine - (123,072)				
Other			11,935	
Depreciation				**23,086**
Depreciation			23,086	
Other Direct Expenses				**(218,805)**
Marketing FY08 Invoice			(122,835)	
Foundation			(95,563)	
San Diego Radiosurgery - contra to revenue			(31,500)	
Other			31,093	
Total Actual to Budget YTD Variance for September 2008			**105,518**	**105,518**

Key Variance Explanations Year-To-Date

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	Actual	Budget	Variance Detail	Variance
Net Income From Operations	**2,291,095**	**1,729,135**		**561,960**
Total Net Revenue				**1,550,029**
Net Patient Revenue			1,550,029	
Other Operating Revenue				**(489,660)**
Weight Solutions			(180,927)	
PPNC Health Development and Research Institute			(110,403)	
Other			(198,330)	
Salaries & Wages				**1,397,055**
Volume Variance			(1,966,651)	
Rate & Efficiency (Nursing & Non-Nursing)			3,363,706	
Benefits				**(108,167)**
Work Comp Insurance			(70,550)	
State Unemployment Insurance			(23,498)	
Other			(14,119)	
Contract Labor				**(1,287,406)**
Volume Variance			(41,786)	
Rate & Efficiency (Nursing & Non-Nursing)			(1,245,620)	

Key Variance Explanations Year-To-Date (cont'd)

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	Actual	Budget	Variance Detail	Variance
Professional Fees				**(4,550)**
Consulting			(150,579)	
Dr. Recruitment Income Guarantee			178,024	
Other			(31,995)	
Supplies				**(409,653)**
Volume Variance			(643,710)	
Rate & Efficiency (Nursing & Non-Nursing)			234,057	
Prosthesis (691,202)				
Other 281,549				
Purchased Services				**14,628**
Repairs & Maintenance			(248,435)	
Replace x-ray tube in imaging machine - (123,072)				
Other			263,063	
Depreciation				**(69,384)**
Depreciation			(69,384)	
Other Direct Expenses				**(30,932)**
San Diego Radiosurgery - contra to revenue			(257,258)	
Other			226,326	
Total Actual to Budget YTD Variance for September 2008			**561,960**	**561,960**

Balance Sheet
Consolidated

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Assets	Current Month	Prior Month	Prior Fiscal Year End
Current Assets			
Cash on Hand	$15,114,783	$9,720,585	$12,578,422
Cash Marketable Securities	72,744,164	68,634,989	73,699,656
Total Cash & Cash Equivalents	87,858,947	78,355,574	86,278,078
Patient Accounts Receivable	210,649,291	213,936,803	173,630,766
Allowance on Accounts	(114,940,942)	(115,732,167)	(87,408,726)
Net Accounts Receivable	95,708,349	98,204,636	86,222,040
Inventories	6,814,261	6,778,056	6,826,298
Prepaid Expenses	4,389,574	3,726,476	3,790,644
Other	21,456,060	21,451,697	5,722,105
Total Current Assets	216,227,191	208,516,439	188,839,165
Non-Current Assets			
Restricted Assets	295,579,400	316,955,457	343,067,128
Restricted by Donor	306,861	305,309	303,600
Board Designated	7,770,885	11,268,120	12,117,325
Total Restricted Assets	303,657,146	328,528,886	355,488,053
Property Plant & Equipment	379,142,654	388,022,889	387,410,913
Accumulated Depreciation	(223,483,810)	(230,800,382)	(226,979,355)
Construction in Process	244,162,567	231,804,807	218,854,882
Net Property Plant & Equipment	399,821,411	389,027,314	379,286,440
Investment in Related Companies	3,055,523	3,055,523	3,109,523
Deferred Financing Costs	15,671,068	15,605,255	15,644,785
Other Non-Current Assets	6,143,590	6,013,822	5,956,094
Total Non-Current Assets	728,348,738	742,230,800	759,484,895
Total Assets	$944,575,929	$950,747,239	$948,324,060

Liabilities	Current Month	Prior Month	Prior Fiscal Year End
Current Liabilities			
Accounts Payable	$18,606,120	$28,652,693	$44,500,881
Accrued Payroll	15,774,557	14,841,606	12,139,225
Accrued PTO	13,662,524	13,537,166	13,977,901
Accrued Interest Payable	5,672,087	4,119,852	8,065,133
Current Portion of Bonds	9,730,000	9,730,000	9,660,000
Est Third Party Settlements	1,631,645	1,597,534	807,165
Other Current Liabilities	28,809,521	29,607,033	15,815,317
Total Current Liabilities	93,886,454	102,085,884	104,965,622
Long Term Liabilities			
Bonds & Contracts Payable	537,016,957	537,022,691	537,979,367
General Fund Balance			
Unrestricted	305,594,772	300,065,235	292,958,146
Restricted for Other Purpose	306,861	305,309	303,600
Board Designated	7,770,885	11,268,120	12,117,325
Total Fund Balance	313,672,518	311,638,664	305,379,071
Total Liabilities / Fund Balance	$944,575,929	$950,747,239	$948,324,060

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Income Statement: Monthly Trend
Consolidated

PALOMAR POMERADO HEALTH
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	Jul	Aug	Sep	YTD
Statistics:				
Admissions - Acute	2,540	2,454	2,367	7,361
Admissions - SNF	95	107	101	303
Patient Days - Acute	9,587	9,491	9,098	28,176
Patient Days - SNF	6,572	6,497	6,313	19,382
LOS - Acute	3.74	3.81	3.87	3.81
LOS - SNF	67.75	60.16	67.88	65.04
Adjusted Discharges	3,600	3,481	3,293	10,373
Revenue:				
Gross Revenue	$ 131,046,951	$ 131,438,267	$ 127,873,677	$ 390,358,894
Deductions from Rev	(94,593,925)	(94,598,259)	(91,280,996)	(280,473,178)
Net Patient Revenue	36,453,026	36,840,008	36,592,681	109,885,716
Other Oper Revenue	481,361	331,016	518,420	1,330,797
Total Net Revenue	36,934,387	37,171,024	37,111,101	111,216,513
Expenses:				
Salaries, Wages & Contr Labor	17,547,177	17,429,247	17,159,435	52,135,858
Benefits	4,496,086	4,177,042	4,147,369	12,820,498
Supplies	5,536,898	5,656,890	5,960,700	17,154,488
Prof Fees & Purch Svc	4,597,010	4,825,802	5,138,315	14,561,127
Depreciation	1,915,873	1,905,155	1,841,193	5,662,221
Other	1,975,226	2,233,503	2,382,496	6,591,226
Total Expenses	36,068,270	36,227,639	36,629,508	108,925,418
Net Inc Before Non-Oper Income	866,117	943,385	481,593	2,291,095
Property Tax Revenue	1,166,666	1,166,666	1,166,666	3,499,998
Non-Operating Income	69,375	147,884	(614,405)	(397,147)
Net Income (Loss)	$ 2,102,158	$ 2,257,935	$ 1,033,854	$ 5,393,946
Net Income Margin	5.2%	5.0%	2.5%	4.3%
OEBITDA Margin w/o Prop Tax	7.5%	7.7%	6.3%	7.2%
OEBITDA Margin with Prop Tax	10.7%	10.8%	9.4%	10.3%

Income Statement: Fiscal Year-to-Date

Consolidated – Adjusted Discharges

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	Actual	Budget	Variance		Variance Volume	Variance Rate/Eff	$/Adjusted Discharges Actual	$/Adjusted Discharges Budget	$/Adjusted Discharges Variance
Statistics:									
Admissions - Acute	7,361	7,425	(64)						
Admissions - SNF	303	295	8						
Patient Days - Acute	28,176	28,649	(473)						
Patient Days - SNF	19,382	19,388	(6)						
ALOS - Acute	3.81	3.86	(0.05)						
ALOS - SNF	65.04	66.40	(1.36)						
Adjusted Discharges	10,373	9,989	384						
Revenue:									
Gross Revenue	$ 390,358,894	$ 377,544,567	$ 12,814,327	F	$ 14,513,676	$ (1,699,349)	$ 37,632.21	$ 37,796.03	$ (163.82)
Deductions from Rev	(280,473,178)	(269,208,880)	(11,264,298)	U	(10,349,005)	(915,293)	(27,038.77)	(26,950.53)	(88.24)
Net Patient Revenue	109,885,716	108,335,687	1,550,029	F	4,164,672	(2,614,643)	10,593.44	10,845.50	(252.06)
Other Oper Revenue	1,330,797	1,820,457	(489,660)	U	69,983	(559,643)	128.29	182.25	(53.95)
Total Net Revenue	111,216,513	110,156,144	1,060,369	F	4,234,654	(3,174,285)	10,721.73	11,027.74	(306.01)
Expenses:									
Salaries, Wages & Contr Labor	52,135,858	52,245,507	109,649	F	(2,008,437)	2,118,086	5,026.11	5,230.30	204.19
Benefits	12,820,498	12,712,331	(108,167)	U	(488,691)	380,524	1,235.95	1,272.63	36.68
Supplies	17,154,488	16,744,835	(409,653)	U	(643,710)	234,057	1,653.76	1,676.33	22.56
Prof Fees & Purch Svc	14,561,127	14,571,205	10,078	F	(560,150)	570,228	1,403.75	1,458.73	54.97
Depreciation	5,662,221	5,592,837	(69,384)	U	(215,001)	145,617	545.86	559.90	14.04
Other	6,591,226	6,560,295	(30,931)	U	(252,193)	221,262	635.42	656.75	21.33
Total Expenses	108,925,418	108,427,009	(498,409)	U	(4,168,182)	3,669,774	10,500.86	10,854.64	353.78
Net Inc Before Non-Oper Income	2,291,095	1,729,135	561,960	F	66,472	495,489	220.87	173.10	47.77
Property Tax Revenue	3,499,998	3,499,998	-	-	134,548	(134,548)	337.41	350.39	(12.97)
Non-Operating Income	(397,147)	525,852	(922,999)	U	20,215	(943,214)	(38.29)	52.64	(90.93)
Net Income (Loss)	$ 5,393,946	$ 5,754,985	$ (361,039)	U	$ 221,235	$ (582,273)	$ 520.00	$ 576.13	$ (56.13)
Net Income Margin	4.3%	4.8%	(0.5%)						
OEBITDA Margin w/o Prop Tax	7.2%	6.6%	0.6%						
OEBITDA Margin with Prop Tax	10.3%	9.8%	0.5%						

F= Favorable variance
U= Unfavorable variance

ADD F-17

Income Statement: Month-to-Date

Consolidated – Adjusted Discharges

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	Actual		Budget		Variance		Variance: Volume		Variance: Rate/Eff	$/Adjusted Discharges: Actual		$/Adjusted Discharges: Budget		$/Adjusted Discharges: Variance
Statistics:														
Admissions - Acute		2,367		2,421	(54)									
Admissions - SNF		101		95	6									
Patient Days - Acute		9,098		9,341	(243)									
Patient Days - SNF		6,313		6,322	(9)									
ALOS - Acute		3.87		3.86	0.01									
ALOS - SNF		67.88		67.26	0.62									
Adjusted Discharges		3,293		3,173	120									
Revenue:														
Gross Revenue	$	127,873,677	$	123,167,142	$ 4,706,535	F	$ 4,658,070	$	48,465	$38,831.97	$	38,817.25	$	14.72
Deductions from Rev		(91,280,996)	$	(87,767,226)	(3,513,770)	U	(3,319,277)		(194,493)	(27,719.71)		(27,660.64)		(59.06)
Net Patient Revenue		36,592,681		35,399,916	1,192,765	F	1,338,793		(146,028)	11,112.26		11,156.61		(44.34)
Other Oper Revenue		518,420		606,819	(88,399)	U	22,949		(111,348)	157.43		191.24		(33.81)
Total Net Revenue		37,111,101		36,006,735	1,104,366	F	1,361,742		(257,376)	11,269.69		11,347.85		(78.16)
Expenses:														
Salaries, Wages & Contr Labor		17,159,435		17,060,398	(99,037)	U	(645,209)		546,172	5,210.88		5,376.74		165.86
Benefits		4,147,369		4,149,143	1,774	F	(156,917)		158,691	1,259.45		1,307.64		48.19
Supplies		5,960,700		5,466,487	(494,213)	U	(206,738)		(287,475)	1,810.11		1,722.81		(87.30)
Prof Fees & Purch Svc		5,138,315		4,926,662	(211,653)	U	(186,322)		(25,331)	1,560.38		1,552.68		(7.69)
Depreciation		1,841,193		1,864,279	23,086	F	(70,505)		93,591	559.12		587.54		28.42
Other		2,382,496		2,163,691	(218,805)	U	(81,829)		(136,976)	723.50		681.91		(41.60)
Total Expenses		36,629,508		35,630,660	(998,848)	U	(1,347,519)		348,671	11,123.45		11,229.33		105.88
Net Inc Before Non-Oper Income		481,593		376,075	105,518	F	14,223		91,295	146.25		118.52		27.72
Property Tax Revenue		1,166,666		1,166,666	-	-	44,122		(44,122)	354.29		367.69		(13.40)
Non-Operating Income		(614,405)		175,284	(789,689)	U	6,629		(796,318)	(186.58)		55.24		(241.82)
Net Income (Loss)	$	1,033,854	$	1,718,025	$ (684,171)	U	$ 64,974	$	(749,145)	$ 313.96	$	541.45	$	(227.50)
Net Income Margin		2.5%		4.4%	(1.9%)									
OEBITDA Margin w/o Prop Tax		6.3%		6.2%	0.1%									
OEBITDA Margin with Prop Tax		9.4%		9.5%	(0.1%)									

F= Favorable variance
U= Unfavorable variance

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Income Statement: Current vs. Prior Year-to-date
Consolidated – Adjusted Discharges

	Sep 08 YTD	Sep 07 YTD	Variance		Variance Volume	Variance Rate/Eff	$/Adjusted Discharges Actual	$/Adjusted Discharges Budget	$/Adjusted Discharges Variance
Statistics:									
Admissions - Acute	7,361	7,227	134						
Admissions - SNF	303	276	27						
Patient Days - Acute	28,176	28,527	(351)						
Patient Days - SNF	19,382	19,418	(36)						
ALOS - Acute	3.81	3.95	(0.14)						
ALOS - SNF	65.04	71.65	(6.61)						
Adjusted Discharges	10,373	9,889	484						
Revenue:									
Gross Revenue	$ 390,358,894	$ 350,208,145	$ 40,150,749	F	$ 17,140,332	$ 23,010,417	$ 37,632.21	$ 35,413.91	$ 2,218.30
Deductions from Rev	(280,473,178)	(245,933,197)	(34,539,981)	U	(12,036,775)	(22,503,206)	(27,038.77)	(24,869.37)	(2,169.40)
Net Patient Revenue	109,885,716	104,274,948	5,610,768	F	5,103,557	507,211	10,593.44	10,544.54	48.90
Other Oper Revenue	1,330,797	2,407,231	(1,076,434)	U	117,818	(1,194,252)	128.29	243.43	(115.13)
Total Net Revenue	111,216,513	106,682,179	4,534,334	F	5,221,375	(687,041)	10,721.73	10,787.96	(66.23)
Expenses:									
Salaries, Wages & Contr Labor	52,135,858	49,100,668	(3,035,190)	U	(2,403,147)	(632,043)	5,026.11	4,965.18	(60.93)
Benefits	12,820,498	12,932,616	112,118	F	(632,965)	745,083	1,235.95	1,307.78	71.83
Supplies	17,154,488	15,775,478	(1,379,010)	U	(772,103)	(606,907)	1,653.76	1,595.26	(58.51)
Prof Fees & Purch Svc	14,561,127	14,989,975	428,848	F	(733,658)	1,162,506	1,403.75	1,515.82	112.07
Depreciation	5,662,221	5,377,807	(284,414)	U	(263,207)	(21,207)	545.86	543.82	(2.04)
Other	6,591,226	6,336,823	(254,403)	U	(310,145)	55,742	635.42	640.80	5.37
Total Expenses	108,925,418	104,513,367	(4,412,051)	U	(5,115,226)	703,175	10,500.86	10,568.65	67.79
Net Inc Before Non-Oper Income	2,291,095	2,168,812	122,283	F	106,149	16,134	220.87	219.32	1.56
Property Tax Revenue	3,499,998	3,375,000	124,998	F	165,184	(40,186)	337.41	341.29	(3.87)
Non-Operating Income	(397,147)	1,645,057	(2,042,204)	U	80,514	(2,122,718)	(38.29)	166.35	(204.64)
Net Income (Loss)	$ 5,393,946	$ 7,188,869	$ (1,794,923)	U	$ 351,847	$ (2,146,770)	$ 520.00	$ 726.96	$ (206.96)
Net Income Margin	4.3%	6.3%	(2.0%)						
OEBITDA Margin w/o Prop Tax	7.2%	7.1%	0.1%						
OEBITDA Margin with Prop Tax	10.3%	10.2%	0.1%						

F= Favorable variance
U= Unfavorable variance

ADD F-19

Statement of Cash Flows

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	September	YTD
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (Loss) from operations	481,593	2,291,095
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation Expense	1,841,193	5,662,221
Provision for bad debts	4,575,703	16,384,183
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,071,800)	(26,862,877)
Property Tax and other receivables	(945,279)	(17,765,929)
Inventories	(36,205)	12,037
Prepaid expenses and Other Non-Current assets	(3,973,573)	(3,855,405)
Accounts payable	(9,079,128)	(24,927,316)
Accrued compensation	1,386,450	3,648,096
Estimated settlement amounts due third-party payors	34,112	824,481
Other current liabilities	4,725,759	22,850,814
Net cash provided by operating activities	(4,061,175)	(21,738,599)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales of investments	20,762,565	52,786,399
Interest (Loss) received on investments	(311,620)	412,502
Investment in affiliates	989,950	1,233,474
Net cash used in investing activities	21,440,895	54,432,374
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipt of G.O. Bond Taxes	93,563	358,406
Receipt of District Taxes	114,439	472,141
Net cash used in non-capital financing activities	208,002	830,548
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property plant and equipment	(11,972,326)	(22,893,903)
Proceeds from sale of asset	0	0
Deferred Financing Costs	(65,813)	(26,283)
G.O. Bond Interest paid	0	(7,037,392)
Revenue Bond Interest paid	0	0
Proceeds from issuance of debt	0	0
Payments of Long Term Debt	0	(875,000)
Net cash used in activities	(12,038,139)	(30,832,578)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,549,582	2,691,745
CASH AND CASH EQUIVALENTS - Beginning of period	9,565,202	12,423,039
CASH AND CASH EQUIVALENTS - End of period	15,114,783	15,114,783

Summary of Key Indicators & Results

Fiscal Year-to-Date

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	ACTUAL	BUDGET	VARIANCE	FY 2008
ADMISSIONS - Acute:				
Palomar Medical Center	5,514	5,561	(47)	5,432
Pomerado Hospital	1,847	1,864	(17)	1,795
Total:	7,361	7,425	(64)	7,227
ADMISSIONS - SNF:				
Palomar Medical Center	116	148	(32)	134
Pomerado Hospital	187	147	40	142
Total:	303	295	8	276
PATIENT DAYS - Acute:				
Palomar Medical Center	20,815	21,233	(418)	20,976
Pomerado Hospital	7,361	7,416	(55)	7,551
Total:	28,176	28,649	(473)	28,527
PATIENT DAYS- SNF:				
Palomar Medical Center	8,115	8,072	43	8,088
Pomerado Hospital	11,267	11,316	(49)	11,330
Total:	19,382	19,388	(6)	19,418

Summary of Key Indicators & Results
Fiscal Year-to-Date

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	ACTUAL	BUDGET	VARIANCE	FY 2008
EMERGENCY ROOM VISITS & TRAUMA CASES:				
Palomar Medical Center	12,368	12,827	(459)	11,844
Pomerado Hospital	6,160	6,247	(87)	5,788
Total:	18,528	19,074	(546)	17,632
EMERGENCY & TRAUMA ADMISSIONS:				
Palomar Medical Center	2,852	2,804	48	2,734
Pomerado Hospital	1,075	967	108	992
Total:	3,927	3,771	156	3,726
SURGERIES: *- Escondido Surgery Center started in Dec-07.*				
Palomar Medical Center	3,152	3,236	(84)	2,134
Pomerado Hospital	1,796	1,685	111	1,676
Total:	4,948	4,921	27	3,810
BIRTHS:				
Palomar Medical Center	1,093	1,045	48	1,123
Pomerado Hospital	319	303	16	321
Total:	1,412	1,348	64	1,444

Summary of Key Indicators & Results
Fiscal Year-to-Date

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

	ACTUAL	BUDGET	VARIANCE	FY 2008
ADJUSTED DISCHARGES				
Palomar Medical Center	7,469	7,245	224	6,985
Pomerado Hospital	2,848	2,682	166	2,675
Other Activities	56	62	(6)	229
Total:	10,373	9,989	384	9,889
AVERAGE LENGTH OF STAY- Acute:				
Palomar Medical Center	3.77	3.82	(0.05)	3.88
Pomerado Hospital	3.92	3.98	(0.06)	4.14
Total:	3.81	3.86	(0.05)	3.95
AVERAGE LENGTH OF STAY - SNF:				
Palomar Medical Center	71.18	55.67	15.51	63.19
Pomerado Hospital	61.23	76.98	(15.75)	79.23
Total:	65.04	66.40	1.36	71.65

Supplies Expense
Year-to-Date

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

Account	Description	Actual	Budget	Variance
631000	Prosthesis	4,334,918	3,643,716	(691,202)
641000	Supplies Other Medical	3,905,383	3,648,889	(256,494)
632000	Sutures/Surgical Needles	458,545	389,361	(69,184)
643000	Supplies Food Other	694,475	666,415	(28,060)
647000	Supplies Employee Apparel	55,442	37,354	(18,088)
642000	Supplies Food/Meat	149,618	137,085	(12,533)
634000	Supplies Surgery General	1,235,111	1,229,329	(5,782)
648000	Instruments/Minor Equipment	101,156	95,865	(5,291)
645000	Supplies Cleaning	108,060	104,544	(3,516)
635000	Supplies Anesthesia Material	6,039	3,078	(2,961)
637000	Supplies IV Solutions	121,517	123,758	2,241
644000	Supplies Linen	6,612	9,699	3,087
636000	Supplies Oxygen/Gas	66,924	72,441	5,517
639000	Supplies Radioactive	196,042	201,917	5,875
633000	Supplies Surgical Pack	480,887	493,091	12,204
640000	Supplies X-ray Material	(11,098)	6,871	17,969
646100	Supplies Forms	119,521	153,037	33,516
638000	Supplies Pharmaceutical	3,248,436	3,368,155	119,719
646000	Supplies Office/Administration	189,567	315,503	125,936
649000	Other Minor Equipment	149,764	310,013	160,249
650000	Other Non Medical	1,537,569	1,734,714	197,145
	Total	$ 17,154,488	$ 16,744,835	$ (409,653)

ADD F-24

Bond Covenant Ratios

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

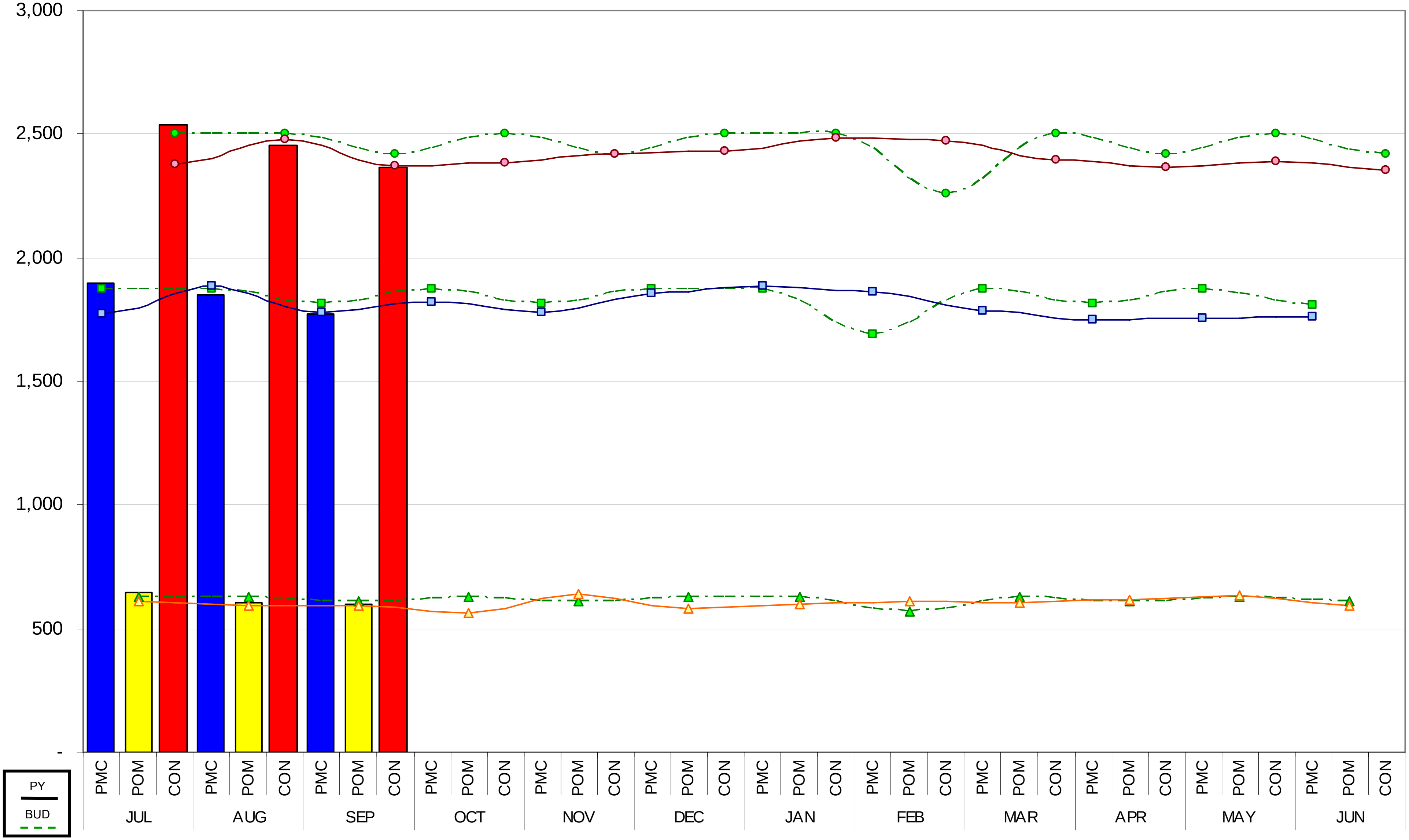
Cushion Ratio	Jun-07	Jun-08	Sep-08
Cash and Cash Equivalents	109,213,349	86,122,696	87,858,947
Board Designated Reserves	-	12,117,325	7,770,885
Trustee-held Funds (Revenue Fund only)	249,531	185,981	234,496
Total	109,462,880	98,426,002	95,864,328
Divided by:			
Annual Debt Service (excludes GO Bonds)	16,972,692	16,972,692	16,972,692
(Bond Year 11/1/2008)			
Cushion Ratio	**6.4**	**5.8**	**5.6**
REQUIREMENT	**1.5**	**1.5**	**1.5**
	Achieved	**Achieved**	**Achieved**

Days Cash on Hand	Jun-07	Jun-08	Sep-08
Cash and Cash Equivalents	109,213,349	86,122,696	87,858,947
Board Designated Reserves	-	12,117,325	7,770,885
Trustee-held Funds (Revenue Fund only)	249,531	185,981	234,496
Total	109,462,880	98,426,002	95,864,328
Divide Total by Average Adjusted Expenses per Day			
Total Expenses	385,355,509	428,153,444	108,925,418
Less: Depreciation	19,453,013	21,572,031	5,662,221
Adjusted Expenses	365,902,496	406,581,413	103,263,197
Number of days in period	365	366	92
Average Adjusted Expenses per Day	1,002,473	1,110,878	1,122,426
Days Cash on Hand	**109**	**89**	**85**
REQUIREMENT	**80**	**80**	**80**
	Achieved	**Achieved**	**Achieved**

Net Income Available for Debt Service	Jun-07	Jun-08	Sep-08
Excess of revenue over expenses Cur Mo.	2,963,446	(13,859,525)	1,033,854
Excess of revenues over expenses YTD	21,974,509	(5,472,030)	5,393,946
(General Funds)			
ADD:			
Depreciation and Amortization	19,453,013	21,572,031	5,662,221
Interest Expense	3,343,683	14,912,181	1,148,332
Net Income Available for Debt Service	44,771,205	31,012,182	12,204,499
Aggregate Debt Service			
1999 Insured Refunding Revenue Bonds	8,249,916	8,248,018	2,061,646
2006 Certificates of Participation	4,373,342	8,316,457	2,181,527
Aggregate Debt Service	12,623,258	16,564,475	4,243,173
Net Income Available for Debt Service	**3.55**	**1.87**	**2.88**
Required Coverage	**1.15**	**1.15**	**1.15**
	Achieved	**Achieved**	**Achieved**

Statistical Indicators
Admissions – Acute

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

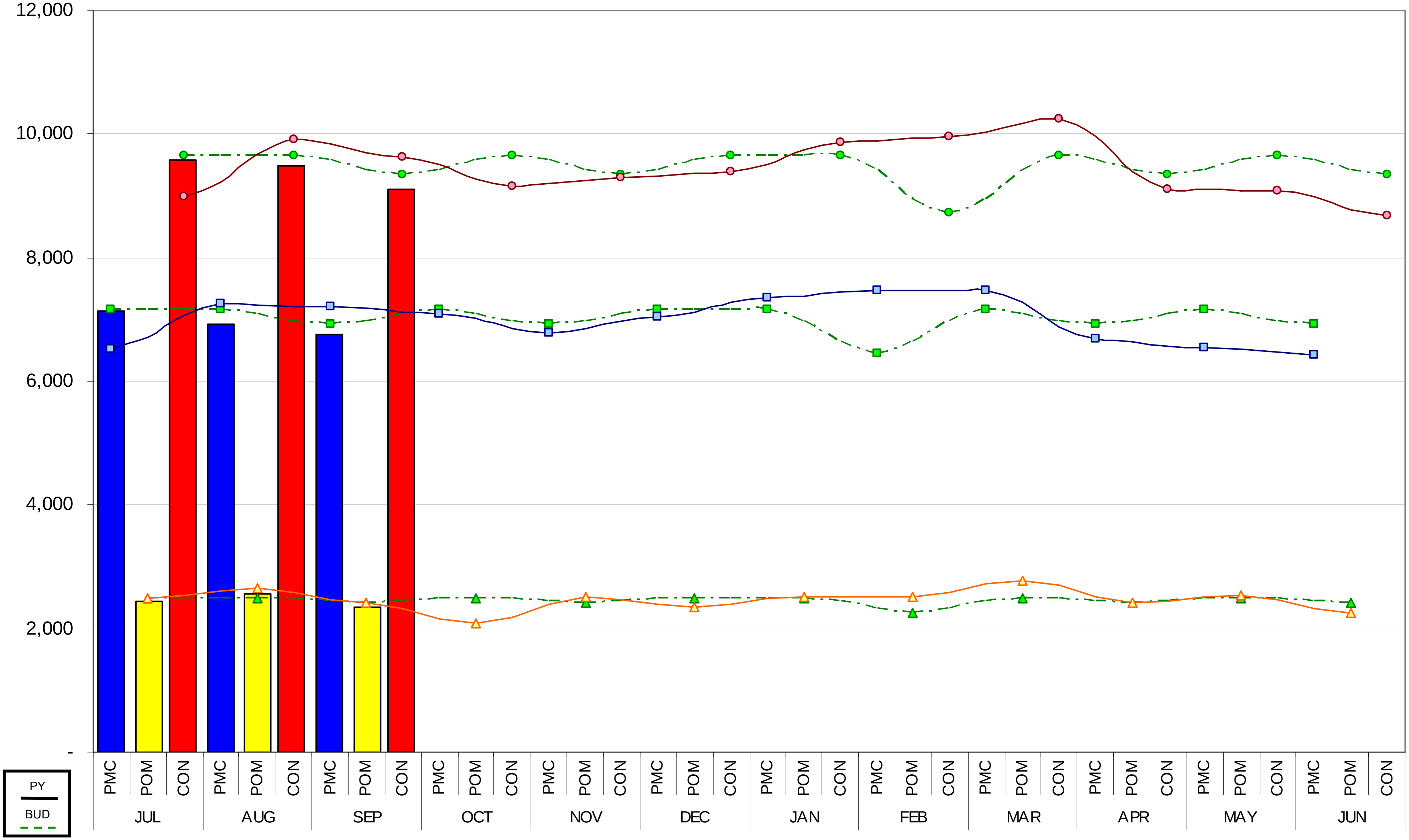


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	1,895	1,848	1,771	-	-	-	-	-	-	-	-	-	5,514	5,561
POM	645	606	596	-	-	-	-	-	-	-	-	-	1,847	1,864
CON	2,540	2,454	2,367	-	-	-	-	-	-	-	-	-	7,361	7,425

ADD F-26

Statistical Indicators
Patient Days – Acute

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

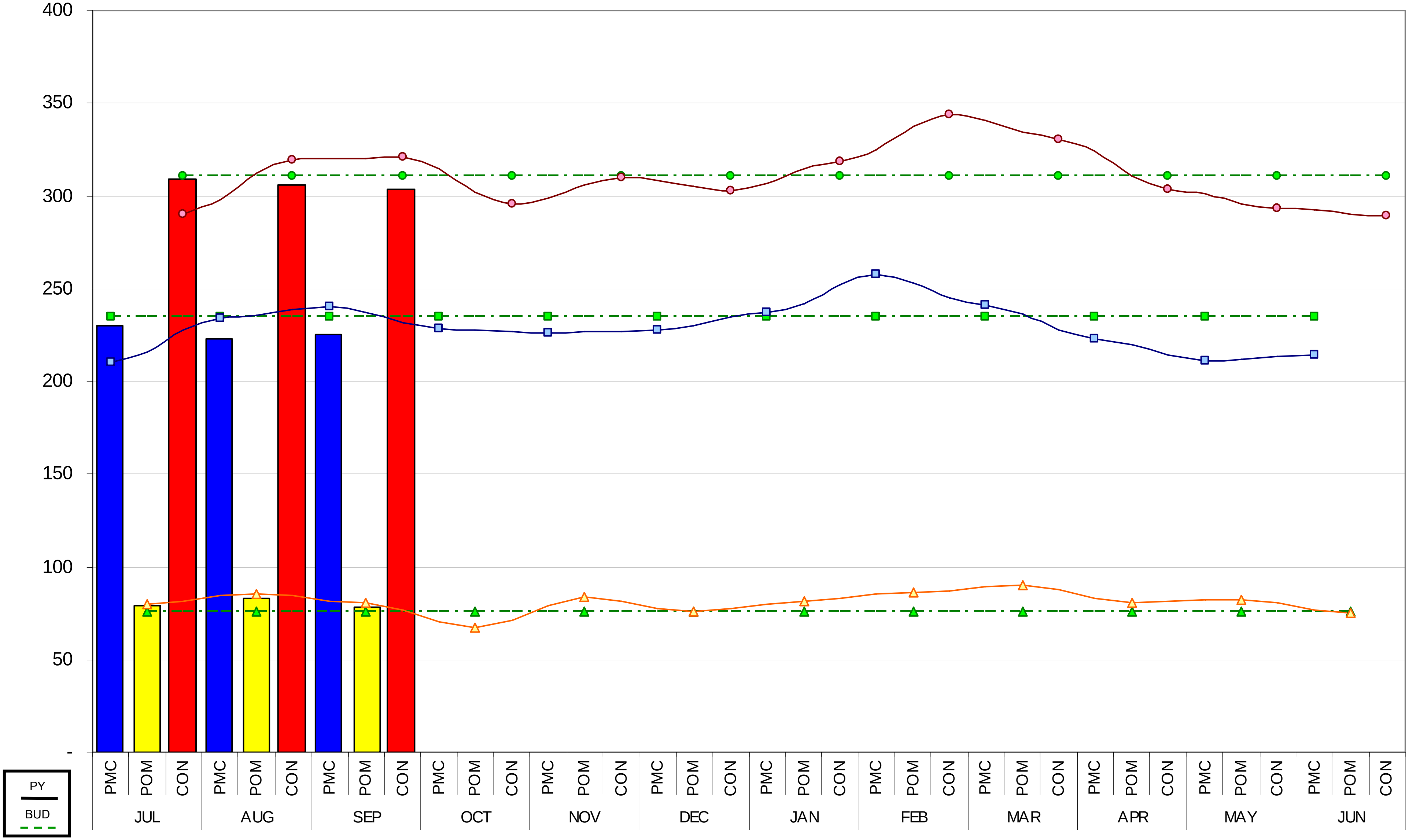


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	7,138	6,920	6,757	-	-	-	-	-	-	-	-	-	20,815	21,233
POM	2,449	2,571	2,341	-	-	-	-	-	-	-	-	-	7,361	7,416
CON	9,587	9,491	9,098	-	-	-	-	-	-	-	-	-	28,176	28,649

Statistical Indicators

Average Daily Census – Acute

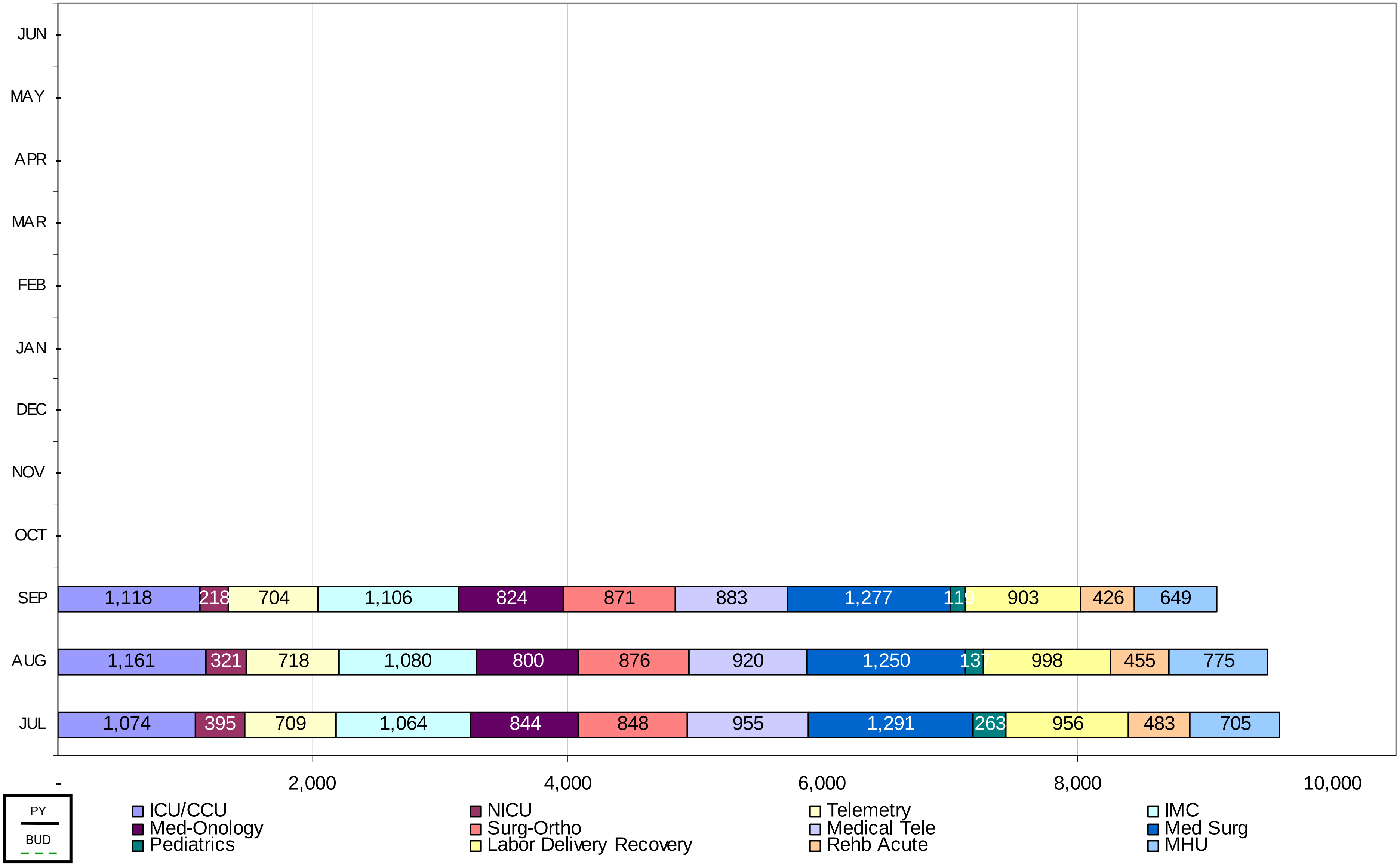
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	230	223	225	-	-	-	-	-	-	-	-	-	226	231
POM	79	83	78	-	-	-	-	-	-	-	-	-	80	81
CON	309	306	303	-	-	-	-	-	-	-	-	-	306	312

Statistical Indicators
Patient Days

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



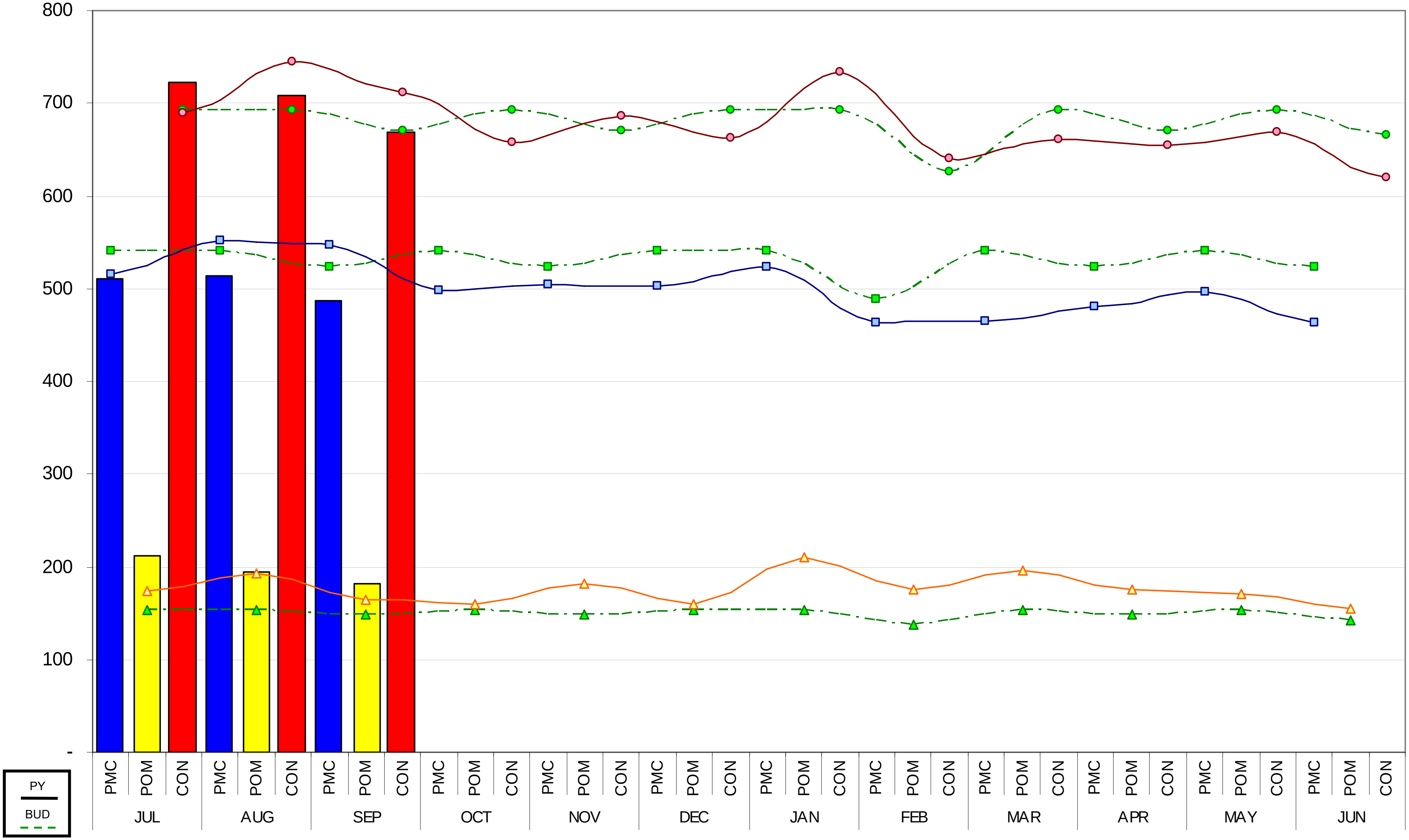
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	7,138	6,920	6,757	-	-	-	-	-	-	-	-	-	20,815	21,233
POM	2,449	2,571	2,341	-	-	-	-	-	-	-	-	-	7,361	7,416
CON	9,587	9,491	9,098	-	-	-	-	-	-	-	-	-	28,176	28,649

ADD F-29

FISCAL YEAR 2009

Statistical Indicators
Surgeries *(Inpatient only)*

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

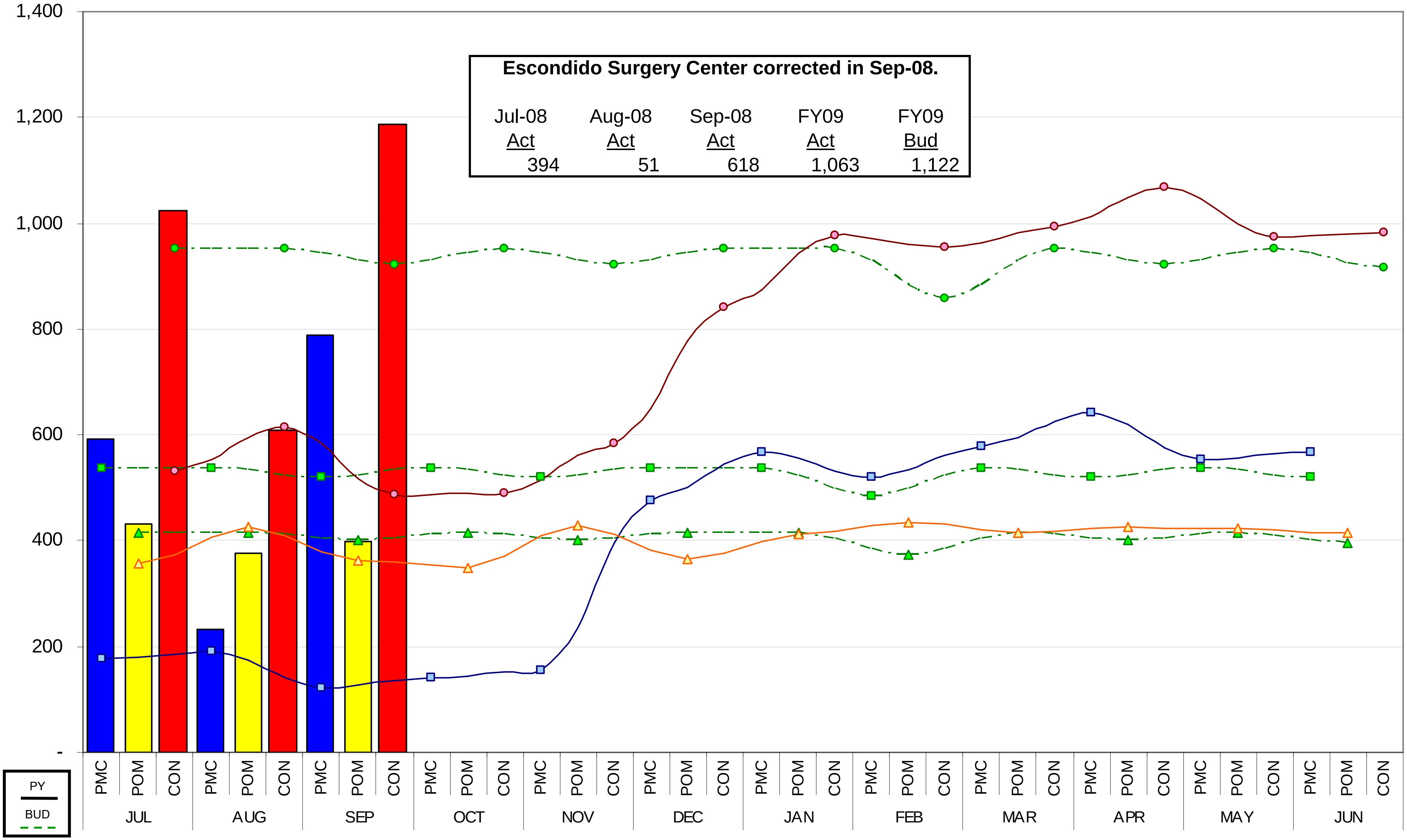


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	510	514	487	-	-	-	-	-	-	-	-	-	1,511	1,603
POM	212	195	182	-	-	-	-	-	-	-	-	-	589	454
CON	722	709	669	-	-	-	-	-	-	-	-	-	2,100	2,057

ADD F-30

Statistical Indicators
Surgeries *(Outpatient only)*

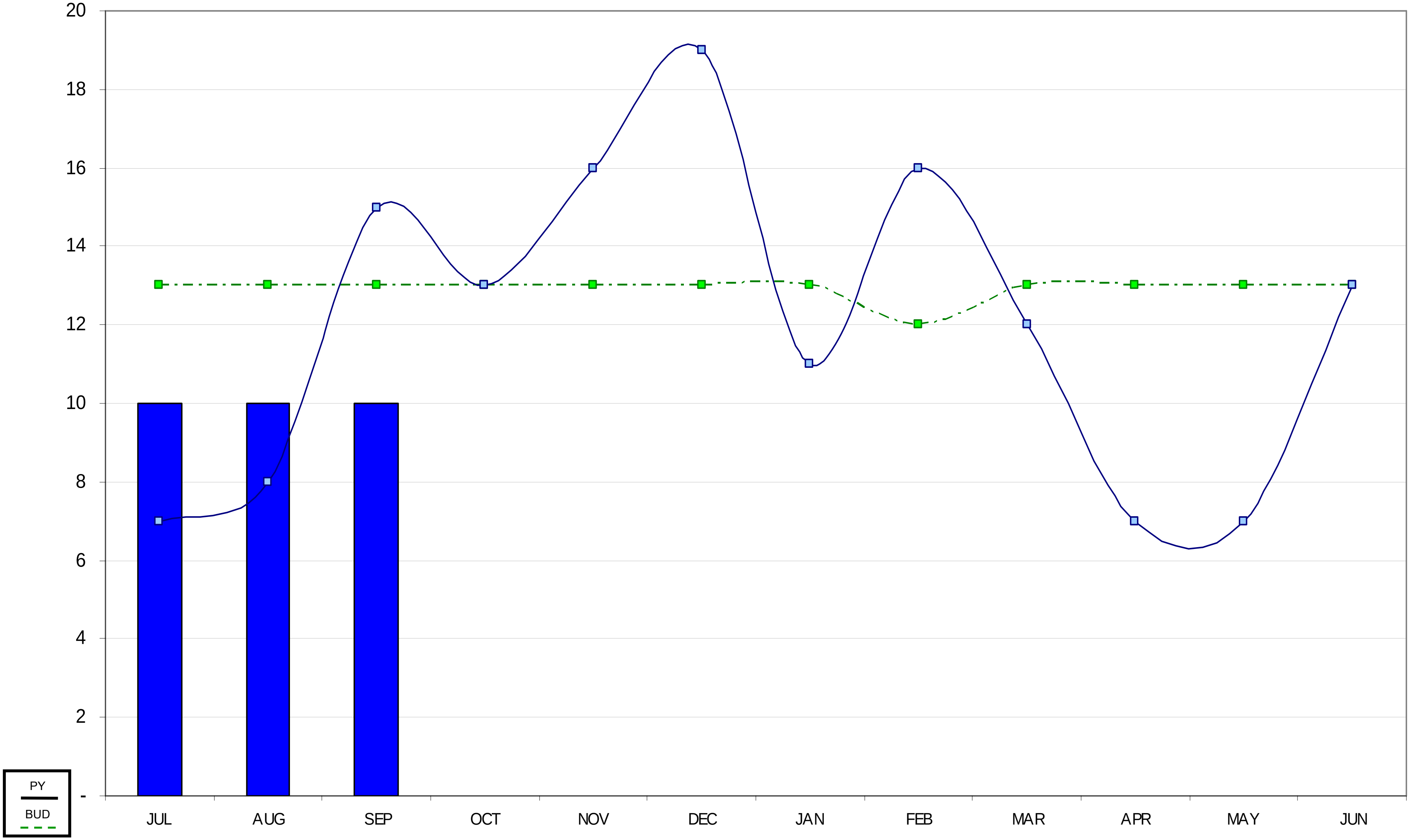
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	591	232	788	-	-	-	-	-	-	-	-	-	1,611	1,594
POM	432	376	399	-	-	-	-	-	-	-	-	-	1,207	1,231
CON	1,023	608	1,187	-	-	-	-	-	-	-	-	-	2,818	2,825

Statistical Indicators
Surgeries – CVS *(PMC only)*

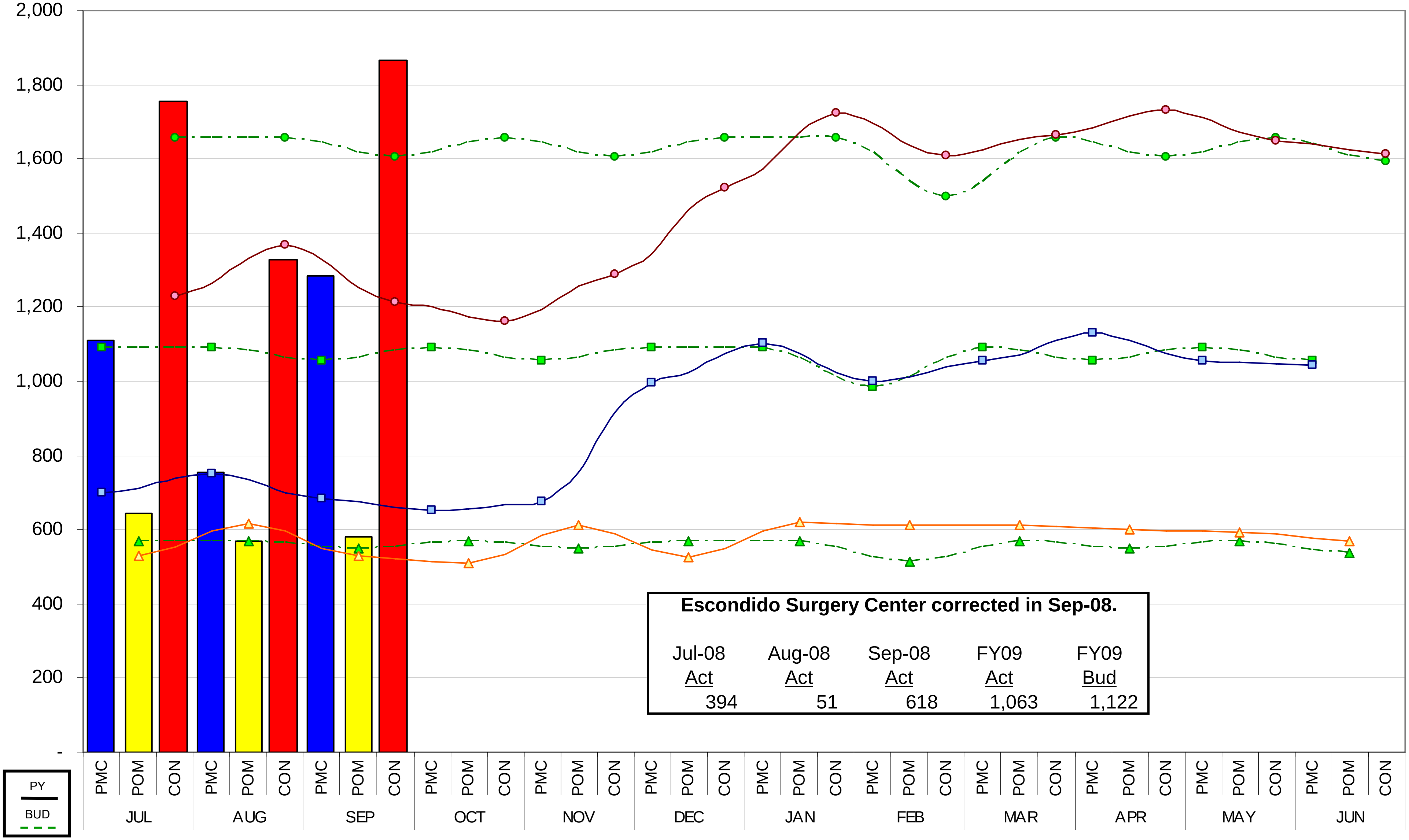
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	10	10	10	-	-	-	-	-	-	-	-	-	30	39
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	10	10	10	-	-	-	-	-	-	-	-	-	30	39

Statistical Indicators
Total Surgeries

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

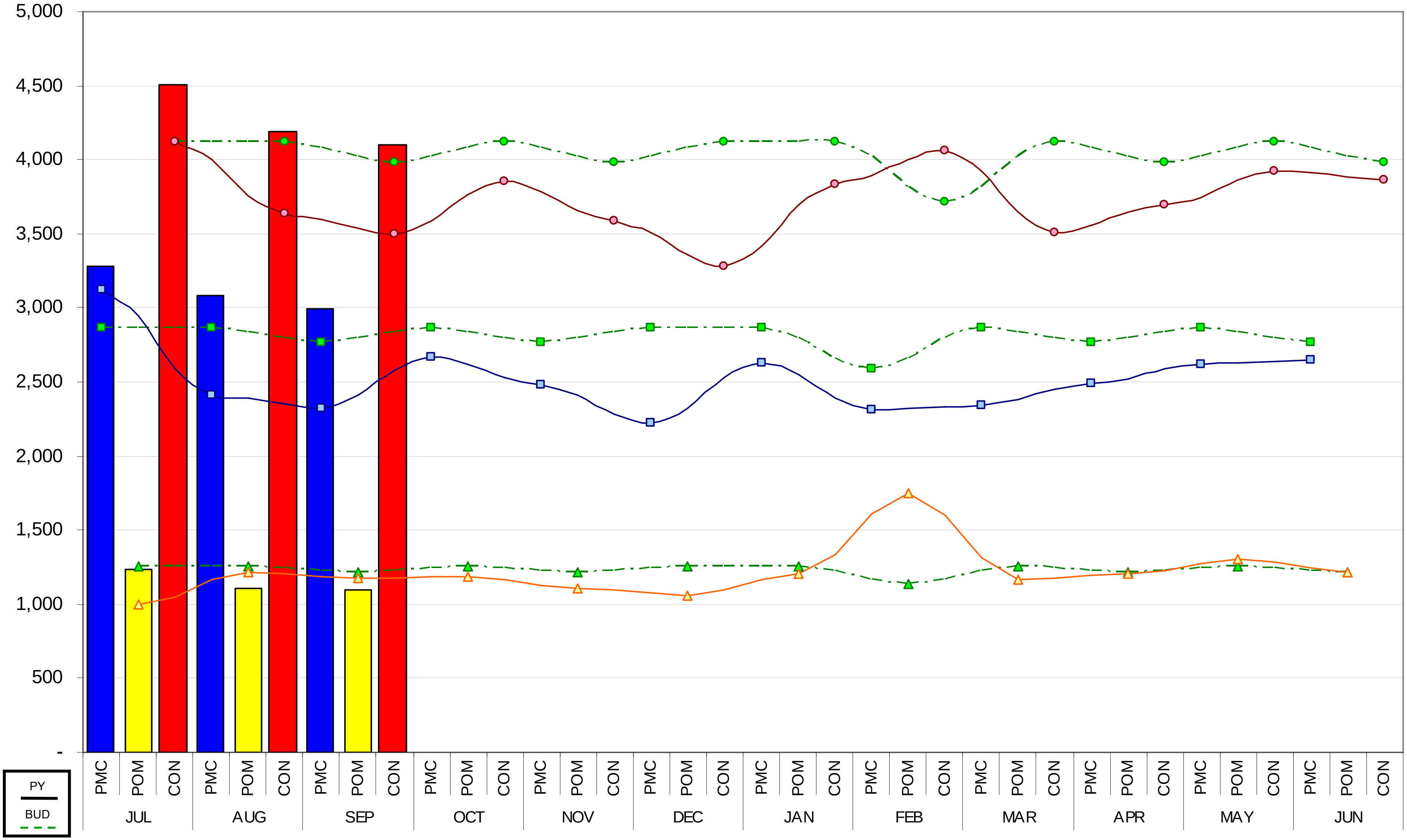


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	1,111	756	1,285	-	-	-	-	-	-	-	-	-	3,152	3,236
POM	644	571	581	-	-	-	-	-	-	-	-	-	1,796	1,685
CON	1,755	1,327	1,866	-	-	-	-	-	-	-	-	-	4,948	4,921

ADD F-33

Statistical Indicators
Outpatient Registrations *(excludes Lab)*

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



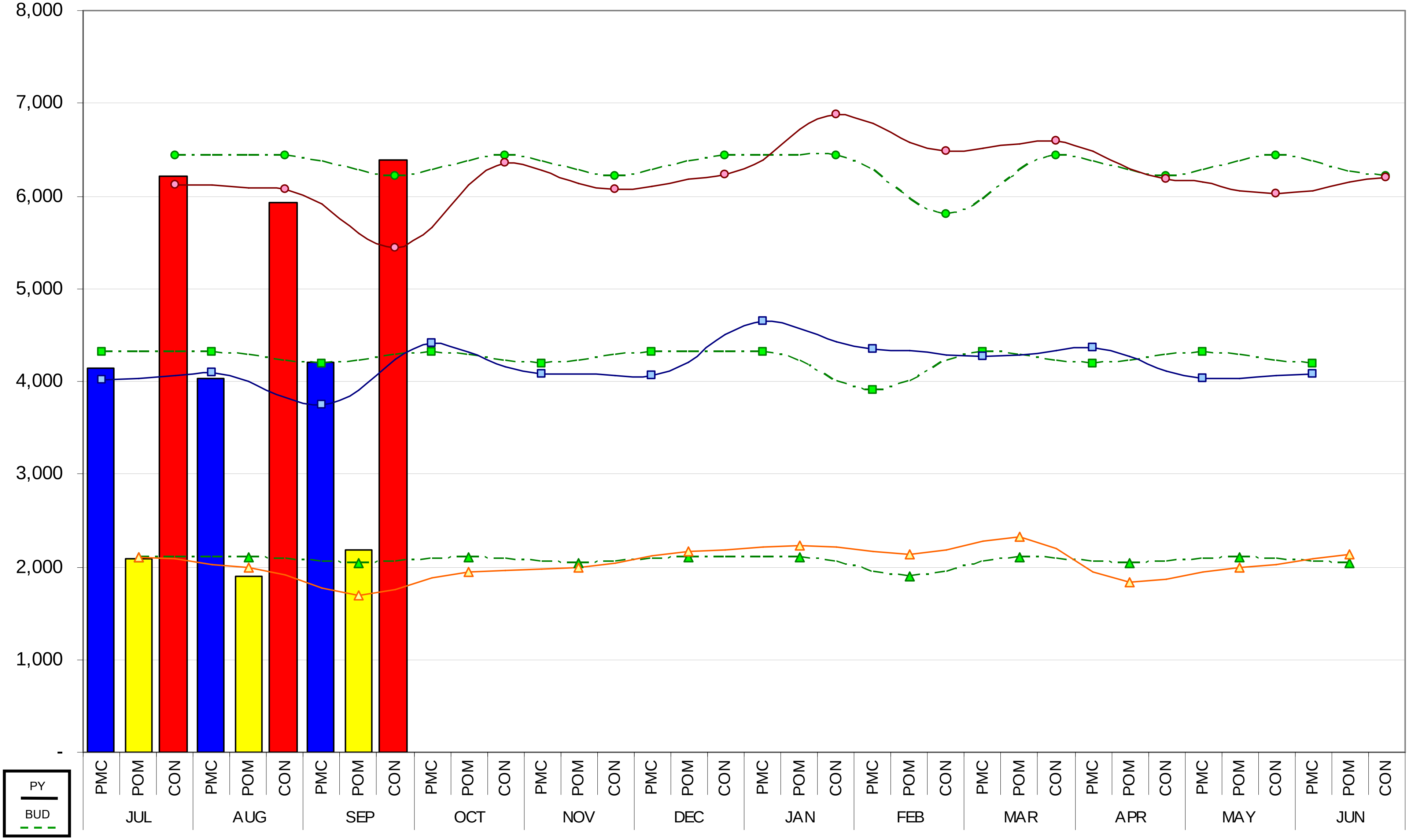
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	3,276	3,085	2,998	-	-	-	-	-	-	-	-	-	9,359	8,496
POM	1,231	1,108	1,101	-	-	-	-	-	-	-	-	-	3,440	3,727
CON	4,507	4,193	4,099	-	-	-	-	-	-	-	-	-	12,799	12,223

ADD F-34

Statistical Indicators

ER Visits *(includes Trauma, Outpatient only)*

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

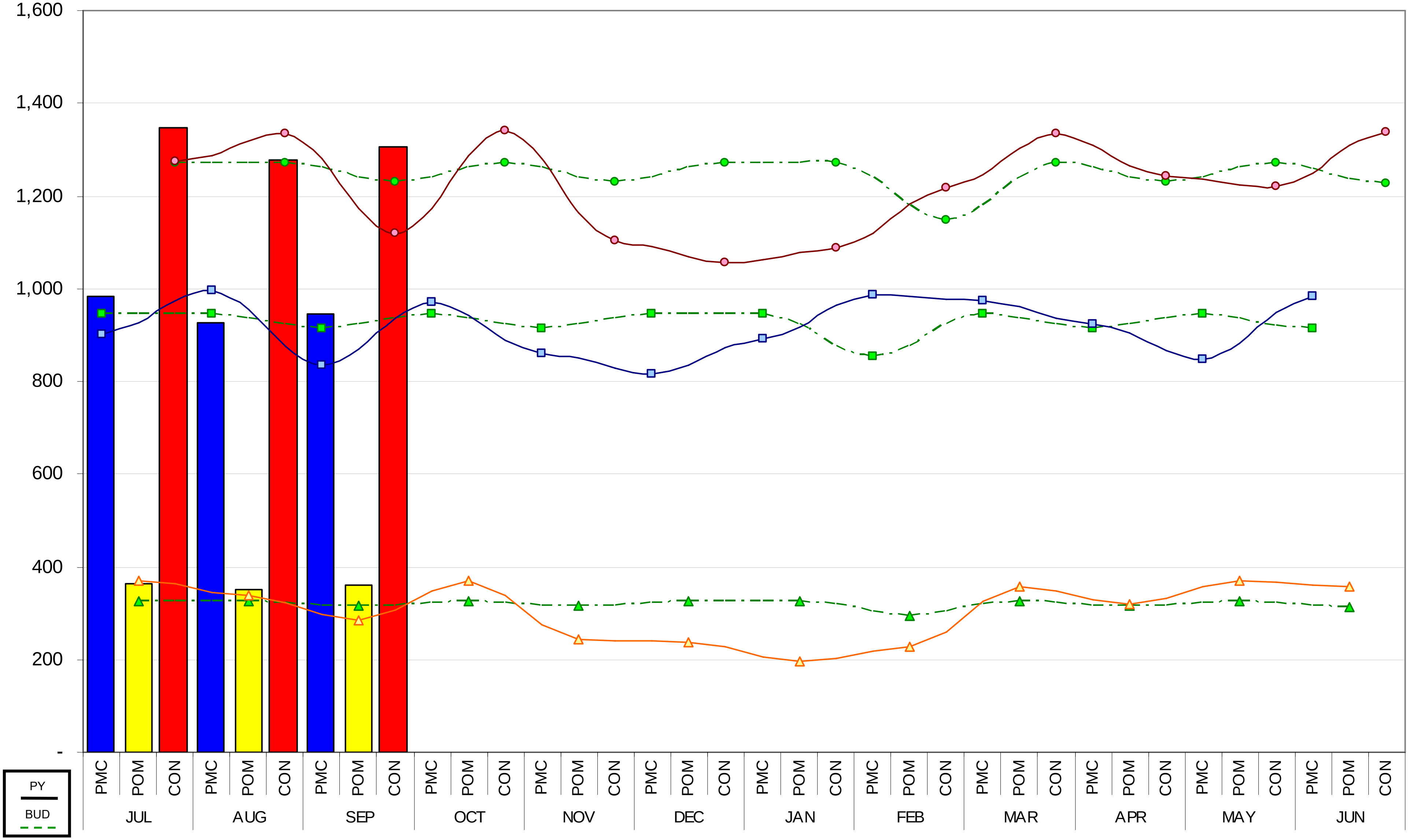


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	4,137	4,032	4,199	-	-	-	-	-	-	-	-	-	12,368	12,827
POM	2,081	1,895	2,184	-	-	-	-	-	-	-	-	-	6,160	6,247
CON	6,218	5,927	6,383	-	-	-	-	-	-	-	-	-	18,528	19,074
CON/DAY	201	191	213	-	-	-	-	-	-	-	-	-	201	207

Statistical Indicators

ER Admissions *(includes Trauma, Inpatient only)*

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

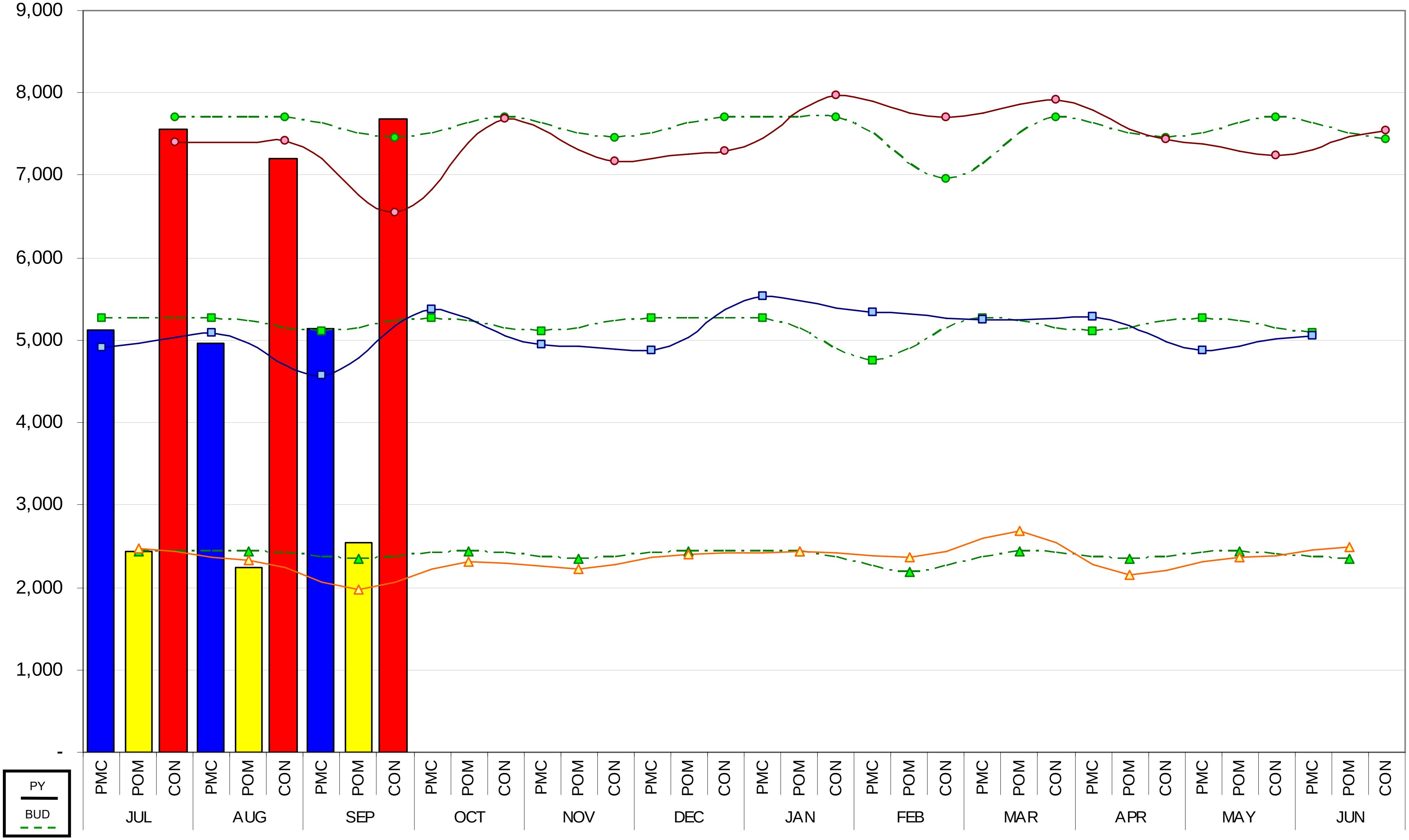


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	982	925	945	-	-	-	-	-	-	-	-	-	2,852	2,804
POM	364	351	360	-	-	-	-	-	-	-	-	-	1,075	967
CON	1,346	1,276	1,305	-	-	-	-	-	-	-	-	-	3,927	3,771

Statistical Indicators

Total ER Visits *(includes Trauma & Admissions)*

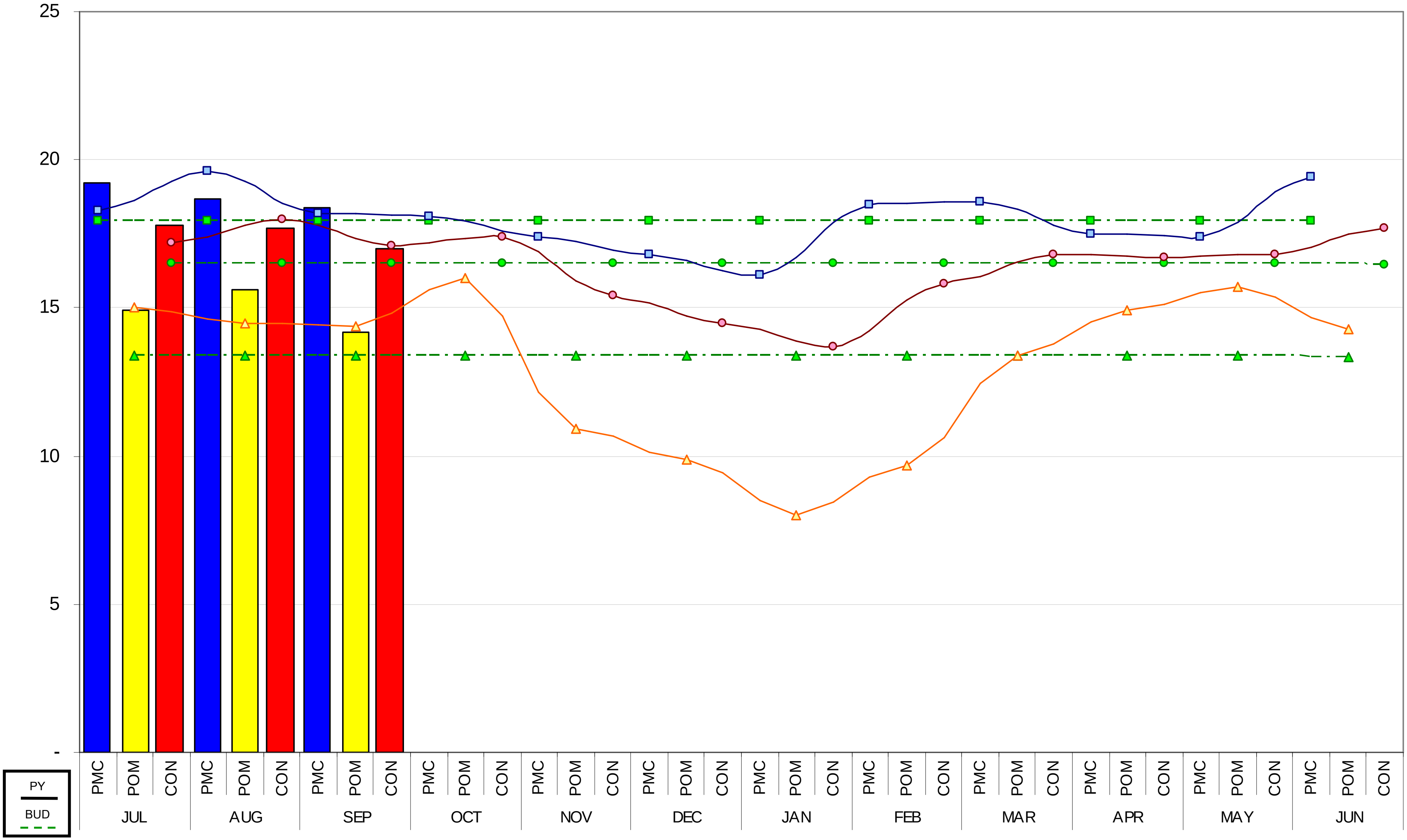
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	5,119	4,957	5,144	-	-	-	-	-	-	-	-	-	15,220	15,631
POM	2,445	2,246	2,544	-	-	-	-	-	-	-	-	-	7,235	7,214
CON	7,564	7,203	7,688	-	-	-	-	-	-	-	-	-	22,455	22,845

FISCAL YEAR 2009
Statistical Indicators
ER Conversion *(ER Admits as % of ER Visits)*

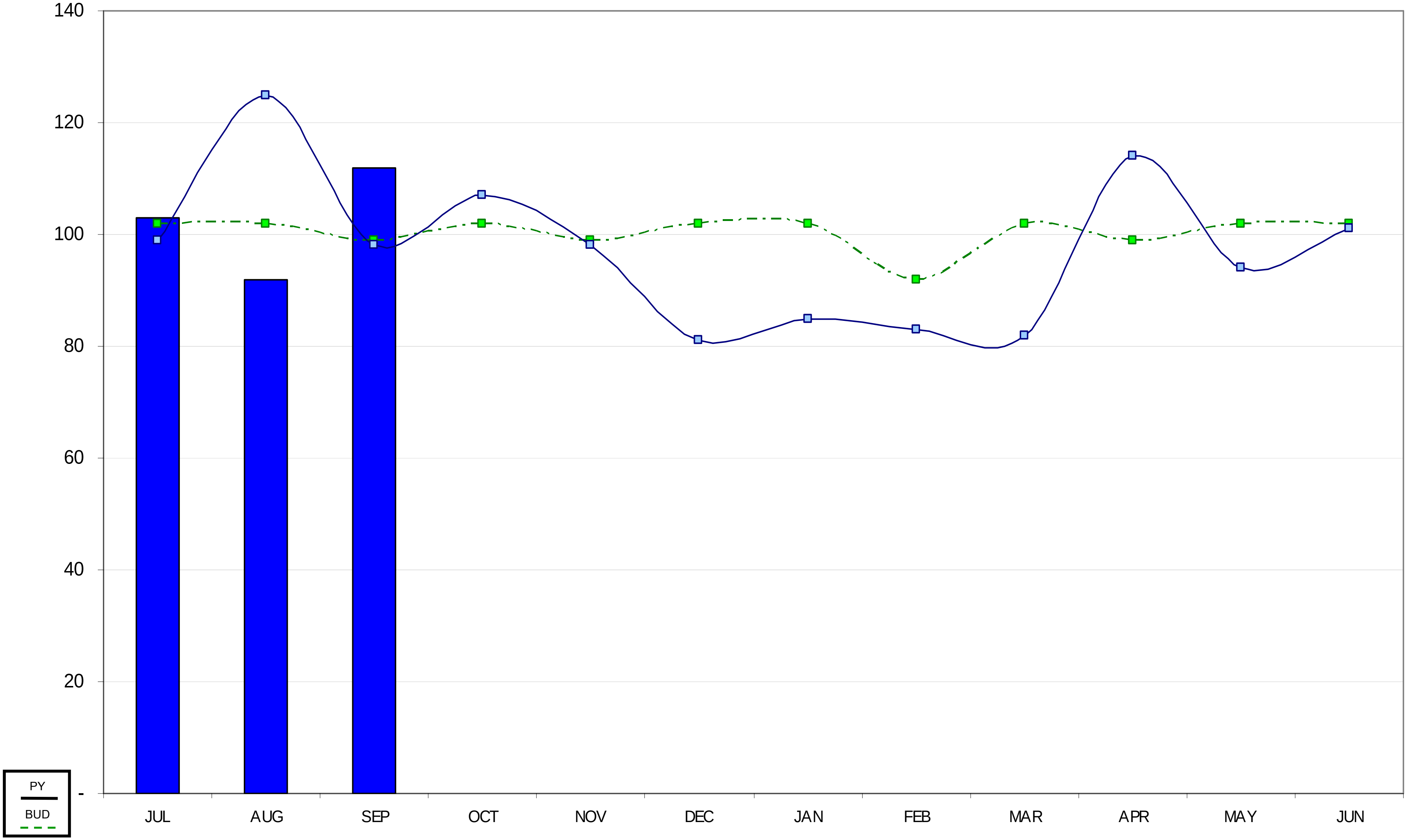
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	19.2	18.7	18.4	-	-	-	-	-	-	-	-	-	18.7	17.9
POM	14.9	15.6	14.2	-	-	-	-	-	-	-	-	-	14.9	13.4
CON	17.8	17.7	17.0	-	-	-	-	-	-	-	-	-	17.5	16.5

Statistical Indicators
Trauma Cases *(PMC only)*

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



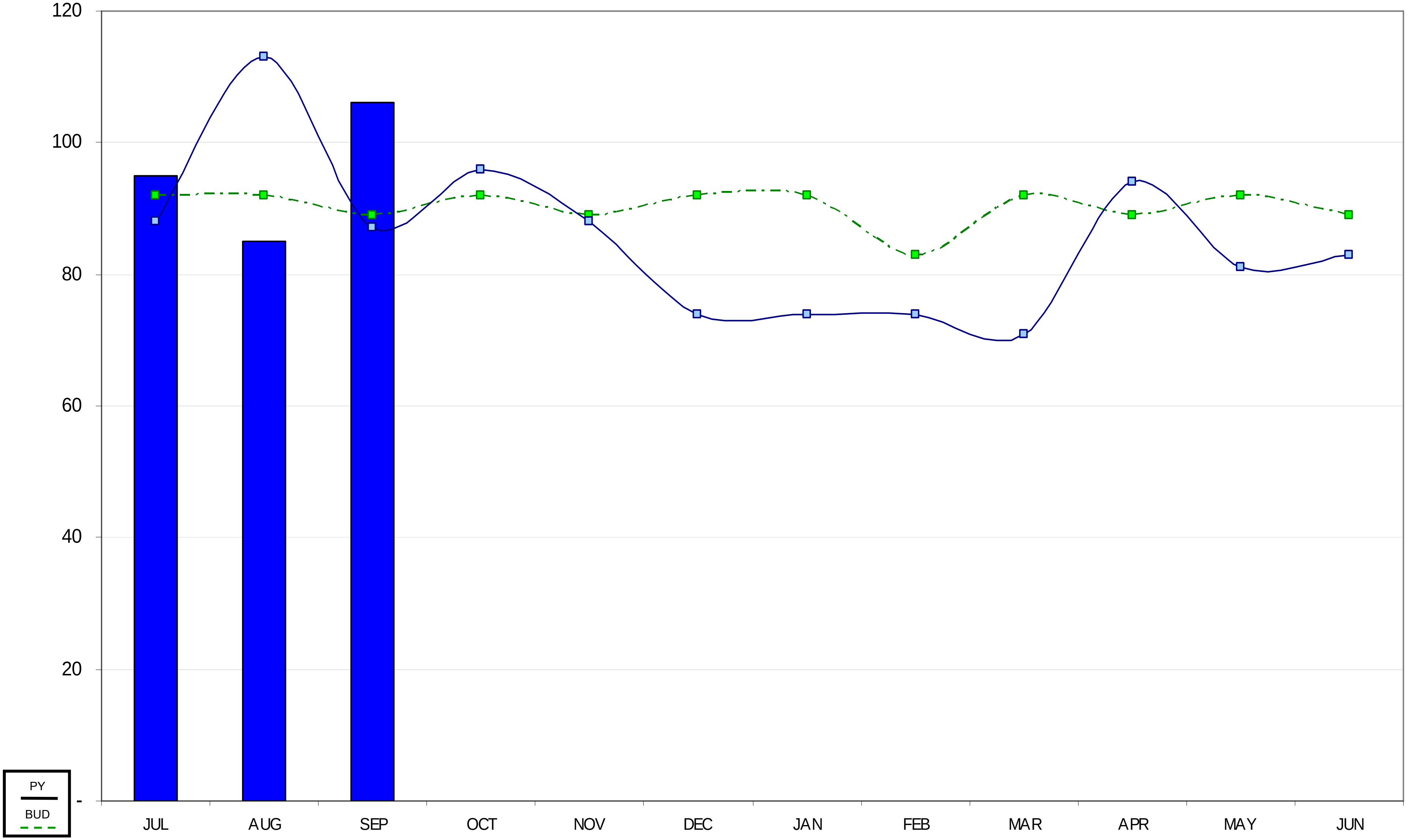
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	103	92	112	-	-	-	-	-	-	-	-	-	307	303
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	103	92	112	-	-	-	-	-	-	-	-	-	307	303

FISCAL YEAR 2009

Statistical Indicators

Trauma Admissions *(PMC only)*

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

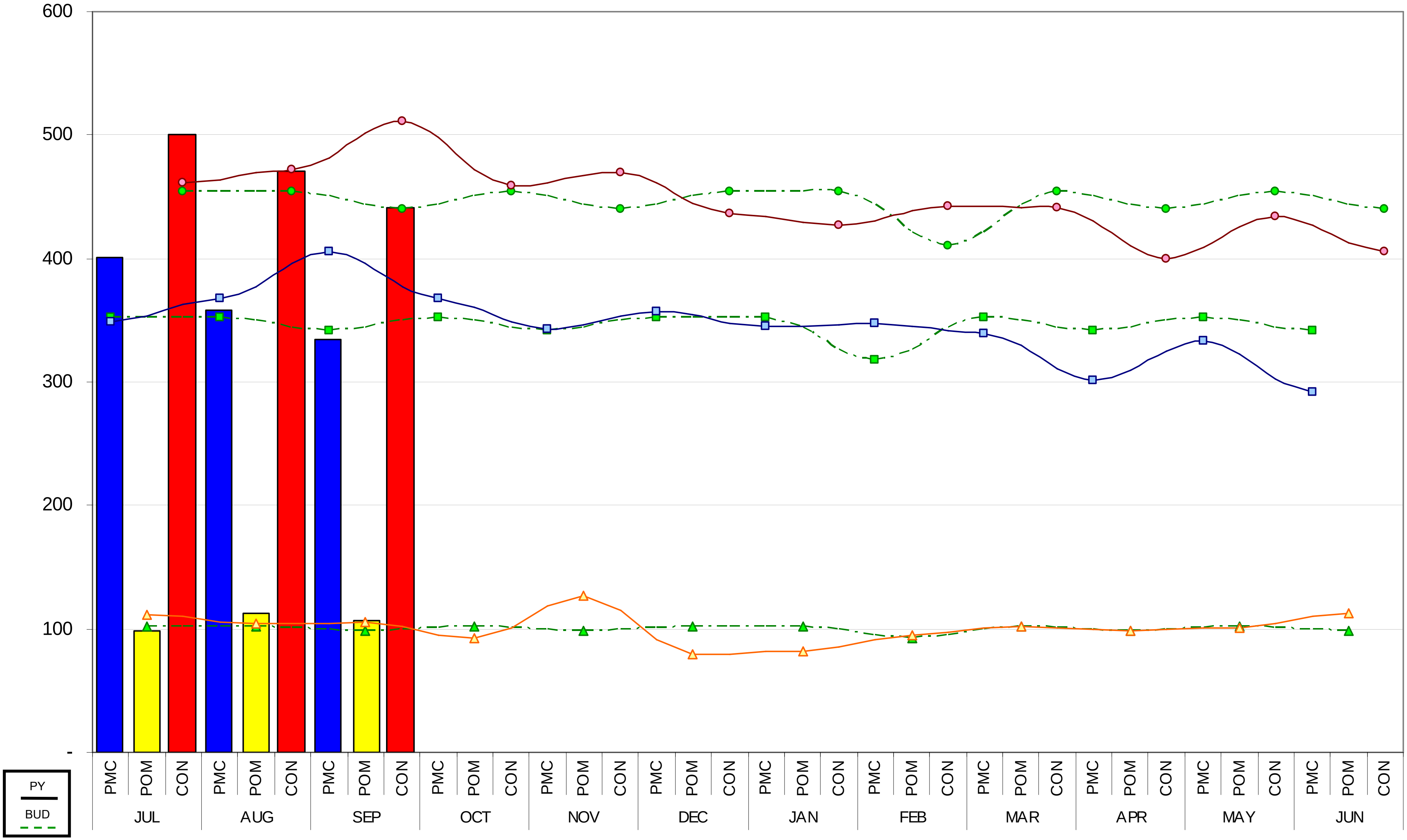


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	95	85	106	-	-	-	-	-	-	-	-	-	286	273
POM	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CON	95	85	106	-	-	-	-	-	-	-	-	-	286	273

ADD F-40

Statistical Indicators
Deliveries

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

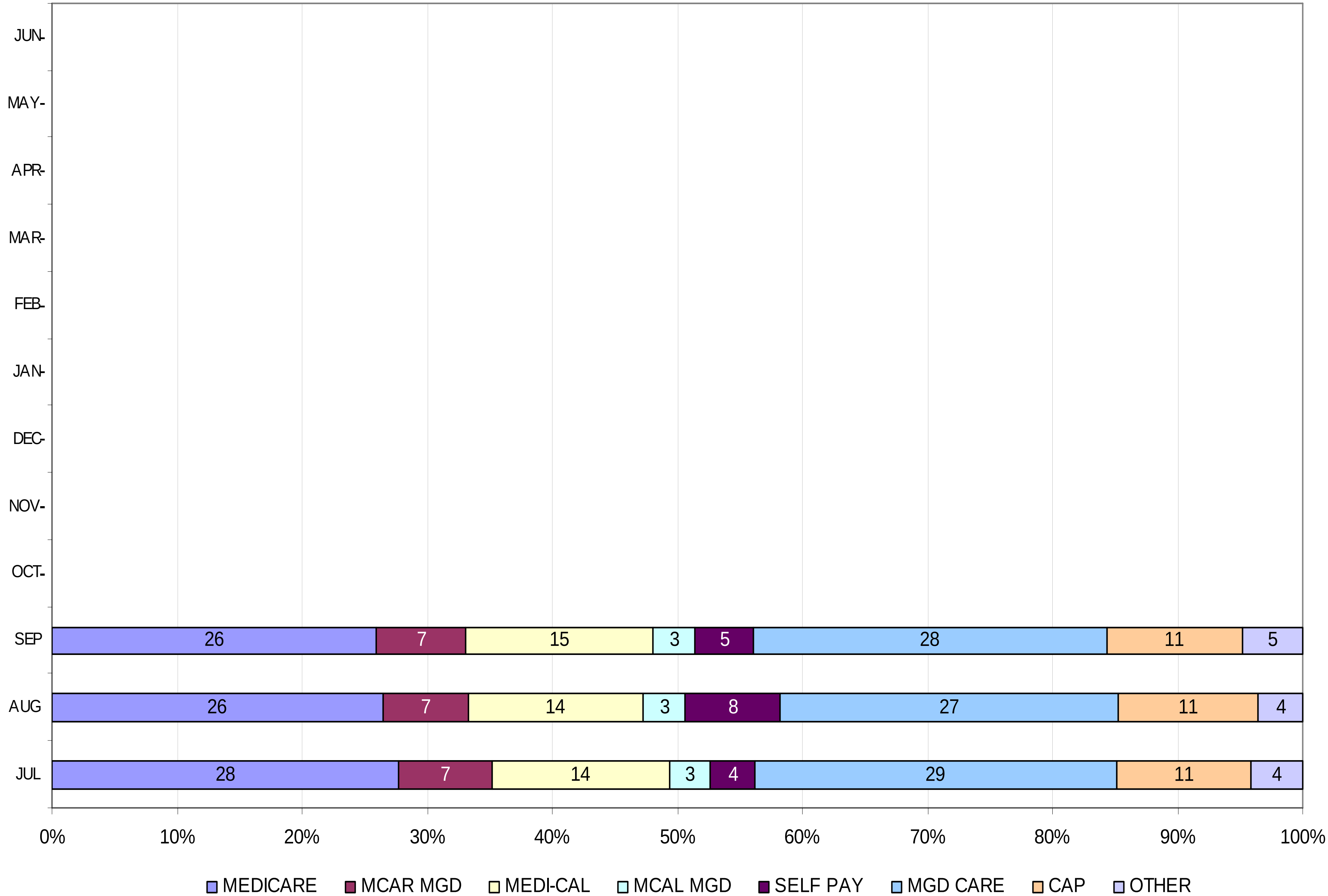


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	401	358	334	-	-	-	-	-	-	-	-	-	1,093	1,045
POM	99	113	107	-	-	-	-	-	-	-	-	-	319	303
CON	500	471	441	-	-	-	-	-	-	-	-	-	1,412	1,348

ADD F-41

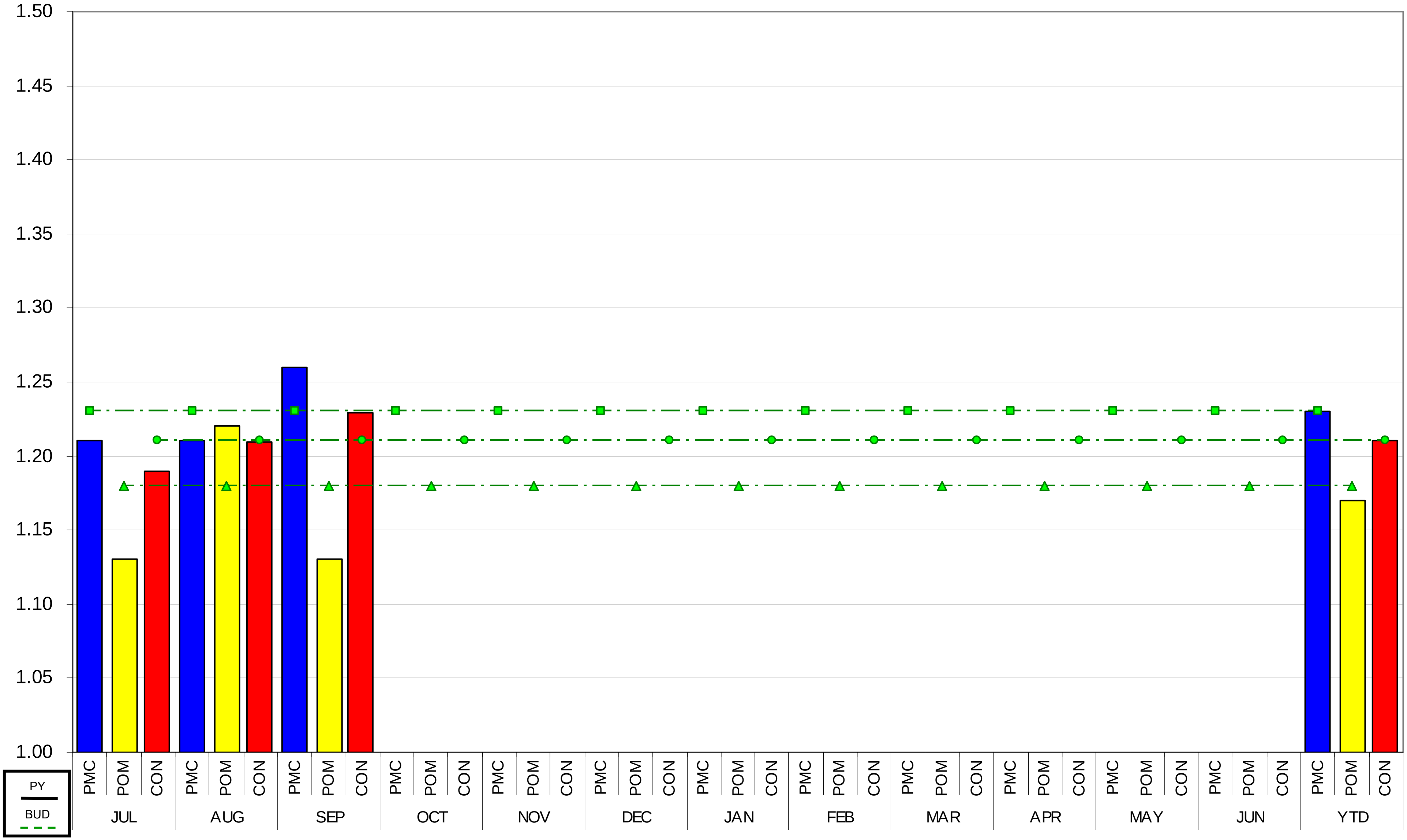
Payor Mix
Based on Gross Revenue

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



Case Mix Index

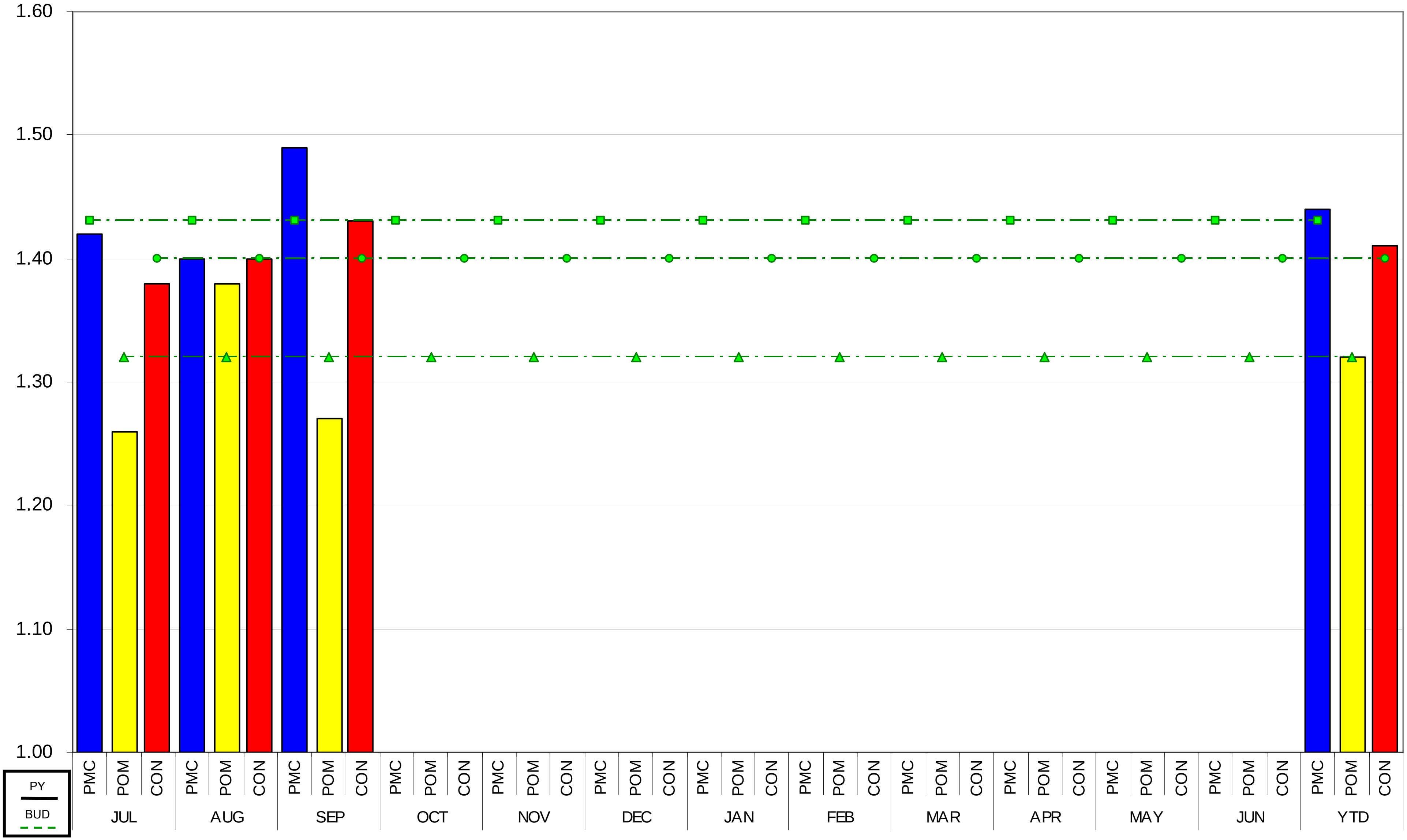
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PMC	1.21	1.21	1.26	-	-	-	-	-	-	-	-	-	1.23
POM	1.13	1.22	1.13	-	-	-	-	-	-	-	-	-	1.17
CON	1.19	1.21	1.23	-	-	-	-	-	-	-	-	-	1.21

Case Mix Index by Region
(excludes Deliveries)

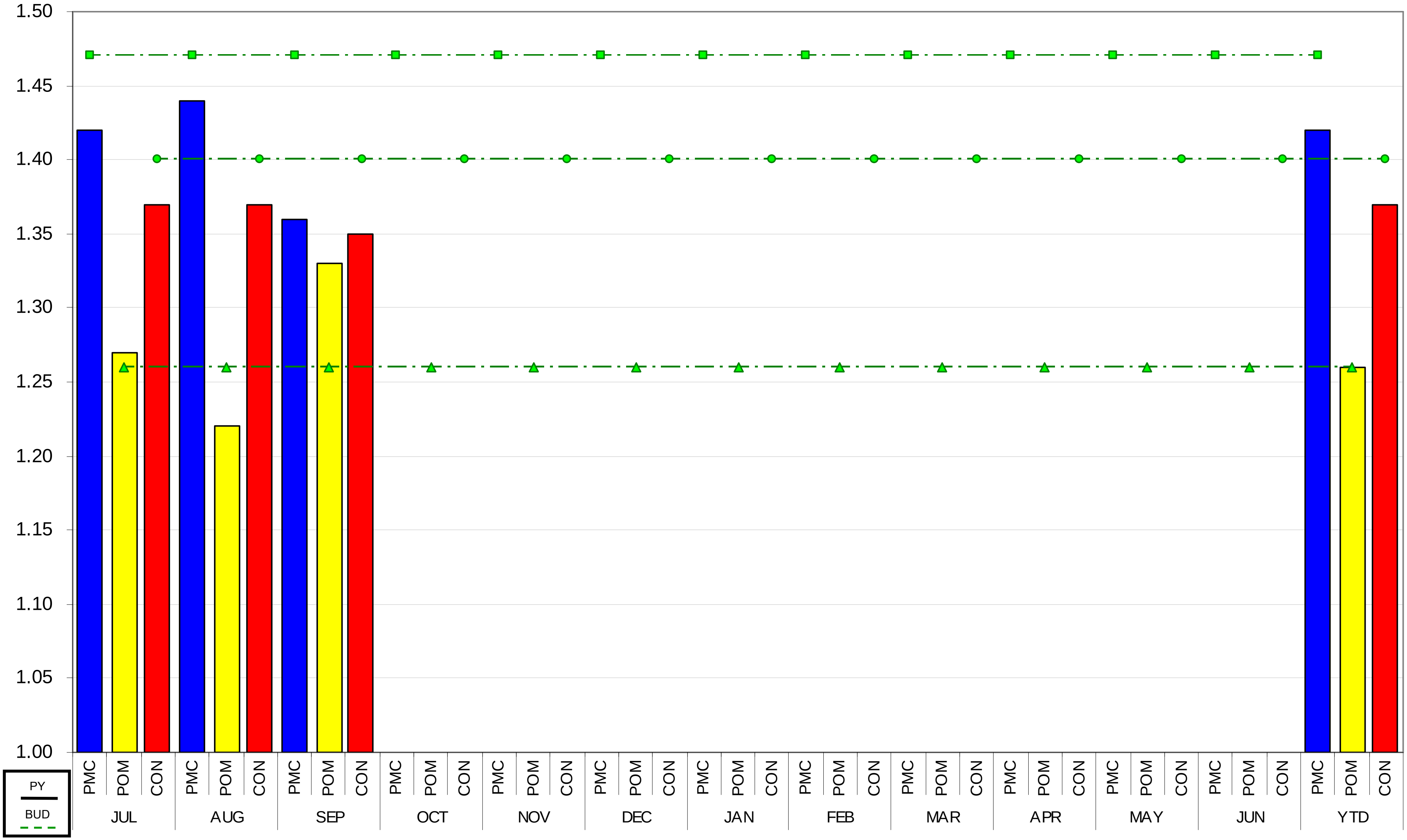
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PMC	1.42	1.40	1.49	-	-	-	-	-	-	-	-	-	1.44
POM	1.26	1.38	1.27	-	-	-	-	-	-	-	-	-	1.32
CON	1.38	1.40	1.43	-	-	-	-	-	-	-	-	-	1.41

Case Mix Index by Region
Medicare

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



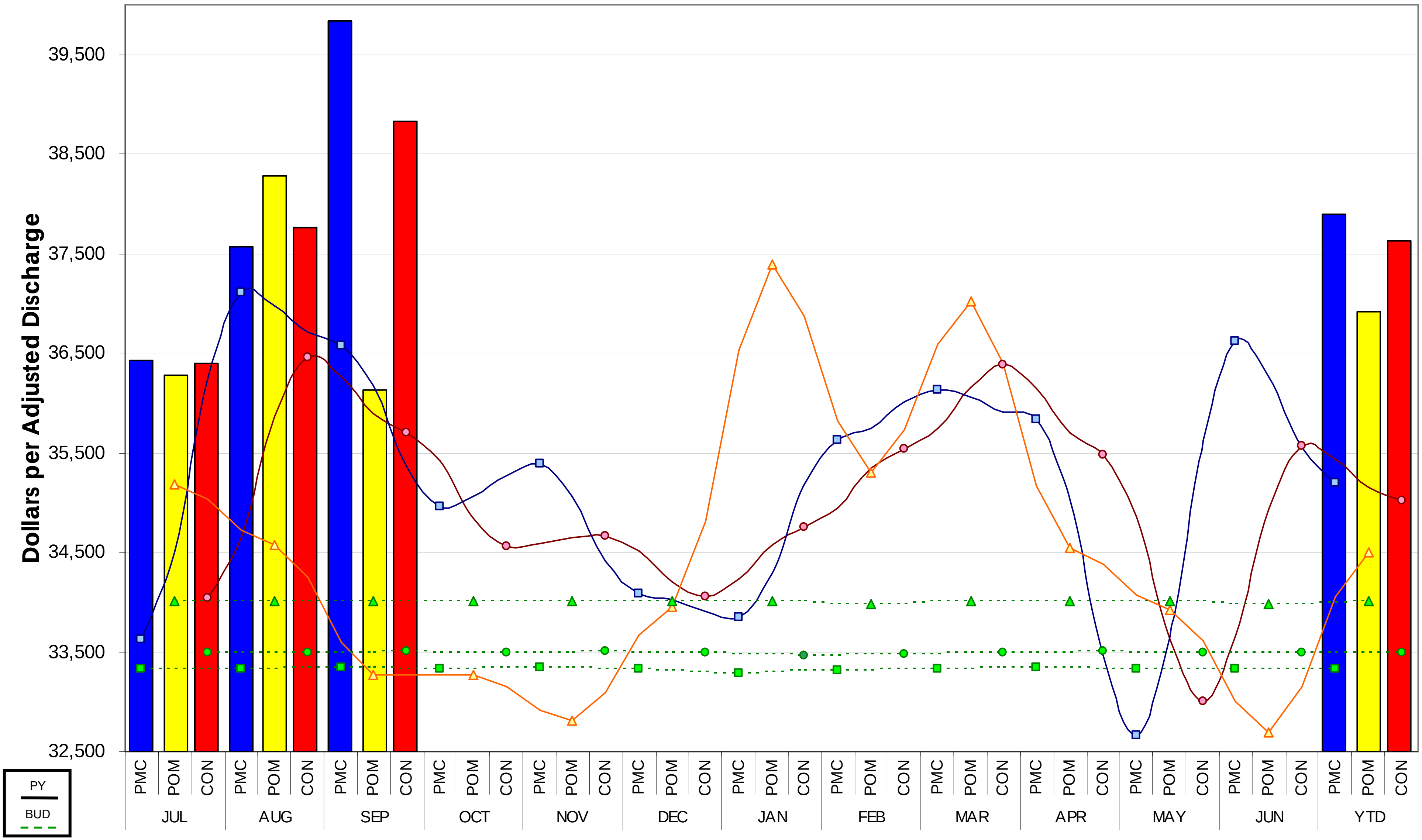
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
PMC	1.42	1.44	1.36	-	-	-	-	-	-	-	-	-	1.42
POM	1.27	1.22	1.33	-	-	-	-	-	-	-	-	-	1.26
CON	1.37	1.37	1.35	-	-	-	-	-	-	-	-	-	1.37

ADD F-45

Adjusted Discharges

Gross Patient Revenue per Adjusted Discharges

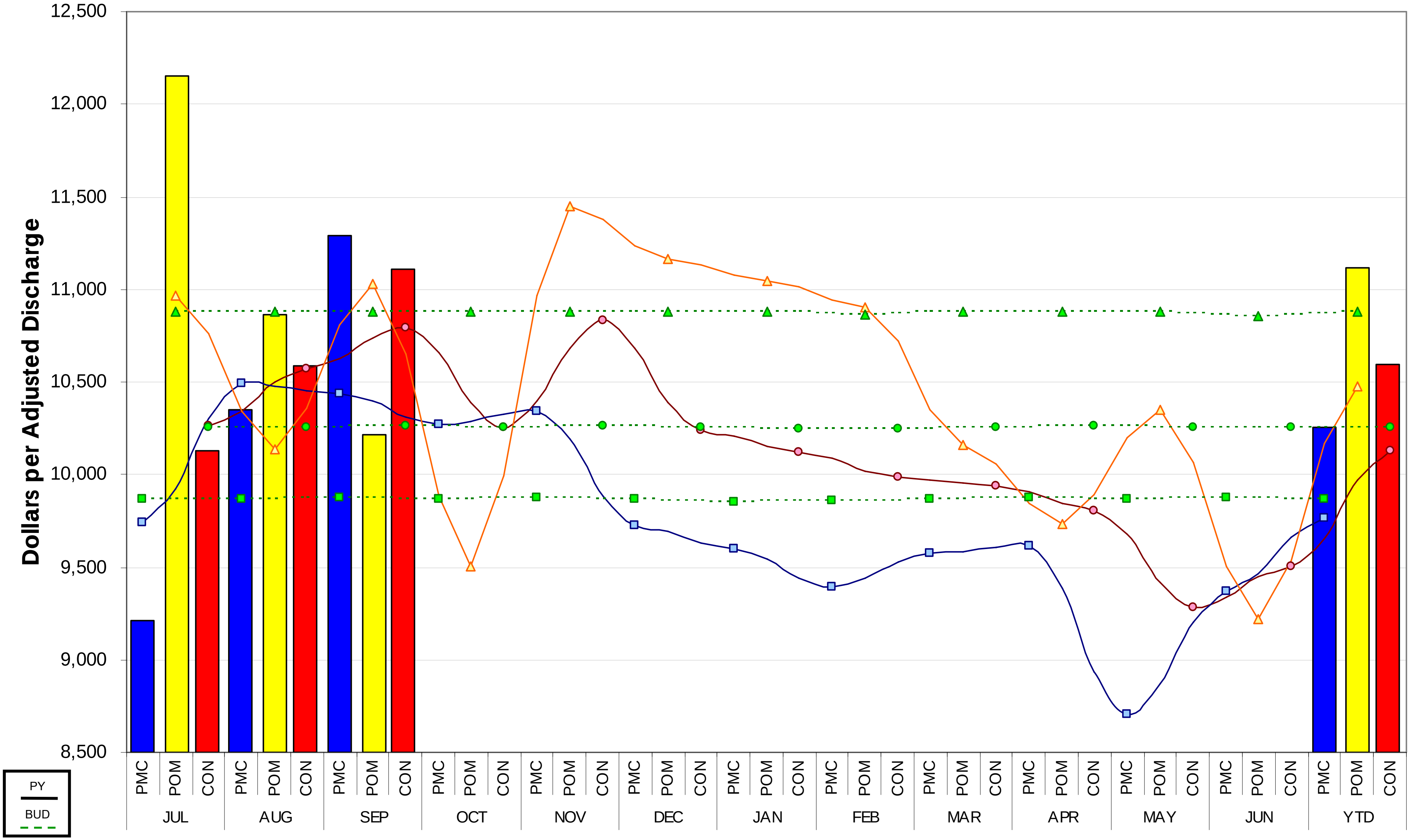
PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	36,434	37,574	39,830	-	-	-	-	-	-	-	-	-	37,893	38,128
POM	36,286	38,286	36,127	-	-	-	-	-	-	-	-	-	36,915	36,845
CON	36,402	37,759	38,832	-	-	-	-	-	-	-	-	-	37,632	37,796

Adjusted Discharges
Net Patient Revenue per Adjusted Discharges

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



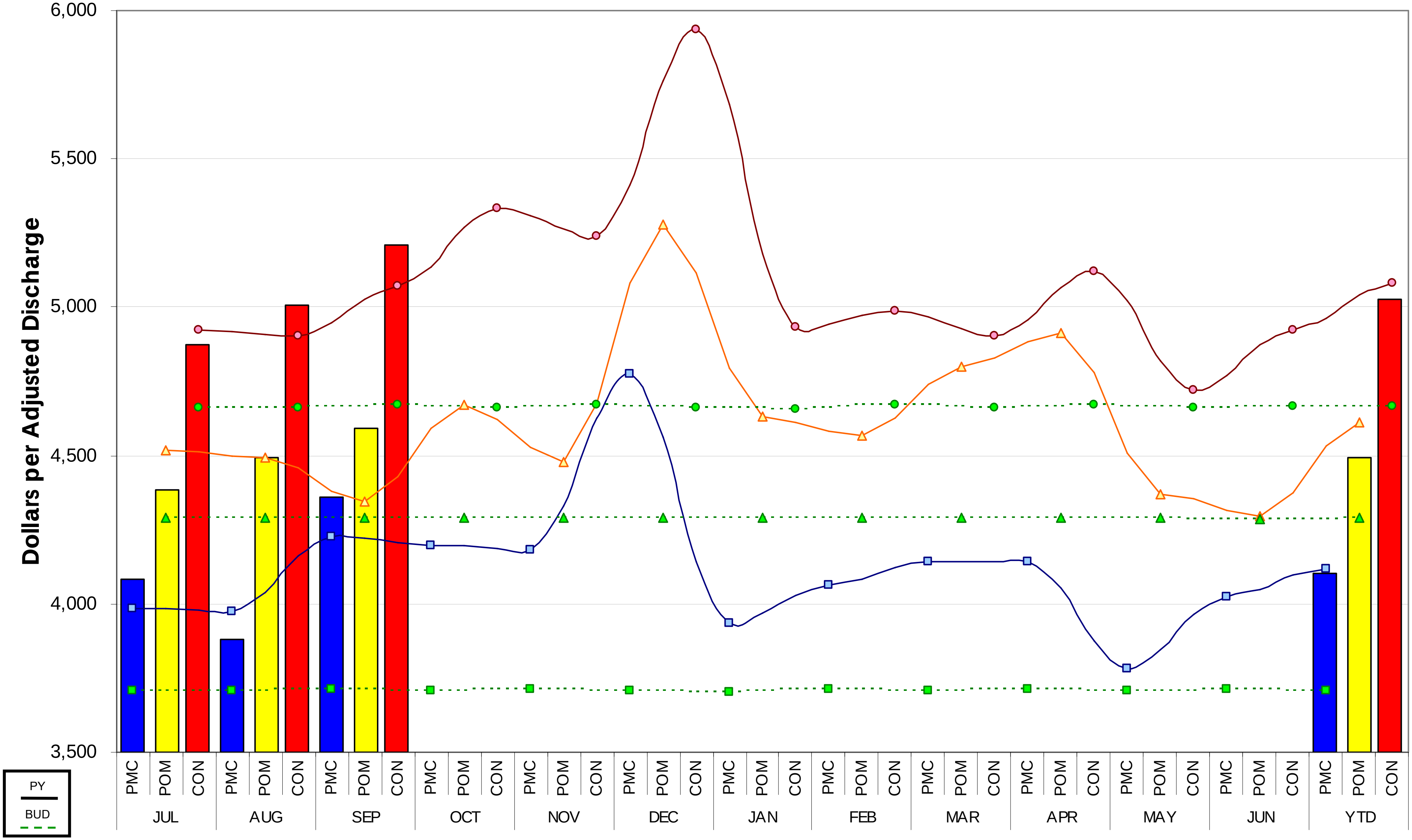
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	9,214	10,346	11,288	-	-	-	-	-	-	-	-	-	10,252	10,412
POM	12,150	10,864	10,216	-	-	-	-	-	-	-	-	-	11,114	11,586
CON	10,126	10,583	11,112	-	-	-	-	-	-	-	-	-	10,593	10,845

ADD F-47

Adjusted Discharges

Salaries per Adjusted Discharges

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	4,083	3,882	4,360	-	-	-	-	-	-	-	-	-	4,103	4,300
POM	4,386	4,491	4,594	-	-	-	-	-	-	-	-	-	4,491	4,984
CON	4,874	5,007	5,211	-	-	-	-	-	-	-	-	-	5,026	5,230

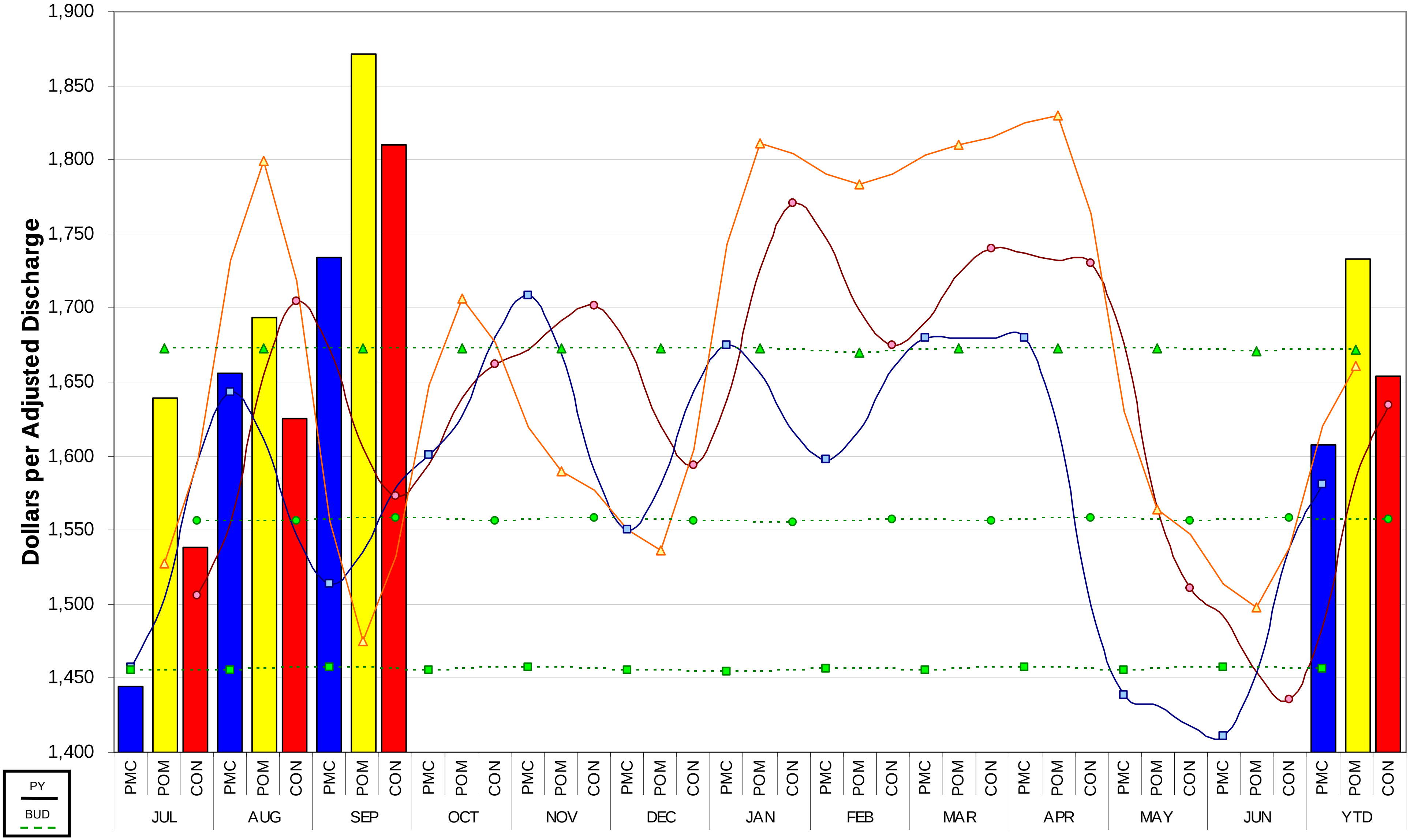
ADD F-48

F I S C A L   Y E A R   2 0 0 9

Adjusted Discharges

Supplies per Adjusted Discharges

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

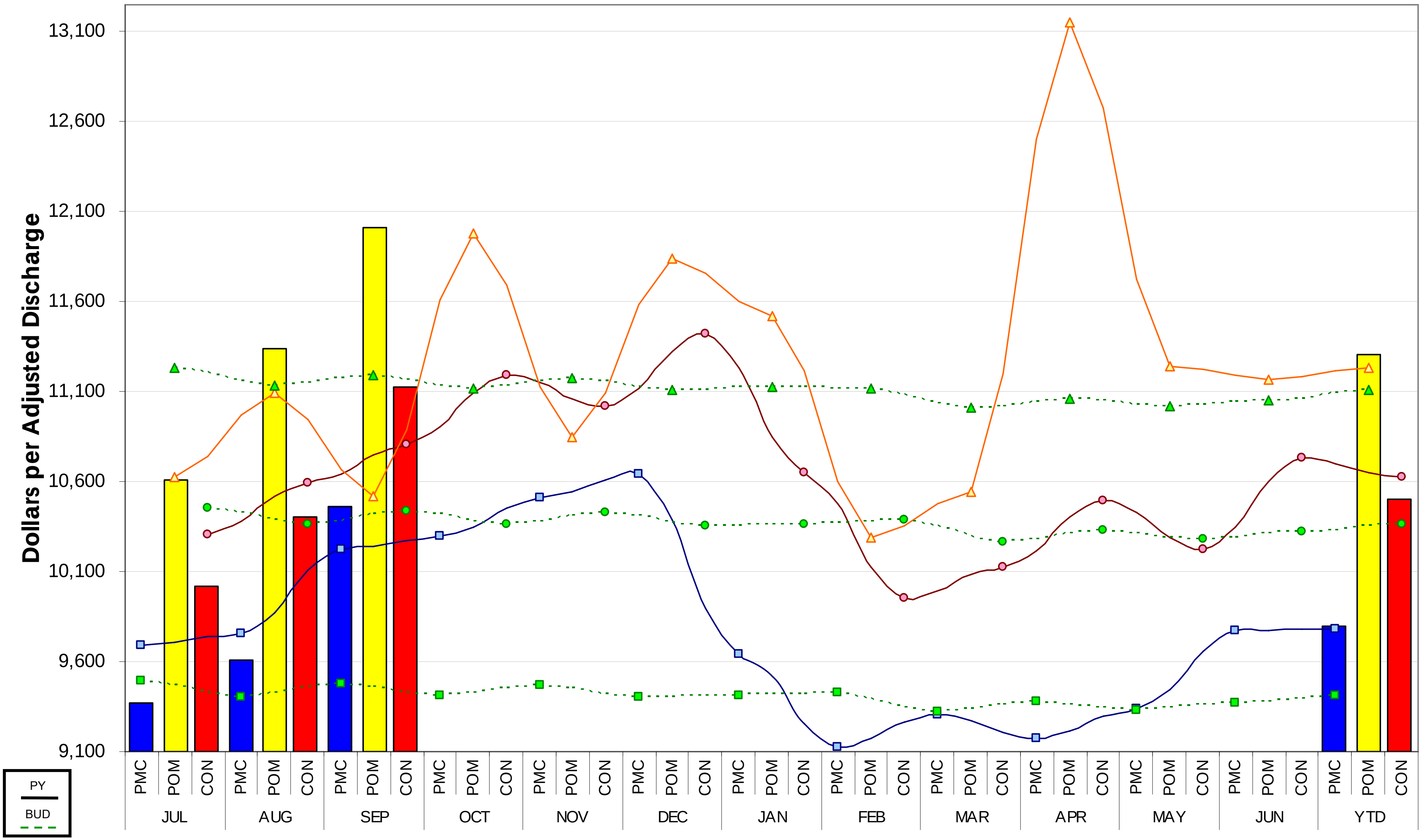


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	1,445	1,656	1,734	-	-	-	-	-	-	-	-	-	1,608	1,607
POM	1,639	1,693	1,871	-	-	-	-	-	-	-	-	-	1,733	1,717
CON	1,538	1,625	1,810	-	-	-	-	-	-	-	-	-	1,654	1,676

ADD F-49

Adjusted Discharges
Total Expenses per Adjusted Discharges

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

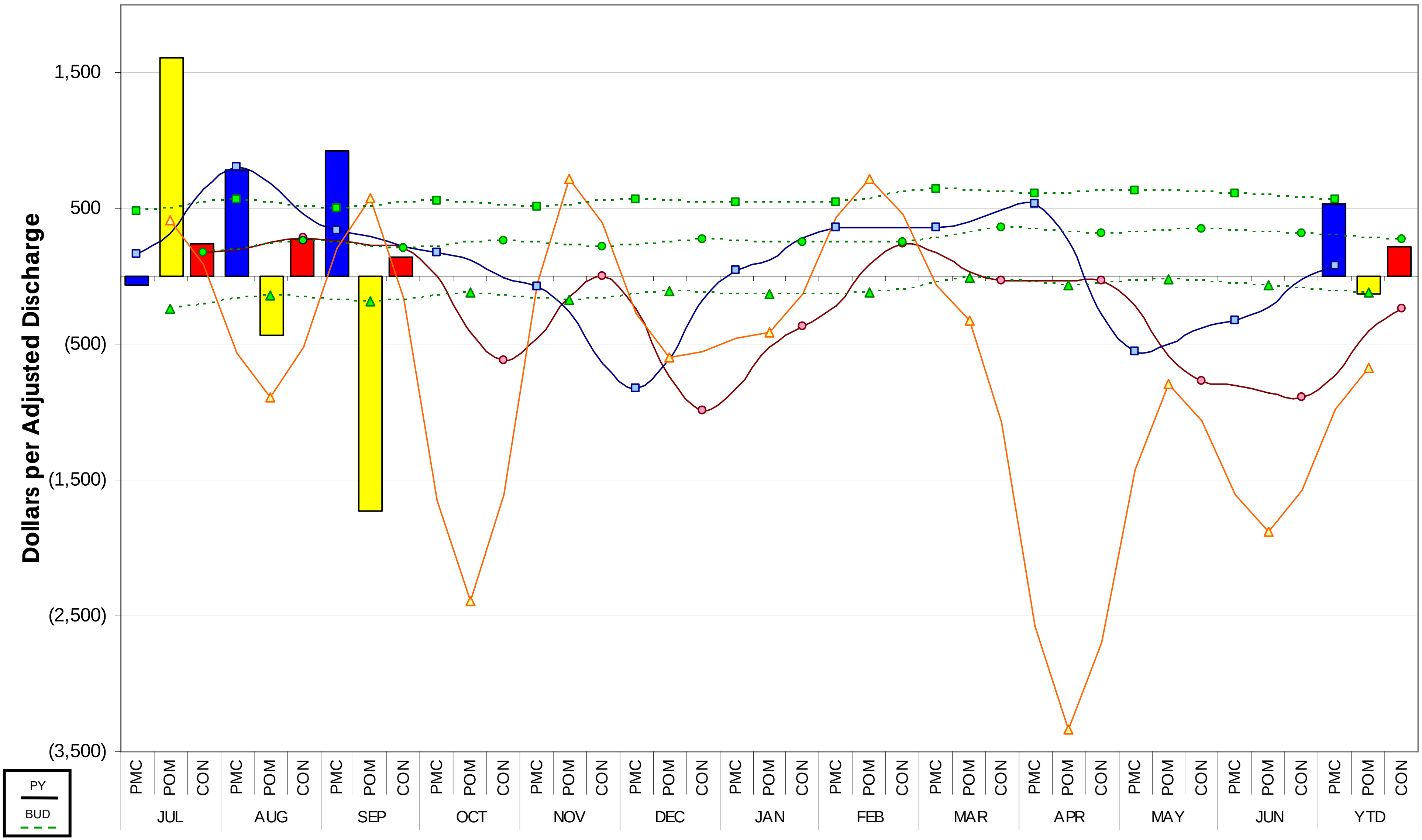


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	9,372	9,612	10,465	-	-	-	-	-	-	-	-	-	9,798	10,068
POM	10,611	11,342	12,012	-	-	-	-	-	-	-	-	-	11,310	11,868
CON	10,019	10,407	11,123	-	-	-	-	-	-	-	-	-	10,501	10,855

ADD F-50

Adjusted Discharges
Net Operating Income per Adjusted Discharges

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

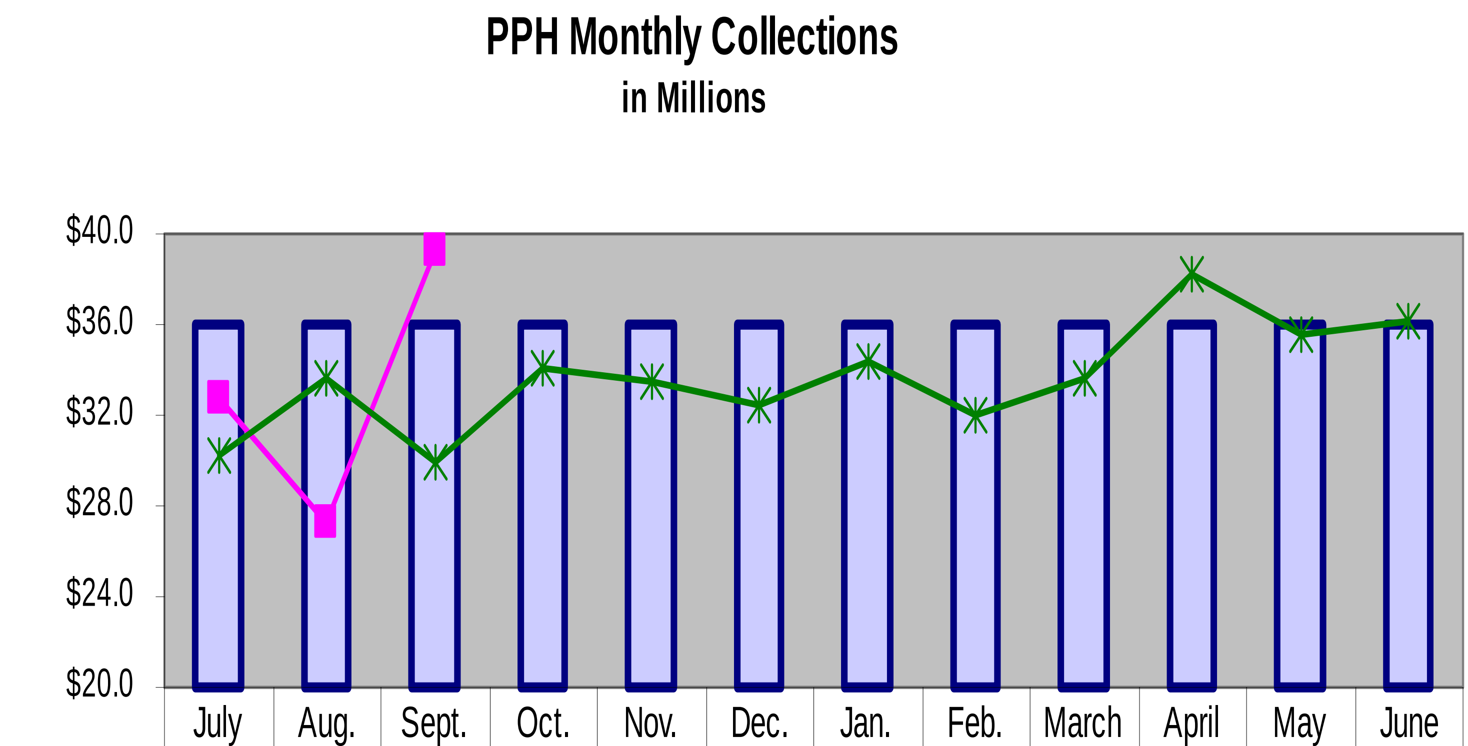


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD	B-YTD
PMC	(67)	785	921	-	-	-	-	-	-	-	-	-	533	431
POM	1,610	(436)	(1,728)	-	-	-	-	-	-	-	-	-	(135)	(136)
CON	241	271	146	-	-	-	-	-	-	-	-	-	221	173

ADD F-51

PBS Monthly Cash Collections

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU



	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
FY09 Goal	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0	$36.0
Pr. Yr Actual	$30.2	$33.6	$30.0	$34.1	$33.4	$32.4	$34.4	$32.0	$33.6	$38.2	$35.5	$36.2
Curr. Yr Actual	$32.8	$27.3	$39.3									

Revenue Cycle Key Indicators
Trend Report

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

HEALTHWORX™
THE PPH PRESCRIPTION FOR EXCELLENCE

	Current Month End	Previous Month End	Previous Month End	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior Year Month End	Change from Prior Month
Period Ending	9/30/2008	8/31/2008	7/31/2008	9/30/2008	6/30/2008	9/30/2007	
Days in Period	30	31	31	122	366	30	
Revenue							
Gross for Month - North & South	127,123,758	130,708,523	130,322,021	$ 388,154,302	$ 1,384,127,824	$ 113,132,629	$ (3,584,765)
Net Revenue - North & South	36,006,068	36,291,304	35,928,601	$ 108,225,973	$ 398,939,675	$ 34,166,054	$ (285,236)
Net:Gross %	28.3%	27.8%	27.6%	27.9%	28.8%	30.2%	0.6%
Last 3 Month Daily Average (Gross)	4,219,069	4,083,531	3,913,967	$ 3,181,593	$ 3,781,770	$ 3,715,034	$ 135,537
Last 3 Month Daily Average (Net)	1,176,369	1,112,262	1,062,581	887,098	1,089,999	1,099,209	64,108
Cash Collections							
Month to Date	39,257,070	27,339,450	32,750,655	$ 99,347,175	$ 403,728,413	$ 29,998,440	$ 11,917,620
Month to Date Goal	35,998,045	35,998,045	35,998,045	107,994,135	411,670,610	34,331,679	$ -
Over (under) Goal	3,259,025	(8,658,595)	(3,247,390)	$ (8,646,960)	$ (7,942,197)	$ (4,333,239)	$ 11,917,620
% of Goal	109%	76%	91%	92.0%	98.1%	87.4%	33.1%
Point of Service Collections	280,771	422,071	383,610	$ 1,086,452	$ 3,387,302	$ 268,468	$ (141,300)
Month to Date Goal	347,800	328,800	328,800	1,005,400	3,843,000	297,000	$ 19,000
Over (under) Goal	$ (67,029)	$ 93,271	$ 54,810	$ 81,052	$ (455,698)	$ (28,532)	$ (160,300)
% of Goal	80.7%	128.4%	116.7%	108.1%	88.1%	90.4%	-47.6%
Accounts Receivable							
0-30	102,872,276	97,586,631	93,803,057		$ 82,995,765	$ 92,326,129	$ 5,285,645
31-60	32,283,591	41,452,186	29,189,957		25,895,259	23,662,650	(9,168,595)
61-90	25,618,090	21,011,517	17,733,598		14,408,929	15,517,444	4,606,573
91-180	29,109,510	26,237,085	23,200,921		23,299,340	27,989,145	2,872,425
Over 180	20,327,950	20,247,593	19,299,986		19,271,702	27,971,945	80,357
Total	$ 210,211,417	$ 206,535,012	$ 183,227,519		$ 165,870,995	$ 187,467,313	$ 3,676,405
A/R Days (Gross)	49.82	50.58	46.81		43.54	50.46	(0.75)
% of AR aged over 180 days	9.7%	9.8%	10.5%		12%	15%	0.00
Number of Accounts		66,295	64,652		61,570	61,972	(66,295)
Credit Balance Accounts:							
Dollars	$ (3,758,240)	$ (3,678,701)	$ (3,353,734)		$ (3,144,574)	$ (2,818,162)	$ (79,538)
Number of Accounts	5,576	5,206	4,741		4,136	1,776	370

Revenue Cycle Key Indicators
Trend Report

PALOMAR POMERADO HEALTH
SPECIALIZING IN YOU

HEALTHWORX™
THE PPH PRESCRIPTION FOR EXCELLENCE

	Current Month End	Previous Month End	Previous Month End	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior Year Month End	Change from Prior Month
Period Ending	9/30/2008	8/31/2008	7/31/2008	9/30/2008	6/30/2008	9/30/2007	
Days in Period	30	31	31	122	366	30	
Accounts Receivable by Major Payer							
Medicare	**40,304,572**	**40,013,579**	**37,530,731**		**$ 32,549,770**	**$ 38,414,328**	**$ 290,993**
Last 3 months daily average revenue	**1,122,755**	**1,094,889**	**1,085,151**		**1,066,927**	**980,879**	**$ 27,866**
Gross Days revenue outstanding	**35.90**	**36.55**	**34.59**		**30.51**	**39.16**	(0.65)
MediCal (Includes M-Cal HMO)	**42,226,771**	**39,225,336**	**30,952,435**		**27,638,700**	**27,941,164**	**3,001,435**
Last 3 months daily average revenue	**733,064**	**695,581**	**662,580**		**660,788**	**665,283**	**37,483**
Gross Days revenue outstanding	**57.60**	**56.39**	**46.72**		**41.83**	**42.00**	1.21
Comm/Managed Care (Incl Mcare HMO)	**92,776,199**	**93,134,540**	**87,030,201**		**78,740,548**	**84,177,118**	**(358,341)**
Last 3 months daily average revenue	**2,140,094**	**2,135,206**	**1,995,072**		**1,908,593**	**1,868,008**	**4,888**
Gross Days revenue outstanding	**43.35**	**43.62**	**43.62**		**41.26**	**45.06**	(0.27)
Self-Pay	**34,903,875**	**34,161,557**	**27,714,151**		**26,941,976**	**36,934,703**	**742,318**
Last 3 months daily average revenue	**223,156**	**157,873**	**171,198**		**172,970**	**202,223**	**65,283**
Gross Days revenue outstanding	**156.41**	**216.39**	**161.88**		**155.76**	**182.64**	(59.98)
Accounts to Collections							
M-T-D Amount of BD to Collections	**5,352,591**	**2,285,516**	**3,239,902**	**10,878,009**	**9,805,788**	**(635)**	**$ 3,067,075**
% of Gross Revenue (Target < 2%)	4.2%	1.7%	2.5%	0.03	8.6%	0.0%	2.5%
Charity & Undocumented Write-offs							
M-T-D Amount	**1,785,256**	**1,175,696**	**1,479,367**	**4,440,319**	**2,847,359**	**3,140,492**	**$ 609,560**
% of Gross Revenue (Target < 2%)	1.4%	0.9%	1.1%	1.1%	2.5%	2.8%	0.5%
Administration Adjustments							
M-T-D Amount	**121,487**	**91,814**	**176,256**	**389,557**	**624,358**	**506,285**	**$ 29,673**
% of Gross Revenue (Target < 1%)	0.1%	0.1%	0.1%	0.1%	0.5%	0.4%	0.0%

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	Current Month End	Previous Month End	Previous Month End	Current Fiscal Year Year-to-Date	Most Recent Year End	Prior Year Month End	Change from Prior Month
Period Ending	9/30/2008	8/31/2008	7/31/2008	9/30/2008	6/30/2008	9/30/2007	
Days in Period	30	31	31	122	366	30	
Discharged Not Final Billed (DNFB)							
DNFB Action Required							
HIM (Waiting for Coding)	$ 5,562,221	$ 4,929,977	$ 8,532,373		5,423,822	8,126,127	$ 632,244
PBS (Correction required)	1,323,821	1,229,060	775,767		100,312	340,901	$ 94,761
Other holds requiring correction			-			-	$ -
Total Action Required	6,886,042	6,159,037	9,308,140		5,524,134	8,467,028	727,005
# of AR Days action Required	1.63	1.51	2.38		1.45	2.28	0.12
DNFB No Action Required							
4 Day Standard Delay	$ 14,463,924	$ 19,781,424	$ 15,004,930		18,224,428	23,613,635	$ (5,317,500)
Other	2,545,009	2,246,400	2,005,116		1,918,384	4,008,534	298,609
Total No Action Required	17,008,933	22,027,824	17,010,046		20,142,812	27,622,169	(5,018,891)
Total DNFB	$ 23,894,975	$ 28,186,861	$ 26,318,186		25,666,946	36,089,197	(4,291,886)
Total Days in DNFB	5.66	6.90	6.72		6.74	9.71	(1.24)
Late Charges							
Late Charges from Date of Service 5 to 20 Days							
Number of line items	8,765	14,642	8,188	31,595	8,261	25,759	6,454
Dollar amount of Charges	1,629,642	1,576,679	1,230,162	4,436,483	949,778	715,422	$ 346,517
Dollar amount of Credits	(919,338)	(1,528,785)	(1,008,136)	(3,456,259)	(660,172)	(268,183)	$ (520,649)
Net Dollar Amount	710,304	47,894	222,026	980,224	289,606	447,239	$ (174,132)
Absolute Dollar Amount	$ 1,629,642	$ 1,576,679	$ 1,230,162	$ 4,436,483	$ 949,778	$ 983,604	$ 346,517
Late Charges from Date of Service > 21 Days							
Number of line items	15,525	16,377	7,400	39,302	95,068	70,743	8,977
Dollar amount of Charges	1,076,002	1,986,513	832,617	3,895,132	1,987,236	1,157,895	1,153,896
Dollar amount of Credits	(1,806,663)	(2,705,300)	(983,240)	(5,495,203)	(1,321,540)	(1,157,359)	(1,722,060)
Net Dollar Amount	(730,661)	(718,787)	(150,623)	(1,600,071)	665,696	536	(568,164)
Absolute Dollar Amount	$ 2,882,665	$ 4,691,813	$ 1,815,857	$ 9,390,335	$ 3,308,776	$ 2,315,253	$ 2,875,956

SUPPLEMENTAL INFORMATION

October 08	Sep 26-Oct 2	Oct 3-Oct 9	Oct 10-Oct 16		MTD Total	MTD Budget	% Variance
ADC (Acute)	306	291	290	0	296	311	(4.98)
PMC	233	220	222	0	225	231	(2.43)
POM	73	71	67	0	71	81	(12.28)
PCCC	92	92	93	0	92	85	8.18
VP	121	122	119	0	121	123	(1.66)
Patient Days (Acute)	2145	2040	2029	0	6,214	6,540	(4.98)
PMC	1632	1540	1557		4,729	4,847	(2.43)
POM	513	500	472		1,485	1,693	(12.28)
PCCC	642	644	648		1,934	1,788	8.18
VP	849	856	835		2,540	2,583	(1.66)
Discharges	543	549	542	0	1,634	1,694	(3.54)
PMC	400	415	416		1,231	1,269	(2.99)
POM	143	134	126		403	425	(5.18)
Number of Surgeries	237	237	231	0	705	700	0.71
PMC	160	168	152		480	482	(0.41)
POM	77	69	79		225	218	3.21
Number of Births	107	108	94	0	309	308	0.32
PMC	83	86	71		240	239	0.42
POM	24	22	23		69	69	-

PALOMAR POMERADO HEALTH
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October 08	Sep 26-Oct 2	Oct 3-Oct 9	Oct 10-Oct 16		MTD Total	MTD Budget	% Variance
Outpatient Visits (inc. Lab)	2311	1941	1797	0	6,049	6,168	(1.93)
PMC	1644	1252	1225		4,121	4,209	(2.09)
POM	667	689	572		1,928	1,959	(1.58)
ER Visits	1769	1759	1649	0	5,177	5,464	(5.25)
PMC	1209	1198	1134		3,541	3,568	(0.76)
POM	560	561	515		1,636	1,896	(13.71)
Trauma Visits	30	22	23	0	75	69	8.70
IP	28	16	22		66	62	6.45
OP	2	6	1		9	7	28.57
Gross IP Revenue	21,994,415	22,167,646	22,425,361		66,587,422	65,804,031	1.19
Gross OP Revenue	7,885,644	7,715,536	7,635,949		23,237,129	20,414,374	13.83
Cash Collection	3,365,503	7,675,866	6,831,451		17,872,820	20,346,721	(12.16)
Days cash on hand	100	99	101		101	80	
Prod Hrs (PP 7 & 8)	218,690		217,681		436,371	423,766	(2.97)
PMC - North	131,210		131,413		262,623	254,941	(3.01)
POM - South	55,906		55,355		111,261	111,586	0.29
Others	31,574	-	30,913	-	62,487	57,239	(9.17)
Prod $ (PP 7 & 8)	7,001,104		6,962,266		13,963,370	13,816,948	(1.06)
PMC - North	4,219,232		4,251,129		8,470,361	8,363,210	(1.28)
POM - South	1,721,930		1,673,282		3,395,212	3,501,162	3.03
Others	1,059,942	-	1,037,855	-	2,097,797	1,952,576	(7.44)

Investment Fund - Quarter Ended September 30, 2008 Yield Analysis

Investment Account:	% of Portfolio at 9/30/08	Maturity Date	Yield	Benchmark		Actual to Benchmark Variance	Total Yield
Fidelity-Institutional Portfolio Treasury Fund	1.24%	Demand	1.72%	0.40%	(1)	1.32%	0.02%
State Treasurer Local Agency Investment Fund	13.26%	Demand	2.77%	0.40%	(1), (2)	2.37%	0.37%
Salomon Brothers	43.08%	Various	-0.70%	-1.20%	(3)	0.50%	-0.30%
				-8.40%	(4)	7.70%	
Pacific Income Advisors, Inc.	41.94%	Various	1.20%	1.40%	(5)	-0.20%	0.50%
				-8.40%	(4)	9.60%	
Morgan Stanley & Co.	0.48%	Various	2.51%	0.40%	(1)	2.11%	0.01%
Total:	100.00%					TOTAL YIELD:	0.60%

(1) Approximate average of 90 day T-Bills

(2) LAIF annual average return based upon monthly yields

(3) LB Intermediate Government Credits

(4) S&P 500

(5) LB 1-3 yr Government Credits