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VIA EMAIL AND MAIL

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Re: VVCH Sale; Request for Modification of Conditions

Dear Ms. Horwitz:

We are writing on behalf of Victor Valley Hospital Acquisition, Inc. ("VVHA") and Victor Valley Hospital Real Estate, LLC ("VVHRE") (collectively, the "**Buyers**") to request that the Attorney General modify certain conditions to the Attorney General's original approval, dated December 29, 2010, of the sale of Victor Valley Community Hospital ("**Hospital**") to the Buyers ("**Original Conditions**").

As you know, the Buyers have expeditiously negotiated and agreed upon a new Fourth Amendment ("**New Fourth Amendment**") to the existing Asset Purchase Agreement with Victor Valley Community Hospital ("VVCH"), dated October 29, 2010, as previously amended ("**Original ASA**"; with the Original ASA as amended by the New Fourth Amendment sometimes referred to as the "**ASA**").

Because of VVCH's deteriorating operational and financial conditions, aggravated by delays in receipt of anticipated State stabilization/quality assurance funds ("**Stabilization**

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Funds”), VVCH and Buyers have also entered into an extension and amendment of the original DIP Loan between VVCH and the Buyers (the “**Updated DIP Loan**”), for advances of up to an aggregate of Four Million Dollars (\$4,000,000), as needed to meet the Hospital’s current operating expenses, and a related Consulting Services Agreement. The Updated DIP Loan reflects the Buyers’ commitment to help keep the Hospital open pending the closing of the sale of the Hospital pursuant to the ASA (“**Sale Transaction**”). The New Fourth Amendment, Updated DIP Loan and Consulting Services Agreement have been approved by the Bankruptcy Court pursuant to its orders entered on June 29, 2012. VVCH will be providing the Attorney General additional details in connection with these documents, in a separate submittal seeking consent to such updates and amendments.

In light of substantial, unforeseen changes in the circumstances surrounding the Hospital and its operations since December of 2010, Buyers are writing to request that the Attorney General modify its Original Conditions, to remove Sections XIV and XVI (collectively, the “**Fund Conditions**”), as further addressed below.

Removal of Section XIV of the Original Conditions.

Section XIV requires that the Buyers deposit and maintain funds in a separate bank account, for the period set forth therein, to be used for emergency operating and capital needs of the Hospital (the “**Emergency Fund Condition**”).

However, in the roughly 18 months since the Original Conditions were issued, because of continuing severe financial challenges, the Hospital has experienced numerous adverse developments, including significant accumulation of deferred maintenance and needed capital expenditures (including desperately needed equipment), closure of departments (including the GI lab and catheterization lab) and other significant degradation in operations. In addition, the Hospital faces other significant operational challenges, including delays in receipt of the latest round of Stabilization Funds and notice of deficiencies from the Centers of Medicare and Medicaid Services (“**CMS**”) which, if not remedied on a sustained basis, may result in termination of the Hospital from the Medicare and Medicaid programs. This, of course, would be fatal to the Hospital’s ability to operate and devastating to the local community.

In order to address and correct these adverse developments, Buyers will be required to invest, promptly after closing, substantially more funds than was contemplated when the Original Conditions were issued. More particularly, based on recent information from Hospital’s management, Buyers project that they will need to immediately make capital and other operational investments, including acquiring and updating many significant equipment and other systems, at a cost of at least 6.4 million.

These substantial, immediate investments were not contemplated as part of the original Sale Transaction, when the Original Conditions were issued. Instead, they represent

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unforeseeable changed circumstances which arose and became increasing aggravated in the 18 months since December, 2010.

Buyers believe that freeing up such funds for investment by Buyers to address and correct the Hospital's current emergent needs, rather than putting funds away for future emergencies pursuant to the Emergency Fund, is consistent with the goal of the Emergency Fund Condition. Accordingly, Buyers respectfully request that the Attorney General remove the Emergency Fund Condition.

Removal of Section XVI of the Original Conditions.

Section XVI requires the Buyers to deposit and maintain funds in a separate interest bearing account ("**Blocked Fund Account**"), for a period of five years, which would be paid to a community non-profit organization if certain events occur which adversely affect Buyers' ability to meet the Original Conditions (the "**Blocked Fund Condition**"). Buyers understand that the purpose of the Blocked Fund Condition was to provide an additional incentive for the Buyers to keep the Hospital operating (and meet the Original Conditions) and to provide an alternative benefit to, or remedy for, the community in the event the Buyers do not do so.

Buyers submit that the goal of the Blocked Fund Condition would be better supported by enabling the Buyers to make the urgent investments addressed above. Permitting use of these funds to address the Hospital's urgent operational and capital needs, and initiate other needed operational improvements, would substantially decrease the chances for a future bankruptcy or similar adverse event, and eliminate the need for any alternative remedy.

Another significant and relevant change in the circumstances now facing the Buyers relates to the availability of Stabilization Funds. In December, 2010, when the Original Conditions were issued, the Hospital was schedule to receive significant Stabilization Funds in the month immediately following the scheduled closing, which would have substantially helped Buyers meet the Fund Conditions. However, under the ASA the first \$7.1 million of pending Stabilization Funds are now treated as excluded assets that will be retained by VVCH, and not available to Buyers. Furthermore, there is currently no assurance as to when any additional Stabilization Funds will begin to be paid by the State. Without this immediate source of additional Stabilization Funds for Buyers, every dollar required to be dedicated to meeting the Fund Requirements is a dollar not available to meet the Hospital's urgent operational and capital needs.

Moreover, the continuing positive operational history of other Southern California hospitals operated by affiliates of the Buyers' owner ("**Owner**") illustrates that the protective aims of the Blocked Fund Condition are not necessary. Since affiliates of the Owner acquired the hospitals associated with them, such hospitals have been stabilized and conducting viable operations. These results demonstrate the Owner's commitment to sound and effective hospital

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operations and signify that the Buyers can be expected to be able and willing to stabilize and improve the operations of this Hospital. In addition, the Buyers have already raised, and deposited the \$13 million in cash needed to close the Sale Transaction and have the funds and commitment to provide the Updated DIP Loan. These actions also demonstrate the commitment of the Buyers to this Hospital and the Buyers' ability to raise and invest funds needed for the success of this Hospital.

Accordingly, Buyers respectfully request that the Attorney General also remove the Blocked Fund Condition, to also free up these funds to meet the Hospital's urgent operational and capital needs, and for the other reasons, as noted above, and help avoid altogether the need for any alternative remedy.

* * *

In conclusion, for the reasons summarized above, the Buyers strongly believe and propose that the goals underlying the Original Conditions will be better served by modifying the Original Conditions to remove the Fund Conditions, and the Buyers respectfully request that the Attorney General consent to such removal.

Thank you for your consideration of this request. We would greatly appreciate the Attorney General considering these requests at her earliest opportunity. Please let us know whether we can provide any further information, or answer any questions, that might help the Attorney General with her consideration of these requests.

Very truly yours,



Todd E. Swanson

TES/TES

cc (via email):

William E. Thomas
Gary E. Klausner
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