

Council Meeting  
August 24, 2010

Honorable Mayor and Members  
of the City Council  
City Hall  
Torrance, California

Members of the Council

**Subject: Finance – Adopt a RESOLUTION approving the Issuance of City of  
Torrance Revenue Bonds (Torrance Memorial Medical Center),  
Series 2010A, 2010B and 2010C  
Expenditure: None**

### **RECOMMENDATION**

Recommendation of the Finance Director that the City Council adopt a RESOLUTION approving the issuance of revenue bonds by the City of Torrance for the benefit of the “Borrower” (Torrance Memorial Medical Center).

### **Funding**

The City has no liability with respect to repayment of the bonds. The bonds will be payable solely from payments received from Torrance Memorial Medical Center (the “Borrower”). The City and the Borrower will be parties to the bond documents submitted for approval by the City Council by Resolution.

### **BACKGROUND**

The Borrower, a California nonprofit public benefit corporation, has requested that the City serve as the municipal issuer of tax-exempt revenue bonds in one or more series in an aggregate principal amount not to exceed \$260,000,000 (the “Bonds”). The proceeds of the Bonds will be loaned by the City to the Borrower. The Borrower will apply the money to pay the costs of construction of the New Main Tower Project which consists of a new 7-story tower with approximately 389,000 square feet located at the Borrower’s hospital campus at 3330 Lomita Boulevard, Torrance, CA (the ‘Project’). The proceeds of the Bonds will also be used to refund the outstanding City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center) Series 1992 and to pay certain expenses incurred in connection with the issuance of the Bonds.

Under federal tax law, before tax-exempt bonds may be issued for a private entity by the City, the City must hold a public hearing. Following the hearing, the legislative

body or other elected official of the City must approve the financing. Notice of the public hearing was published in The Daily Breeze on July 22, 2010. The City Council held the hearing on August 10, 2010. The resolution presented today will also constitute approval of the Bonds for federal tax law. The approval will not constitute any planning approval of the City or an approval for any purpose other than the financing.

### **ANALYSIS**

The City Council, acting under and pursuant to the powers reserved to the City under the Constitution of the State of California and the City Charter, has enacted the City of Torrance Health Facility Revenue Bond Law, by ordinance, which establishes a procedure for the authorization, issuance and sale of revenue bonds by the City for the purpose (among others) of making loans to provide financing for healthcare facilities located within its boundaries.

The documents required for the issuance, sale and delivery of the Bonds have been presented to the City Council, including a form of bond indenture and loan agreement for each series of the Bonds, a form of an Official Statement for each series of the Bonds and a form of a Bond Purchase Contract. The resolution approves each of the documents and authorizes the Mayor, the City Manager, the Finance Director or any designee of any of them to execute the required documents.

Repayment of the Bonds will be the sole responsibility of the Borrower. All bond documents contain disclaimers that the Bonds are to be paid only from funds provided by the Borrower.

Participation by the City in the issuance of the proposed Bonds does not impact the City's appropriations limits and will not constitute any type of indebtedness of the City.

It is recommended that the Council adopt the attached resolution approving the issuance and sale of the Bonds to benefit the Borrower.

Respectfully submitted



Eric E. Tsao  
Finance Director

CONCUR:



LeRoy J. Jackson  
City Manager

**RESOLUTION NO. 2010-\_\_\_****A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TORRANCE AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$260 MILLION AGGREGATE PRINCIPAL AMOUNT OF THE CITY OF TORRANCE REVENUE BONDS (TORRANCE MEMORIAL MEDICAL CENTER), SERIES 2010**

WHEREAS, the City of Torrance (the “City”) is a municipal corporation and charter city duly organized and existing under a freeholders’ charter pursuant to which the City has the right and power to make and enforce all laws and regulations in respect of municipal affairs and certain other matters in accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and the Charter of the City (the “Charter”); and

WHEREAS, the City Council of the City, acting under and pursuant to the powers reserved to the City under Sections 3, 5, and 7 of Article XI of the Constitution of the State of California and the Charter, has found that the public interest and necessity require the establishment of a program for the authorization, issuance and sale of revenue bonds by the City for the purposes of making loans such as those described herein; and

WHEREAS, the City has established the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972, which is codified in Chapter 3 of Division 2 of the City’s Municipal Code (the “Law”) and has therein authorized the provision of financial assistance to health institutions for the purposes and subject to the conditions described therein; and

WHEREAS, Torrance Memorial Medical Center, a California nonprofit public benefit corporation (the “Corporation”), has requested that the City issue its Revenue Bonds (Torrance Memorial Medical Center), Series 2010, in one or more series, each such series to bear interest at a fixed or variable interest rate, and from time to time (collectively, the “Bonds”), for the purpose of: (1) financing and refinancing the acquisition and construction of certain additions and improvements to, and equipment for, health facilities (collectively, the “Health Facilities”) located on and about the campus of Torrance Memorial Medical Center, 3330 Lomita Boulevard, in Torrance, California (which will include refunding the outstanding City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center) Series 1992; and (2) providing for funding of a debt service reserve fund (if necessary) and the payment of bond issuance expenses; and

WHEREAS, the loans to be made with the proceeds of said Bonds will promote the purposes of the Law by providing funds to finance or refinance the cost of acquiring, constructing, rehabilitating or improving health facilities and reimbursing the Corporation for certain expenses incurred for the purposes of acquiring, constructing, rehabilitating or improving the Health Facilities; and

WHEREAS, pursuant to Section 147(f) of the Internal Revenue Code of 1986 (the "Code"), the Bonds are required to be approved, following a public hearing, by an elected representative of the City, as the governmental party issuing the Bonds, and an elected representative of the governmental unit or units having jurisdiction over the area in which the Health Facilities are located; and

WHEREAS, the Health Facilities are located wholly within the City; and

WHEREAS, the City Council of the City is the elected legislative body of the City and is the applicable elected representative required to approve the issuance of the Bonds within the meaning of Section 147(f) of the Code; and

WHEREAS, pursuant to Section 147(f) of the Code, the City Council of the City has, following notice duly given, held a public hearing on August 10, 2010, regarding the issuance, execution and delivery of the Bonds, and now desires to approve the issuance of the Bonds; and

WHEREAS, there have been presented to this meeting the following:

(1) Proposed form of a Loan Agreement for one or more series of Bonds bearing interest at a fixed interest rate (the "Fixed Rate Loan Agreement") between the City and the Corporation;

(2) Proposed form of a Loan Agreement for one or more series of Bonds bearing interest at a variable interest rate (the "Variable Rate Loan Agreement" and together with the Fixed Rate Loan Agreement, the "Loan Agreements") between the City and the Corporation;

(3) Proposed form of a Bond Indenture for one or more series of Bonds bearing interest at a fixed interest rate (the "Fixed Rate Bond Indenture") between the City and The Bank of New York Mellon Trust Company, N.A. (or such other financial institution acceptable to the City and the Corporation), as bond trustee (the "Bond Trustee"), providing for the authorization and issuance of the Bonds of one or more series designated therein;

(4) Proposed form of a Bond Indenture for one or more series of Bonds bearing interest at a variable interest rate (the "Variable Rate Bond Indenture" and together with the Fixed Rate Bond Indenture, the "Bond Indentures") between the City and the Bond Trustee, providing for the authorization and issuance of the Bonds of one or more series designated therein;

(5) Proposed form of an Official Statement to be used in connection with the sale of one or more series of the Bonds bearing interest at a fixed interest rate (the "Fixed Rate Official Statement");

(6) Proposed form of an Official Statement to be used in connection with the sale of one or more series of the Bonds bearing interest at a variable interest rate (the “Variable Rate Official Statement” and together with the Fixed Rate Official Statement, the “Official Statements”);

(7) Proposed form of a Bond Purchase Contract to be used in connection with the sale of one or more series of the Bonds bearing interest at a fixed interest rate (the “Fixed Rate Bond Purchase Contract”) between the City and Citigroup Global Markets Inc., acting as representative on behalf of itself and J.P. Morgan Securities Inc. (the “Representative” and together with J.P. Morgan Securities Inc., the “Underwriters”), and approved by the Corporation; and

(8) Proposed form of a Bond Purchase Contract to be used in connection with the sale of one or more series of the Bonds bearing interest at a variable interest rate (the “Variable Rate Bond Purchase Contract” and together with the Fixed Rate Bond Purchase Contract, the “Bond Purchase Contracts”), one each between the City and each of the Underwriters, and each approved by the Corporation.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Torrance, California, as follows:

Section 1. The respective form, terms and provisions of the Loan Agreements, to be used for the loans, be and they hereby are approved and the Mayor, City Manager, Finance Director or any designee of the foregoing is each hereby authorized and empowered to execute, one or more Loan Agreements, in substantially the forms thereof presented to and considered at this meeting with such changes as may be approved by the official executing the same, such approval to be conclusively evidenced by execution thereof.

Section 2. The respective form, terms and provisions of the Bond Indentures be and they hereby are approved, and the Mayor, City Manager, Finance Director or any designee of the foregoing is each hereby authorized and empowered to execute in substantially the forms thereof presented to and considered at this meeting with such changes as may be approved by the official executing the same, such approval to be conclusively evidenced by execution thereof.

Section 3. Pursuant to Section 147(f) of the Internal Revenue Code of 1986, this City Council approves the issuance of the Bonds in an aggregate principal amount not to exceed \$260 million. It is the purpose and intent of the Council that this Resolution constitute approval of the issuance of the Bonds by the applicable elected representative of the issuer and the applicable elected representative of the governmental unit having jurisdiction over the area in which the Health Facilities are located, in accordance with said Section 147(f). Payment of the principal of, redemption premium (if any) and interest on each series of the Bonds shall be made solely from the revenues to be received by the City pursuant to the Loan Agreement related to such series of Bonds, and the Bonds shall not be deemed to constitute a debt or liability of the City.

Section 4. The issuance, sale and delivery of the Bonds in one or more series from time to time pursuant to one or more Bond Indentures, in an aggregate principal amount of not to exceed \$260 million, is hereby authorized and approved.

Section 5. Each form of Official Statement presented to this meeting be and the same hereby are approved for use by the Underwriters in connection with the public offering of the Bonds with such changes as may be approved by one or more officers of the City, and the Mayor, City Manager, Finance Director or any designee of the foregoing is authorized to execute one or more final Official Statements relating to the Bonds. The Underwriters are hereby authorized to distribute one or more Official Statements in preliminary form to potential purchasers of the Bonds, and one or more Official Statements in final form to actual purchasers of the Bonds.

Section 6. The Mayor and the City Clerk (each of whom may sign by facsimile signature) are hereby authorized and directed to execute, in the name and on behalf of the City, the Bonds and to cause the Bonds to be delivered to the Bond Trustee for authentication and delivery to or upon the order of the Underwriters.

Section 7. Each form of Bond Purchase Contract presented to this meeting be and the same hereby are approved, and the Mayor, City Manager, Finance Director or any designee of the foregoing is each hereby authorized and empowered to execute and deliver one or more Bond Purchase Contracts, in substantially the forms presented to and considered at this meeting, with such changes as the officials executing the same shall deem appropriate and in the best interests of the City as conclusively evidenced by their execution thereof.

Section 8. The Mayor, City Manager, Finance Director, City Clerk or any designee of the foregoing are each hereby authorized and directed, jointly and severally, to do any and all things, and to execute and deliver any and all documents which they may deem necessary or advisable, in order to consummate the issuance of the Bonds, including, but not limited to, modification of the provisions of the Variable Rate Loan Agreement, the Variable Rate Bond Indenture, the Variable Rate Official Statement and the Variable Rate Bond Purchase Contract to conform to any requirements of a credit facility or liquidity facility provider selected by the Corporation and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution and the documents referred to herein.

Section 9. Each of the Mayor, City Manager, Finance Director, City Clerk or any designee of the foregoing, acting alone, is hereby authorized to execute and deliver any future amendments or supplements to the documents authorized to be executed and delivered pursuant to this Resolution, from time to time, provided that such amendments or supplements are made in accordance with the terms of the respective documents executed in accordance with this Resolution.

Section 10. The Bonds authorized to be issued pursuant to this Resolution shall be issued in strict compliance with the provisions of the Law. The City Clerk shall certify to the passage of this Resolution by the City Council of the City of Torrance, and it shall thereupon take effect.

**INTRODUCED, APPROVED AND ADOPTED** this 24 day of August, 2010.

\_\_\_\_\_  
Mayor of the City of Torrance

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Torrance

APPROVED AS TO FORM:

JOHN L. FELLOWS III, City Attorney

By: \_\_\_\_\_  
Patrick Q. Sullivan, Assistant City Attorney



Attachment:

**RESOLUTION** (supporting documents as listed in the Resolution are **Limited Distribution** and are available for review in the City Clerk's Office. They include: Fixed Rate Indenture, Fixed Rate Loan Agreement, Fixed Rate Official Statement Front, Appendix A, Fixed Rate Bond Purchase Agreement, Variable Rate Indenture, Variable Rate Loan Agreement, Variable Rate Official Statement and Variable Rate Bond Purchase Agreement)



### **Differentiation between Bonds**

As a point of clarification, the bond issuance being approved for Torrance Memorial Medical Center in the resolution in item 12A is for a separate project than the one included in the approval on August 10<sup>th</sup> for the expenditure of allocated Recovery Zone Facility Bonds. The project being approved tonight is for the New Main Tower at the hospital, whereas the project approved for Recovery Zone Facility Bonds is for Torrance Health Association's Physician's Medical Park. The City is not liable for repayment of the bond issuance for either project but merely acts as pass-through agent for the Borrower.



## Fixed Rate Indenture



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CITY OF TORRANCE

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
as Bond Trustee

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BOND INDENTURE

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Dated as of September 1, 2010

[\$principal amount]

CITY OF TORRANCE  
REVENUE BONDS  
(TORRANCE MEMORIAL MEDICAL CENTER)  
SERIES 2010A

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EXHIBIT A – FORM OF AMENDED AND RESTATED MASTER INDENTURE

THIS INDENTURE, made and entered into as of September 1, 2010 (the “Bond Indenture”), by and between the CITY OF TORRANCE, a municipal corporation and charter city of the State of California (the “City”), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, being qualified to accept and administer the trusts hereby created (the “Bond Trustee”);

WITNESSETH:

WHEREAS, the City is a municipal corporation and charter city duly organized and existing under a freeholders’ charter pursuant to which the City has the right and power to make and enforce all laws and regulations with respect to municipal affairs and certain other matters in accordance with and as more particularly provided in sections 3, 5 and 7 of Article XI of the Constitution of the State of California and the charter of the City (the “Charter”);

WHEREAS, the City Council of the City, acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Article II, Section 6 of the Charter, has adopted the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the “Law”) and has therein authorized the provision of financial assistance to health facilities for the purposes and subject to the conditions described therein;

WHEREAS, Torrance Memorial Medical Center, a California nonprofit public benefit corporation (the “Corporation”), has requested financial assistance from the City to refund on a current basis the City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center), Series 1992 (the “Prior Bonds”) and to finance a portion of the costs of constructing and equipping certain additions and improvements to its health care facilities located within the geographic boundaries of the City (as further defined herein, the “Project”);

WHEREAS, the City has authorized the issuance of its Revenue Bonds (Torrance Memorial Medical Center), Series 2010A (the “Bonds”), in an aggregate principal amount of [principal amount in words] dollars (\$[principal amount]) to refund the Prior Bonds and to finance a portion of the costs of the Project;

WHEREAS, the City has duly entered into a loan agreement (the “Loan Agreement”) with the Corporation specifying the terms and conditions of a loan by the City to the Corporation of the proceeds of the Bonds to provide for the refunding of the Prior Bonds and the financing of the Project and certain related expenses;

WHEREAS, pursuant to a master indenture of trust, dated as of June 1, 2001, and amended and restated as of September 1, 2010 (the “Master Indenture”), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the “Master Trustee”), and a supplemental master indenture of trust, dated as of September 1, 2010, between the Corporation and the Master Trustee, the Corporation has issued its Obligation No. [x] to evidence the obligation of the Members to make payments sufficient to pay the principal of and interest on the Bonds;

WHEREAS, in order to provide for the authentication and delivery of the Bonds and to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and interest thereon, the City has authorized the execution and delivery of this Bond Indenture;

WHEREAS, the Bonds and the Bond Trustee’s certificate of authentication and registration and assignment to appear thereon shall be in substantially the following forms, respectively, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Bond Indenture:

[FORM OF BOND]

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OF TORRANCE, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM OR INTEREST ON THIS BOND

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the City or its agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

NUMBER AMOUNT  
R-\_\_\_\_\_ \$ \_\_\_\_\_

**CITY OF TORRANCE  
REVENUE BOND  
(TORRANCE MEMORIAL MEDICAL CENTER)  
SERIES 2010A**

MATURITY DATE    INTEREST RATE    DATED    CUSIP NUMBER  
September 1, \_\_\_\_\_    \_\_\_\_\_%    Date of Delivery

CITY OF TORRANCE, a municipal corporation and charter city of the State of California (herein called the “City”), for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to CEDE & CO. or registered assigns, on the Maturity Date specified above (subject to any right of prior redemption hereinafter mentioned), the principal sum of \_\_\_\_\_ DOLLARS in lawful money of the United States of America; and to pay interest thereon (but only from said Revenues and other assets pledged therefor) in like lawful money from the date specified above

until payment of such principal sum shall be discharged as provided in the Bond Indenture hereinafter mentioned, at the rate per annum specified above, payable on March 1, 2011, and semiannually thereafter on March 1 and September 1 of each year. The principal (or redemption price) hereof is payable at the Principal Corporate Trust Office (as defined in the Bond Indenture) of The Bank of New York Mellon Trust Company, N.A. (together with any successor trustee under the Bond Indenture, herein called the "Bond Trustee"). Interest hereon is payable by check or draft mailed by first class mail on each interest payment date to the registered owner hereof as of the 15th day of the month preceding each interest payment date (except as otherwise provided in the Bond Indenture) at the address shown on the registration books maintained by the Bond Trustee or, at the written request of any holder of at least one million dollars (\$1,000,000) aggregate principal amount of Bonds received prior to the 15th day of the month preceding the interest payment date, by wire transfer of immediately available funds to the bank account or number located within the United States of America specified by such holder to the Bond Trustee for that purpose.

This Bond is one of a duly authorized issue of bonds of the City designated as "City of Torrance Revenue Bonds (Torrance Memorial Medical Center), Series 2010A" (herein called the "Bonds"), limited in aggregate principal amount to [principal amount in words] dollars (\$[principal amount]) and issued pursuant to the provisions of the City of Torrance Health Facility Revenue Bond Law as amended (herein called the "Law") and an indenture, dated as of September 1, 2010, between the City and the Bond Trustee (herein called the "Bond Indenture"). The Bonds are issued on for the purposes set forth in a loan agreement, dated as of September 1, 2010 (herein called the "Loan Agreement"), between the City and Torrance Memorial Medical Center, a California nonprofit public benefit corporation (herein called the "Corporation").

Reference is hereby made to the Bond Indenture (a copy of which is on file at the Principal Corporate Trust Office of the Bond Trustee) and all indentures supplemental thereto, to the Loan Agreement and to the Law for a description of the rights thereunder of the registered owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Bond Trustee and of the rights and obligations of the City thereunder, to all the provisions of which Bond Indenture and Loan Agreement the registered owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds and the interest thereon are payable from Revenues (as that term is defined in the Bond Indenture) and are secured by a pledge and assignment of said Revenues and of amounts held in the funds and accounts established pursuant to the Bond Indenture (other than the Rebate Fund), subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture. The Bonds are further secured by an assignment of the right, title and interest of the City in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture) and in Obligation No. [x], dated as of September 1, 2010, and issued pursuant to the terms of a master indenture of trust, dated as of September 1, 2010, as supplemented, between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee.

The Bonds are limited obligations of the City and are not a lien or charge upon the funds or property of the City, except to the extent of the aforementioned pledge and assignment. The City shall not be obligated to pay the principal of the Bonds, or the premium, if any, or

interest thereon, except from Revenues received by the City, and neither the faith and credit nor the taxing power of the City is pledged to the payment of the principal of or redemption premium, if any, or interest on the Bonds.

The Bonds are subject to redemption prior to their respective stated maturities, at the option of the City (which option shall be exercised upon request of the Corporation), as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation or, if the Corporation fails to specify such maturities, in inverse order of maturities, and by lot within each maturity) from certain moneys derived from hazard insurance or condemnation proceeds, in each case under the circumstances prescribed and as provided in the Bond Indenture, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Bonds maturing on or after September 1, 20\_\_, are also subject to redemption prior to their respective stated maturities, at the option of the City (which option shall be exercised upon request of the Corporation), from any source of available funds, as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturities, and by lot within each maturity) on any interest payment date, on or after September 1, 20\_\_, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

The Bonds maturing on September 1, \_\_\_\_, and September 1, \_\_\_\_, are also subject to redemption prior to their respective stated maturities in part (by lot) from Mandatory Sinking Account Payments established in the Bond Indenture on each September 1 on or after September 1, \_\_\_\_, and September 1, \_\_\_\_, respectively, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Bond Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default (as that term is defined in the Bond Indenture) shall occur and be continuing, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Bond Indenture. The Bond Indenture provides that in certain events such declaration and its consequences may be rescinded by the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding or by the Bond Trustee.

The Bonds are issuable only as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Bond Indenture, Bonds may be exchanged, at the Principal Corporate Trust Office of the Bond Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity.

This Bond is transferable by the registered owner hereof, in person or by his attorney duly authorized in writing, at the Principal Corporate Trust Office of the Bond Trustee,

but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Bond Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a Bond or Bonds, of authorized denomination or denominations, of the same maturity and for the same aggregate principal amount, will be issued to the transferee in exchange for this Bond.

The City and the Bond Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, and the City and the Bond Trustee shall not be affected by any notice to the contrary.

The Bond Indenture and the rights and obligations of the City and of the holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Bond Indenture; provided that no such modification or amendment shall extend the fixed maturity of the Bonds, or reduce the amount of principal hereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for in the Bond Indenture for the payment of this maturity of Bonds, or reduce the rate of interest hereon, or extend the time of payment of interest hereon, or reduce any premium payable upon the redemption hereof, without the written consent of the registered owner hereof, all as more fully set forth in the Bond Indenture.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the provisions of the Law and by the Constitution and laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit prescribed by the Law, or by the Constitution and laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Bond Indenture.

This Bond shall not be entitled to any benefit under the Bond Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been manually signed by the Bond Trustee.

IN WITNESS WHEREOF, CITY OF TORRANCE has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Mayor and its seal to be reproduced hereon by facsimile and attested by the facsimile signature of its Deputy City Clerk all as of \_\_\_\_\_, 2010.

CITY OF TORRANCE

[Seal]

By: \_\_\_\_\_  
Mayor

Attest:

\_\_\_\_\_  
Deputy City Clerk

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Bond Indenture, which has been registered on the date set forth below.

Date: \_\_\_\_\_

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Bond Trustee

By: \_\_\_\_\_  
Authorized Signatory

## [FORM OF ASSIGNMENT]

For value received, the undersigned do(es) hereby sell, assign and transfer unto \_\_\_\_\_ the within mentioned Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_, attorney, to transfer the same on the books of the within named Bond Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

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

Signature Guaranteed By:

\_\_\_\_\_  
 NOTICE: Signature must be guaranteed by an eligible guarantor institution.

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the City, authenticated and delivered by the Bond Trustee and duly issued, the valid, binding and legal limited obligations of the City, and to constitute this Bond Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Bond Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS BOND INDENTURE WITNESSETH, that in order to secure the payment of the principal of, and the interest and premium, if any, on, all Bonds at any time issued and outstanding under this Bond Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Holders thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the City does hereby covenant and agree with the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, as follows:

## ARTICLE I

### DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Bond Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Unless otherwise defined in this Bond Indenture, all terms used herein shall have the meanings assigned to such terms in the Law.

Additional Payments

“Additional Payments” means the payments so designated and required to be made by the Corporation pursuant to Section 3.2 of the Loan Agreement.

Administrative Fees and Expenses

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the City or the Bond Trustee.

Authorized Representative

“Authorized Representative” means with respect to any Member, the chairman or president of its Governing Board, its chief executive officer, its chief operating officer or its chief financial officer, or any other person designated as an Authorized Representative by a Certificate signed by one of the above parties and filed with the Bond Trustee.

Bonds; Serial Bonds; Term Bonds

“Bonds” means City of Torrance Revenue Bonds (Torrance Memorial Medical Center), Series 2010A, authorized by, and at any time Outstanding pursuant to, this Bond Indenture.

“Serial Bonds” means the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided.

“Term Bonds” means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Bond Indenture

“Bond Indenture” means this indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Bond Trustee

“Bond Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor as Bond Trustee hereunder as provided in Section 8.01.

Certificate, Statement, Request, Requisition or Order of the City or any Member

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the City or any Member mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its Mayor, City Manager, Assistant City Manager, City Clerk or such other person as may be designated and authorized to sign for the City, or in the name of

any Member by an Authorized Representative thereof. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

### City

“City” means the City of Torrance, a charter city and municipal corporation validly organized and existing under the Constitution and laws of the State of California.

### Code

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, as interpreted by rulings and judicial decisions.

### Continuing Disclosure Agreement

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the Corporation and the Bond Trustee dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

### Corporation

“Corporation” means Torrance Memorial Medical Center, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

### Costs of Issuance

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges and first year administration fee of the Bond Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

### Costs of Issuance Fund

“Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Event of Default

“Event of Default” means any of the events specified in Section 7.01.

Fitch

“Fitch” means Fitch, Inc., dba Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City and the Bond Trustee.

Holder or Bondholder

“Holder” or “Bondholder,” whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

Interest Account

“Interest Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

Investment Securities

“Investment Securities” means any of the following:

- (a) United States Government Obligations;
- (b) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or any other like governmental or government-sponsored agencies that are hereafter created: Federal Farm Credit Bank; Federal Intermediate Credit Banks; Federal Financings Bank; Federal Home Loan Bank System; Federal Home Loan Mortgage Corporation; Federal National Mortgage Association; Tennessee Valley Authority; Student Loan Marketing Association; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; and Government National Mortgage Association;
- (c) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are rated in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);
- (d) commercial paper rated at the time of purchase in the highest Rating Category by each Rating Agency then rating both the Bonds and such commercial paper (but in all cases by at least one Rating Agency then rating the Bonds);

(e) negotiable or non-negotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any bank (including the Bond Trustee and its affiliates) or trust company or any savings and loan association, and either (i) the long-term obligations of such bank or trust company are rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such obligations (but in all events by at least one Rating Agency then rating the Bonds), or (ii) the deposits or other arrangements are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation or similar corporation chartered by the United States of America, (1) by depositing with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above in an aggregate principal amount equal to a least 105% of the amount so deposited or, with the approval of the Bond Trustee, other marketable securities eligible as securities for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds;

(f) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a bank, a trust company or a broker or dealer (as defined by the Securities Exchange Act of 1934) that is a dealer in government bonds, that reports to, trades with and is recognized as a primary dealer by a Federal Reserve Bank, if such obligations that are the subject of such repurchase agreement are delivered to the Bond Trustee or are supported by a safekeeping receipt issued by a depository (other than the Bond Trustee) satisfactory to the Bond Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the repurchase price;

(g) shares or certificates in any short-term investment fund that is maintained or utilized by the Bond Trustee and which fund invests solely in other Investment Securities or any money market fund including those for which the Bond Trustee or its affiliates provide investment advisory or other management services;

(h) investment agreements with any financial institution that at the time of investment has long-term obligations rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(i) shares or certificates in any mutual fund invested solely in Investment Securities described in clauses (a)-(h) of this definition; and

(j) obligations (including asset-backed and mortgaged-backed obligations) of any corporation, partnership, trust or other entity which are rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

Law

“Law” means the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972, as now in effect and as it may from time to time hereafter be amended or supplemented.

Loan Agreement

“Loan Agreement” means that certain loan agreement by and between the City and the Corporation, dated as of September 1, 2010, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Bond Indenture.

Loan Default Event

“Loan Default Event” means any of the events specified in Section 6.1 of the Loan Agreement.

Loan Repayments

“Loan Repayments” means the payments so designated and required to be made by the Corporation pursuant to Section 3.1 of the Loan Agreement.

Mandatory Sinking Account Payment

“Mandatory Sinking Account Payment” means the amount required by this Bond Indenture to be paid on any single date for the retirement of Bonds of such maturity.

Master Indenture

“Master Indenture” means that certain master indenture of trust, dated as of June 1, 2001, and amended and restated as of September 1, 2010, between the Corporation and the Master Trustee, as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Master Trustee

“Master Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor, as successor master trustee under the Master Indenture.

Member

“Member” means each Person that is then obligated as a Member under and as defined in the Master Indenture.

Moody's

“Moody's” means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City and the Bond Trustee.

Obligation No. [x]

“Obligation No. [x]” means the obligation issued under the Master Indenture and Supplement No. [x].

Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the City) selected by the City. If and to the extent required by the provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

Outstanding

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under this Bond Indenture except (1) Bonds theretofore canceled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) referred to in Section 11.10; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to this Bond Indenture.

Person

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Account

“Principal Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

Principal Corporate Trust Office

“Principal Corporate Trust Office” means the principal corporate trust office of the Bond Trustee, which as of the date of this Bond Indenture is located at 700 South Flower Street, Suite 500, Los Angeles, California 90017-4104, Attention: Corporate Trust Department, or such other place as designated by the Bond Trustee, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office

or agency of the Bond Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

#### Prior Bonds

“Prior Bonds” means the City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center), Series 1992, issued in the original principal amount of \$34,800,000, all of which is currently outstanding.

#### Project

“Project” means the construction, acquisition, improvement and equipping of health facilities located on and adjacent to the campus of Torrance Memorial Medical Center located generally at 3330 Lomita Boulevard, Torrance, California.

#### Project Fund

“Project Fund” means the fund by that name established pursuant to Section 3.04.

#### Rating Agency

“Rating Agency” means S&P, Moody’s, Fitch or any successor or additional rating agency that rates the bonds at the written request of the Corporation with the written consent of the Bank.

#### Rating Category

“Rating Category” means a generic securities rating category, without regard to any refinement or graduation of such rating category by a numerical modifier or otherwise.

#### Rebate Fund

“Rebate Fund” means the fund by that name established pursuant to Section 5.06.

#### Record Date

“Record Date” means the fifteenth (15th) day of the month immediately preceding each interest payment date whether or not such day is a business day.

#### Redemption Fund

“Redemption Fund” means the fund by that name established pursuant to Section 5.05.

#### Revenue Fund

“Revenue Fund” means the fund by that name established pursuant to Section 5.01.

Revenues

“Revenues” means all amounts received by the City or the Bond Trustee for the account of the City pursuant or with respect to the Loan Agreement or Obligation No. [x], including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Bond Indenture, but not including any Administrative Fees and Expenses and any moneys required to be deposited in the Rebate Fund.

S&P

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City and the Bond Trustee.

Securities Depository

“Securities Depository” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in Section 2.09.

Sinking Accounts

“Sinking Accounts” means the subaccounts in the Principal Account so designated and established pursuant to Section 5.04.

Special Record Date

“Special Record Date” means the date established by the Bond Trustee pursuant to Section 2.02 as the record date for the payment of defaulted interest on the Bonds.

Supplemental Indenture

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the City and the Bond Trustee, supplementing, modifying or amending this Bond Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

Supplement No. [x]

“Supplement No. [x]” means that certain supplemental master indenture, dated as of September 1, 2010, between the Corporation and the Master Trustee.

## Tax Agreement

“Tax Agreement” means the Tax Certificate and Agreement delivered by the City and the Corporation at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

Section 1.02. Content of Certificates and Opinions. Every Certificate or opinion provided for herein with respect to compliance with any provision hereof shall include (i) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (ii) a brief statement as to the nature and the scope of the examination or investigation upon which the certificate or opinion is based; (iii) a statement that, in the opinion of such Person, he has made, or caused to be made, such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; and (iv) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such Certificate or opinion made or given by an officer of the Corporation or the City may be based, insofar as it relates to legal, accounting or hospital management matters, upon a Certificate or opinion or representation of counsel, an accountant or management consultant, respectively, unless such officer knows, or in the exercise of reasonable care should have known, that the Certificate, opinion or representation with respect to the matters upon which such Certificate or opinion may be based, as aforesaid, is erroneous. Any such Certificate or opinion made or given by counsel, an accountant, or a management consultant, may be based, insofar as it relates to factual matters (with respect to which information is in the possession of any Member) upon the Certificate or opinion of, or representation by an officer of the Corporation or the City, as the case may be, unless such counsel, accountant or management consultant knows, or in the exercise or reasonable care should have known, that the Certificate, opinion of or representation by such officer, with respect to the factual matters upon which such Person’s Certificate or opinion may be based, as aforesaid, is erroneous. The same officer of the Corporation or the City or the same counsel or accountant or management consultant, as the case may be, need not certify as to all the matters required to be certified under any provision hereof, but different officers, counsel, accountants or management consultants may certify as to different matters, respectively.

### Section 1.03. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Bond Indenture; the words

“herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Bond Indenture as a whole and not to any particular Article, Section or subdivision hereof.

## ARTICLE II

### THE BONDS

Section 2.01. Authorization of Bonds. An issue of Bonds to be issued hereunder, for the benefit of the Corporation, is hereby created. The Bonds are designated as “City of Torrance Revenue Bonds (Torrance Memorial Medical Center), Series 2010A.” The aggregate principal amount of Bonds that may be issued and Outstanding under this Bond Indenture shall not exceed [principal amount in words] dollars (\$[principal amount]). This Bond Indenture constitutes a continuing agreement with the Bond Trustee for the benefit of the Holders from time to time of the Bonds to secure the full payment of the principal of and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

Section 2.02. Terms of the Bonds.

(a) The Bonds shall be dated as of the date of initial delivery, and shall bear interest at the rates per annum set forth below. The Bonds shall be registered initially in the name of “Cede & Co.,” as nominee of the Securities Depository, and shall be evidenced by one Bond for each maturity of the Bonds in the principal amount of the respective maturities of the Bonds. Registered ownership of the Bonds, or any given portion thereof, may not be transferred except as set forth herein.

(b) The Bonds shall be issued as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The Bonds shall be numbered in consecutive numerical order from 1 upwards.

(c) Interest on the Bonds shall be payable on March 1, 2011, and semiannually thereafter on March 1 and September 1 in each year, with interest calculated on the basis of a 360-day year with 12 months of 30 days each. The Bonds shall mature on the dates and in the amounts (subject to the right of prior redemption as provided in Article IV) set forth below.

<b>Maturity Date (September 1)</b>	<b>Amount</b>	<b>Interest Rate</b>
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(d) The principal or redemption price of the Bonds shall be payable in lawful money of the United States of America at the Principal Corporate Trust Office of the Bond Trustee upon surrender of the Bonds to the Bond Trustee for cancellation; provided that the Bond Trustee may agree with the Holder of any Bond that such Holder may, in lieu of surrendering the same for a new Bond, endorse on such Bond a record of partial payment of the principal of such Bond in the form set forth below (which shall be typed or printed on such Bond):

PAYMENTS ON ACCOUNT OF PRINCIPAL

Payment Date	Principal Amount Paid	Balance of Principal Amount Unpaid	Signature of Holder
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The Bond Trustee shall maintain a record of each such partial payment made in accordance with the foregoing agreement and such record of the Bond Trustee shall be conclusive. Such partial payment shall be valid upon payment of the amount thereof to the Holder of such Bond, and the City and the Bond Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon such Bond by the Holder thereof and irrespective of any error or omission in such endorsement.

(e) Payment of the interest on any Bond shall be made to the Holder thereof as of the Record Date for each interest payment date by check or draft mailed by first class mail on each interest payment date to such Holder at his address as it appears on such registration books or, at the written request of any Holder of at least one million dollars (\$1,000,000) aggregate principal amount of Bonds received prior to the Record Date for such interest payment date, by wire transfer of immediately available funds to the bank account or number located

within the United States of America specified by such Holder to the Bond Trustee for that purpose.

(f) Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the registered Holder on such Record Date and shall be paid to the person in whose name the Bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Bond Trustee, notice of which shall be given to the Holders of first class mail not less than ten (10) days prior to such Special Record Date.

(g) The Bonds shall be subject to redemption as provided in Article IV.

Section 2.03. Execution of Bonds. The Bonds shall be executed in the name and on behalf of the City with the manual or facsimile signature of its Mayor under its seal attested by the manual or facsimile signature of its City Clerk or Deputy City Clerk. Such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the Bonds. The Bonds shall then be delivered to the Bond Trustee for authentication by it. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the City before the Bonds so signed or attested shall have been authenticated or delivered by the Bond Trustee or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the City as though those who signed and attested the same had continued to be such officers of the City, and also any Bond may be signed and attested on behalf of the City by such persons as at the actual date of execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form hereinbefore recited, manually executed by the Bond Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Bond Indenture, and such certificate of the Bond Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Bond Indenture.

Section 2.04. Transfer of Bonds. Subject to the provisions of Section 2.09, any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Bond Trustee shall authenticate and deliver a new Bond or Bonds, of the same maturity and for a like aggregate principal amount. The Bond Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Bond Trustee may also require the Corporation to pay

a reasonable sum to cover expenses incurred by the Bond Trustee or the City in connection with such transfer.

Section 2.05. Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Bond Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Bond Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange, and the Bond Trustee may also require the Corporation to pay a reasonable sum to cover expenses incurred by the Bond Trustee or the City in connection with such exchange.

Section 2.06. Bond Register. The Bond Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, sufficient books for the registration and transfer of the Bonds, which shall at all reasonable times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Bond Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

Section 2.07. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the City, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Bond Indenture as may be appropriate. A temporary Bond may be in the form of a single fully registered Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond shall be executed by the City and be authenticated by the Bond Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office of the Bond Trustee, and the Bond Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Bond Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.08. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Holder of said Bond, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Bond Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Bond Trustee shall be canceled by it and delivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Bond Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the City, at the expense of the owner, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or have been called for redemption, instead of issuing a substitute Bond, the Bond Trustee may pay

the same without surrender thereof upon receipt of indemnity satisfactory to the Bond Trustee). If any lost or stolen Bond is thereafter recovered, said recovered Bond shall be cancelled by the Bond Trustee and delivered to, or upon the order of, the City. The Bond Trustee at the Request of the City shall require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the City and the Bond Trustee in the premises. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Bond Indenture with all other Bonds secured by this Bond Indenture.

Section 2.09. Use of Securities Depository. Notwithstanding any provision of this Bond Indenture to the contrary:

(a) The Bonds shall be initially issued as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(i) To any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a) (“substitute depository”); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) To any substitute depository designated by the City and not objected to by the Bond Trustee, upon (1) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (2) a determination by the City that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository which is not objected to by the Bond Trustee can be obtained or (2) a determination by the City that it is in the best interests of the City to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(b) (b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a), upon receipt of the Outstanding Bonds by the Bond Trustee, together with a Certificate of the City to the Bond Trustee, a single new Bond shall be executed and delivered in the aggregate principal amount of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the City. In the case of any transfer pursuant to clause (iii) of subsection (a), upon receipt of the Outstanding Bonds by the Bond Trustee together with a Certificate of the City to the Bond Trustee, new Bonds shall be executed and delivered in such denominations numbered in consecutive order from R-1 up and registered in the names of such persons as are

requested in such a Certificate of the City, subject to the limitations of Section 2.02, provided the Bond Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Certificate of the City.

(c) In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount Outstanding, the Securities Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Bond Trustee.

(d) The City and the Bond Trustee shall be entitled to treat the person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Bond Indenture and any applicable laws, notwithstanding any notice to the contrary received by the City or the Bond Trustee; and the City and the Bond Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the City nor the Bond Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including the Securities Depository or its successor (or substitute depository or its successor), except for the Holder of any Bond.

(e) So long as the outstanding Bonds are registered in the name of Cede & Co. or its registered assign, the City and the Bond Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

### ARTICLE III

#### ISSUANCE OF BONDS

Section 3.01. Issuance of Bonds. The City shall execute and the Bond Trustee shall authenticate and, upon Order of the City, deliver the Bonds in the aggregate principal amount of [principal amount in words] dollars (\$[principal amount]).

Section 3.02. Application of Proceeds and Other Moneys. The proceeds received from the sale of the Bonds in the amount of \$\_\_\_\_\_ (being the aggregate principal amount of the Bonds [plus/less an original issue premium/discount of \$\_\_\_\_\_] less an underwriting discount of \$\_\_\_\_\_) shall be applied as follows:

(i) The Bond Trustee shall deposit \$\_\_\_\_\_ of the proceeds of the Bonds in the Costs of Issuance Fund.

(ii) The Bond Trustee shall transfer \$\_\_\_\_\_ of the proceeds of the Bonds to \_\_\_\_\_, as trustee for the Prior Bonds, to be applied to the redemption of the Prior Bonds on the Date of Issuance.

(iii) The Bond Trustee shall deposit \$\_\_\_\_\_ of the proceeds of the Bonds in the Project Fund.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Bond Trustee to pay the costs of issuance of the Bonds upon Requisition of the Corporation stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On March 1, 2011, or upon the earlier Request of the Corporation, amounts if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund.

Section 3.04. Establishment and Application of Project Fund.

(a) The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the “Project Fund.” The moneys in the Project Fund shall be used and withdrawn by the Bond Trustee to pay the costs of the Project, including any item of cost which is chargeable to the capital account of the Corporation in accordance with generally accepted accounting principles. No moneys in the Project Fund shall be used to pay Costs of Issuance.

(b) Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Bond Trustee a Requisition of the Corporation stating (1) the item number of such payment; (2) the name of the Person to whom each such payment is due, which may be the Corporation in the case of reimbursement for Project costs theretofore paid by the Corporation; (3) the respective amounts to be paid; (4) the purpose by general classification for which each obligation to be paid was incurred; (5) that obligations in the stated amounts have been incurred by the Corporation and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid from the Project Fund; (6) that there has not been filed with or served upon the Corporation any notice of claim of lien, or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the Persons named in such Requisition, that has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen’s or mechanics’ liens accruing by mere operation of law; and (7) that the balance remaining in the Project Fund after payments of such amounts, together with any investment income reasonably anticipated to be deposited in the Project Fund pursuant to this Bond Indenture and any other funds reasonably anticipated to be available therefor, will be sufficient to pay costs of completing the Project.

Upon receipt of a Requisition, the Bond Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. Each such Requisition shall be sufficient evidence to the Bond Trustee of the facts stated therein and the Bond Trustee shall have no duty to confirm the accuracy of such facts. The Bond Trustee shall not make any such payment if it has received any written notice of claim of lien, attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, that has not been released or will not be released simultaneously with such payment.

(c) When the Project shall have been completed, there shall be delivered to the Bond Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the

Project Account is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Bond Trustee shall, as directed by said Certificate, transfer any remaining balance in such Project Fund, less the amount of any such retention, to the Revenue Fund.

Section 3.05. Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the City or the Bond Trustee with respect to or in connection with the Loan Agreement. The recital contained in the Bonds that the same are issued pursuant to the Law and the Constitution and laws of the State of California shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

#### ARTICLE IV

##### REDEMPTION OF BONDS

###### Section 4.01. Terms of Redemption.

(a) The Bonds are subject to redemption prior to their respective stated maturities, at the option of the City (which shall be exercised upon the written request of the Corporation, which written request shall be delivered to the Bond Trustee no later than forty-five (45) days prior to the date fixed for redemption), as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturities, and by lot within each maturity) from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Special Redemption Account, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

(b) The Bonds maturing on or after September 1, \_\_\_\_, are also subject to redemption prior to their respective stated maturities, at the option of the City (which shall be exercised upon the written request of the Corporation, which written request shall be delivered to the Bond Trustee no later than thirty (30) days prior to the date fixed for redemption, or such shorter period as agreed to in writing by the Bond Trustee) in whole or in part (in such amounts as may be specified by the Corporation), from any source of available funds, as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturities, and by lot within each maturity) on or after September 1, \_\_\_\_, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

(c) The Bonds maturing on September 1, \_\_\_\_ and September 1, \_\_\_\_, are also subject to redemption prior to their respective stated maturities in part (by lot) from Mandatory Sinking Account Payments established in Section 5.04(C) on each September 1 on or after September 1, \_\_\_\_ and September 1, \_\_\_\_, respectively, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Section 4.02. Selection of Bonds for Redemption. Whenever provision is made in this Bond Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Bond Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Bond Trustee in its sole discretion shall deem appropriate and fair; provided however that in such instances as provided for herein where the Corporation is to specify the amount or maturities of Bonds to be redeemed the Bond Trustee shall redeem Bonds in accordance with any such specification.

Section 4.03. Notice of Redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, by the Bond Trustee, not less than twenty (20) nor more than sixty (60) days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue and be payable, and shall require that such Bonds be then surrendered at the address or addresses of the Bond Trustee specified in the redemption notice.

Notice of redemption of Bonds shall be given by the Bond Trustee, at the expense of the Corporation, for and on behalf of the City.

Any notice of optional redemption given pursuant to this Section 4.03 may be rescinded by written notice given to the Bond Trustee by the Corporation no later than five (5) Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given pursuant to this Section 4.03.

Failure by the Bond Trustee to give notice of redemption pursuant to this Section 4.03 to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holder or Holders to whom such notice was given.

Section 4.04. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the City shall execute and the Bond Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or Bonds of authorized denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

All Bonds redeemed pursuant to the provisions of this Article shall be canceled upon surrender thereof and delivered to or upon the Order of the City.

## ARTICLE V

### REVENUES

#### Section 5.01. Pledge and Assignment; Revenue Fund.

(a) Subject only to the provisions of this Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of this Bond Indenture, all of the Revenues and any other amounts held in any fund or account established pursuant to this Bond Indenture (other than the Rebate Fund). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Bonds, without any physical delivery thereof or further act.

(b) The City hereby transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged in subsection (a) of this Section and all of the right, title and interest of the City in the Loan Agreement (except for the right to receive any Administrative Fees and Expenses to the extent payable to the City) and Obligation No. [x]. The Bond Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the City shall be deemed to be held, and to have been collected or received, by the City as the agent of the Bond Trustee and shall forthwith be paid by the City to the Bond Trustee. The Bond Trustee also shall be entitled to and shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the City and all of the obligations of the Corporation under the Loan Agreement and the Members under Obligation No. [x] which have been assigned to the Bond Trustee.

(c) All Revenues shall be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Bond Trustee shall establish, maintain and hold in trust; except as otherwise provided in Section 5.06 and except that all moneys received by the Bond Trustee and required by the Loan Agreement to be

deposited in the Redemption Fund shall be promptly deposited in the Redemption Fund, which the Bond Trustee shall establish, maintain and hold in trust. All Revenues deposited with the Bond Trustee shall be held, disbursed, allocated and applied by the Bond Trustee only as provided in this Bond Indenture.

(d) If by the business day preceding March 1 or September 1 in each year the Bond Trustee has not received Revenues sufficient to make such transfers required on such March 1 or September 1, respectively, by Section 5.02, the Bond Trustee shall immediately notify the Corporation and the Master Trustee of such insufficiency by telephone or facsimile transmission and confirm such notification as soon thereafter as practicable by written notice.

Section 5.02. Allocation of Revenues. The Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee shall establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, on the following dates, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: on March 1 and September 1 in each year, to the Interest Account, the aggregate amount of interest becoming due and payable on such date on all Bonds then Outstanding until the balance in the Interest Account is equal to said aggregate amount of interest; and

Second: on September 1 in each year, to the Principal Account, the aggregate amount of principal becoming due and payable on such date on the Outstanding Bonds plus to the Sinking Account the aggregate amount of Mandatory Sinking Account Payments required to be paid into the Sinking Account on such date for Outstanding Bonds, until the balance in said account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments.

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to or upon the order of the Corporation.

Section 5.03. Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Bond Indenture).

Section 5.04. Application of Principal Account.

(a) All amounts in the Principal Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying the principal of the Bonds when due and payable, except that all amounts in a Sinking Account shall be used and withdrawn by the Bond Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided herein.

(b) The Bond Trustee shall establish and maintain within the Principal Account a separate subaccount for each maturity of Term Bonds designated as the “\_\_\_\_ Sinking Account” (inserting in such blank the year of maturity for such Term Bonds) The Bond Trustee shall apply the amount deposited pursuant to Section 5.02 for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required on such date) from the Principal Account to the Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date, the Bond Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the applicable maturity, upon the notice and in the manner provided in Article IV; provided that, at any time prior to selection of Bonds for redemption, the Bond Trustee may apply moneys in the Sinking Account to the purchase of Bonds of such maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Bond Trustee may be directed by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Bonds. If, during the twelve month period immediately preceding said Mandatory Sinking Account Payment date, the Bond Trustee has purchased Bonds of the applicable maturity with moneys in the Sinking Account, or, during said period and prior to selection of Bonds, the Corporation has deposited Bonds of the applicable maturity with the Bond Trustee, or Bonds of the applicable maturity were at any time purchased or redeemed by the Bond Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this subsection shall be canceled and delivered by the Bond Trustee to or upon the Order of the City. All Bonds purchased from a Sinking Account or deposited by the Corporation with the Bond Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such maturity of Bonds, then to the remaining Mandatory Sinking Account Payments for such maturity of Bonds as are specified by the Corporation.

(c) Subject to the terms and conditions set forth in this Section and in Sections 4.01(B), the Bonds maturing on September 1, 20\_\_ shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Sinking Account Payments
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\* Maturity

(d) Subject to the terms and conditions set forth in this Section and in Section 4.01(C), the Bonds maturing on September 1, 20\_\_ shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Sinking Account Payments
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\* Maturity

Section 5.05. Application of Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in Article IV, provided that, at any time prior to selection of Bonds for redemption, the Bond Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Corporation, except that the purchase price (exclusive of accrued interest) may not exceed the principal amount of such Bonds); and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds purchased or redeemed from the Redemption Fund shall be allocated to applicable Mandatory Sinking Account Payments as are specified by the Corporation.

Section 5.06. Rebate Fund.

(a) The Bond Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. Within the Rebate Fund, the Bond Trustee shall maintain such accounts as shall be necessary to comply with the terms and conditions of the Tax Agreement. Subject to the transfer provisions provided in paragraph (E) below, all money at any time deposited in the Rebate Fund shall be held by the Bond Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America and neither the City, the Corporation nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by Section 6.06 and by the Tax Agreement (which is incorporated herein by reference). The Bond Trustee shall be deemed conclusively to have complied with such provisions if it

follows the directions of the City and the Corporation including supplying all necessary information in the manner provided in the Tax Agreement, shall not be required to take any action thereunder in the absence of written directions by the City and the Corporation, and shall have no liability or responsibility to enforce compliance by the Corporation or the City with the terms of the Tax Agreement.

(b) Upon the Corporation's written direction, an amount shall be deposited to the Rebate Fund by the Bond Trustee from deposits by the Corporation if and to the extent required, so that the balance of the Rebate Fund after such deposit shall equal the Rebate Amount. Computations of the Rebate Amount shall be furnished by or on behalf of the Corporation in accordance with the Tax Agreement. The Bond Trustee may rely conclusively upon the Corporation's determinations, calculations and certifications required by this Section 5.06. The Bond Trustee shall have no responsibility to independently make any calculation or determination or to review the Corporation's calculations hereunder.

(c) The Bond Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the Rebate Fund or from other moneys provided to it.

(d) At the direction of the Corporation, the Bond Trustee shall invest all amounts held in the Rebate Fund in Investment Securities as directed by the Corporation (which directions shall comply with the restrictions set forth in the Tax Agreement). Money shall not be transferred from the Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of the Corporation's written directions, the Bond Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. Any moneys remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Amount, or provision having been made therefor satisfactory to the Bond Trustee, shall be withdrawn and remitted to the Corporation.

(f) Notwithstanding any other provision of this Bond Indenture, including in particular Article X hereof, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of this Section, Section 6.06 and the Tax Agreement shall survive the defeasance or payment in full of the Bonds.

Section 5.07. Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to this Bond Indenture shall be invested by the Bond Trustee upon Request of the Corporation solely in Investment Securities. Investment Securities may be purchased at such prices as may be directed by the Corporation. All Investment Securities shall be acquired subject to the limitations set forth in Section 6.06, the limitations as to maturities hereinafter in this Section set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. No Request of the Corporation shall impose any duty on the Bond Trustee inconsistent with its responsibilities hereunder. In the absence of directions from the Corporation, the Bond Trustee shall invest in Investment Securities specified in clause (g) of the definition thereof in Section 1.01.

Moneys in all funds and accounts shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in this Bond Indenture. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Bond Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in the Rebate Fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to this Bond Indenture shall be deposited when received (1) prior to the delivery to the Bond Trustee of the Certificate of the Corporation specified in Section 3.04(c), in the Project Fund, and (2) thereafter, in the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under this Bond Indenture shall be credited to such fund or account.

The Bond Trustee may commingle any of the funds or accounts established pursuant to this Bond Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Bond Trustee hereunder shall be accounted for separately as required by this Bond Indenture. The Bond Trustee may act as principal or agent in the making or disposing of any investment. The Bond Trustee shall sell, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of Section 8.03, the Bond Trustee shall not be liable or responsible for any loss resulting from such investment. The City (and the Corporation by its execution of the Loan Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or Corporation the right to receive brokerage confirmations of security transactions as they occur, the City and Corporation specifically waive receipt of such confirmations to the extent permitted by law. The Bond Trustee will furnish the City and Corporation periodic cash transaction statements which include detail for all investment transactions made by the Bond Trustee hereunder.

## ARTICLE VI

### PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The City shall punctually cause to be paid the principal or redemption price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Bond Indenture, according to the true intent and meaning thereof, and shall punctually cause to be paid all Mandatory Sinking Account Payments, but only out of Revenues and other assets pledged for such payment as provided in this Bond Indenture.

Section 6.02. Extension of Payment of Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Bond Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the City to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 6.03. Against Encumbrances. The City shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Bond Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Bond Indenture, and will assist the Bond Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation, the City expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Law, and reserves the right to issue other obligations for such purposes.

Section 6.04. Power to Issue Bonds and Make Pledge and Assignment. The City is duly authorized pursuant to law to issue the Bonds and to enter into this Bond Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under this Bond Indenture in the manner and to the extent provided in this Bond Indenture. The Bonds and the provisions of this Bond Indenture are and will be the legal, valid and binding limited obligations of the City in accordance with their terms, and the City and Bond Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under this Bond Indenture against all claims and demands of all Persons whomsoever.

Section 6.05. Accounting Records and Financial Statements. (a) The Bond Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Bond Trustee's accounting practices for books of record and account relating to similar trust accounts and in accordance with the customary standards of the industry for such books of record and account, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Loan Agreement and all funds and accounts established pursuant to this Bond Indenture. Such books of record and account shall be available for inspection by the City, the Corporation or any Bondholder, or his agent or representative duly authorized in writing, at reasonable hours and under reasonable circumstances with reasonable prior notice.

(b) The Bond Trustee shall file and furnish to the City and to each Bondholder who shall have filed his name and address with the Bond Trustee for such purpose, upon request, a statement (which need not be audited) covering receipts, disbursements, allocation and application of Revenues and any other moneys (including proceeds of Bonds) in any of the funds

and accounts established by the Bond Trustee pursuant to this Bond Indenture for such month. The Bond Trustee shall also furnish a copy of such monthly statement to the Corporation.

Section 6.06. Tax Covenants. The City shall at all times do and perform all acts and things permitted by law and this Bond Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the City agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

Section 6.07. Collection of Amounts Due Under Loan Agreement and Obligation No. [x]. The Bond Trustee shall promptly collect all amounts due from the Corporation pursuant to the Loan Agreement and from the Members pursuant to Obligation No. [x], shall perform all duties imposed upon it pursuant to the Loan Agreement and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the City and all of the obligations of the Corporation under the Loan Agreement and the Members under Obligation No. [x], subject to the provisions of this Bond Indenture.

Section 6.08. Amendment of Loan Agreement and Master Indenture.

(a) Except as provided in Section 6.08(b), the City shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, unless the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the City or the Bond Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

(b) Notwithstanding the provisions of Section 6.08(a), the terms of the Loan Agreement may also be modified or amended from time to time and at any time by the City without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the City or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the City may deem necessary or desirable and not inconsistent with the

Loan Agreement or this Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; and

(iii) to maintain the exclusion from gross income of interest payable with respect to the Bonds.

(c) In executing or consenting to any amendment to the Loan Agreement permitted by this Section, the City, and the Bond Trustee shall receive, and shall be fully protected in relying upon, an Opinion of Bond Counsel addressed to the City and the Bond Trustee stating that the execution of such amendment is authorized or permitted by the Loan Agreement and this Bond Indenture and the applicable law, will upon the execution and delivery thereof be valid and binding obligations of the parties thereto, and that the execution and delivery thereof will not adversely affect the exclusion from federal gross income of interest on the Bonds.

(d) The Bond Trustee, as holder of Obligation No. [x], shall not consent to any amendment, modification or termination of any of the terms of the Master Indenture unless (1) in the opinion of the Bond Trustee (which may be based on an Opinion of Counsel upon which the Bond Trustee may rely) such amendment, modification or termination will not materially adversely affect the interests of the Bondholders, or (2) the Bond Trustee first obtains the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination, provided that no such amendment, modification or termination shall reduce the amount payable by the Corporation to the Bond Trustee pursuant to Obligation No. [x], or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding. Notwithstanding the foregoing, the Bond Trustee, as holder of Obligation No. [x] shall, upon Request of the Corporation, consent to the amendment and restatement of the master indenture, dated as of June 1, 2001, between the Corporation and the Master Trustee in the form attached hereto as Exhibit A.

Section 6.09. Enforcement of Loan Agreement and Obligation No. [x]. The Bond Trustee shall promptly collect all amounts due from the Corporation pursuant to the Agreement and from the Obligated Group pursuant to Obligation No. [x], shall perform all duties imposed upon it pursuant to the Loan Agreement and subject to the provisions of this Bond Indenture, shall enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the City assigned to it hereunder and all of the obligations of the Corporation relating thereto.

Section 6.10. Waiver of Laws. The City shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Bond Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the City to the extent permitted by law.

Section 6.11. Further Assurances. The City will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Bond Indenture and for

the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in this Bond Indenture.

Section 6.12. Continuing Disclosure. Pursuant to Section 5.7 of the Loan Agreement, the Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and the City shall have no liability to the Holders of the Bonds or any other Person with respect to S.E.C. Rule 15c2-12. The Bond Trustee hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and Section 5.7 of the Loan Agreement. Notwithstanding any other provision of this Indenture, failure of the Corporation or the Bond Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Bond Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds but only to the extent funds in an amount satisfactory to the Bond Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Bond Trustee whatsoever, including, without limitation, fees and expenses of its attorneys, shall), or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate to, including seeking mandate or specific performance by court order, cause the Corporation to comply with its obligations under Section 5.7 of the Loan Agreement or to cause the Bond Trustee to comply with its Obligations under this Section 6.12. For purposes of this Section, “Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

Section 6.13. Replacement of Obligation No. [x]. At the option of the Corporation, Obligation No. [x] may be surrendered by the Bond Trustee and delivered to the Master Trustee for cancellation upon receipt by the Bond Trustee of the following:

(1) a Request of the Corporation requesting such surrender and delivery and stating that the Corporation (and each other Member of the Obligated Group) has become a member of an obligated group under a master indenture (other than the Master Indenture) and that an obligation is being issued to the Bond Trustee under such replacement master indenture (the “Replacement Master Indenture”);

(2) a properly executed obligation (the “Replacement Obligation”) issued under the Replacement Master Indenture and registered in the name of the Bond Trustee with the same tenor and effect as Obligation No. [x], duly authenticated by the master trustee under the Replacement Master Indenture;

(3) an Opinion of Counsel to the effect that the Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of the Corporation (and each other Member of the Obligated Group) and each other member of the obligated group under the Replacement Master Indenture;

(4) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture;

(5) either:

(i) a written report of an Accountant (or an Officer's Certificate if the ratio described herein is at least equal to 2.0:1.0) to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such substitution of Obligation No. [x] would not be reduced or, if reduced, would not be reduced below 1.75:1.0 (such calculation to be made assuming such substitution of Obligation No. [x] had occurred at the beginning of such Fiscal Year); or

(ii) a written report of an Independent Consultant (or an Officer's Certificate if the ratio described herein is at least equal to 2.0:1.0) to the effect that the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years next succeeding such substitution of Obligation No. [x] would not be reduced by more than 20% and in no event would have been less than 1.50:1.0; or

(iii) a written report of an Independent Consultant (or an Officer's Certificate if the ratio described herein is at least 2.5:1.0) to the effect that the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years immediately following such substitution of Obligation No. [x] will not be less than 2.0:1.0; and

(6) written confirmation from the rating agencies then rating the Bonds that replacement of Obligation No. [x] by the Replacement Obligation will not, in and of itself, result in a withdrawal or lowering of the rating(s) then in effect with respect to the Bonds.

Upon satisfaction of such conditions, all references herein and in the Loan Agreement to Obligation No. [x] shall be deemed to be references to the Replacement Obligation, all references to the Master Indenture shall be deemed to be references to the Replacement Master Indenture, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Master Indenture, all references to the Obligated Group and the Members shall be deemed to be references to the obligated group and the members of the obligated group under the Replacement Master Indenture and all references to Supplemental Master Indenture for Obligation No. [x] shall be deemed to be references to the supplemental master indenture pursuant to which the Replacement Obligation is issued.

## ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

Section 7.01. Events of Default. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal or redemption price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Term Bonds in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) default by the City in the observance of any of the covenants, agreements or conditions on its part in this Bond Indenture or in the Bonds contained, other than as specified in subsections (a) or (b) of this Section 7.01, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City and the Corporation by the Bond Trustee, or to the City, the Corporation and the Bond Trustee by the Holders of not less than twenty five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(d) a Loan Default Event.

Section 7.02. Acceleration of Maturities. Upon the occurrence and during the continuation of an Event of Default, the Bond Trustee may, and shall, at the direction of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the City, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Bond Indenture or in the Bonds to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal (including Mandatory Sinking Account Payments) or redemption price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses including attorneys' fees of the Bond Trustee, and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the

City, the Corporation and the Bond Trustee, or the Bond Trustee if such declaration was made by the Bond Trustee, may, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Bond Trustee under any of the provisions of this Bond Indenture (subject to Section 11.10 and except for moneys in the Rebate Fund) shall be applied by the Bond Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Bond Indenture; and

(2) To the payment of the principal or redemption price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Bond Indenture (including Section 6.02), as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Mandatory Sinking Account Payments) or redemption price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or redemption price due on such date to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or

of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Section 7.04. Bond Trustee to Represent Bondholders. The Bond Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and lawful attorney in fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of not less than twenty five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee or in such Holders under this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law or any other law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under this Bond Indenture, pending such proceedings. All rights of action under this Bond Indenture or the Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee shall be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Bond Indenture (including Section 6.02).

Section 7.05. Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, and upon indemnifying the Bond Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Bond Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Bond Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Section 7.06. Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding

in its own name; (3) such Holder or said Holders shall have tendered to the Bond Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee; and (5) no direction inconsistent with such written request has been given to the Bond Trustee during such sixty (60) day period by the Holders of a majority in principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Bond Indenture or the rights of any other Holders of Bonds, or to enforce any right under this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of this Bond Indenture (including Section 6.02).

Section 7.07. Absolute Obligation of City. Nothing in Section 7.06 or in any other provision of this Bond Indenture, or in the Bonds, contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal (including Mandatory Sinking Account Payments) or redemption price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, and not otherwise, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Section 7.08. Termination of Proceedings. In case any proceedings taken by the Bond Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or the Bondholders, then in every such case the City, the Bond Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the City, the Bond Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Section 7.09. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Bond Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.10. No Waiver of Default. No delay or omission of the Bond Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Bond Indenture to

the Bond Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

## ARTICLE VIII

### THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Bond Trustee. (a) The Bond Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Bond Indenture. The Bond Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Bond Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) The City may, and upon written request of the Corporation shall, remove the Bond Trustee at any time unless an Event of Default shall have occurred and then be continuing, (if the Bond Trustee is in breach of its duties hereunder), by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Bond Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Bond Trustee or its property shall be appointed, or any public officer shall take control or charge of the Bond Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Bond Trustee, and thereupon shall appoint, with the consent of the Corporation, a successor Bond Trustee by an instrument in writing.

(c) The Bond Trustee may at any time resign by giving written notice of such resignation to the City and the Corporation and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Bond Trustee. Upon receiving such notice of resignation, the City shall promptly appoint, with the consent of the Corporation, a successor Bond Trustee by an instrument in writing.

(d) Any removal or resignation of the Bond Trustee and appointment of a successor Bond Trustee shall become effective upon acceptance of appointment by the successor Bond Trustee. If no successor Bond Trustee shall have been appointed and have accepted appointment within forty five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Bond Trustee at the expense of the corporation or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Bond Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Bond Trustee. Any successor Bond Trustee appointed under this Bond Indenture, shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Bond Trustee a written acceptance thereof, and thereupon such successor Bond Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Bond Trustee, with like effect as if originally named

Bond Trustee herein; but, nevertheless at the request of the successor Bond Trustee, such predecessor Bond Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Bond Trustee all the right, title and interest of such predecessor Bond Trustee in and to any property held by it under this Bond Indenture and shall pay over, transfer, assign and deliver to the successor Bond Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Bond Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Bond Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Bond Trustee as provided in this subsection, the City shall mail a notice of the succession of such Bond Trustee to the trusts hereunder to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Bond Trustee, the successor Bond Trustee shall cause such notice to be mailed at the expense of the City.

(e) The Bond Trustee and any successor Bond Trustee shall be a trust company, corporation or bank having trust powers in the State of California, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank, corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank, corporation or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Bond Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Bond Trustee shall resign immediately in the manner and with the effect specified in this Section.

(f) The permissive right of the Bond Trustee to do things enumerated in this Bond Indenture and in the Loan Agreement shall not be construed as a duty.

(g) The immunities, exemptions, and indemnifications from liability of the Bond Trustee under this Bond Indenture and the Loan Agreement shall extend to its directors, officers, employees and agents.

(h) Anything herein to the contrary notwithstanding, whenever it is provided that the Bond Trustee shall take any action, including the giving of any notice, or refrain from taking any action upon the happening or continuation of a specified event or upon the fulfillment of any condition or upon the request of the Bondholders, the Bond Trustee shall have no liability for failure to take such action or for failure to refrain from taking such action unless and until an officer at the Bond Trustee's corporate trust office responsible for administration of its duties hereunder has actual knowledge of such event or continuation thereof or the fulfillment of such condition or shall have received such request. The Bond Trustee shall be deemed to have actual knowledge of the contents of the Bond Indenture and the Loan Agreement.

(i) The Bond Trustee shall not be responsible for the recording and filing of any document relating to this Bond Indenture or any financing statements (or continuation statements in connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests referenced in this Bond Indenture or the Loan Agreement.

(j) The Bond Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 8.02. Name Change; Merger or Consolidation.

(a) The Bond Trustee shall provide written notice to the Corporation at least thirty (30) days prior to any name change, merger or consolidation of the Bond Trustee.

(b) Any company into which the Bond Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Bond Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Bond Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liability of Bond Trustee.

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the City, and the Bond Trustee assumes no responsibility for the correctness of the same, makes no representations as to the validity or sufficiency of this Bond Indenture, of the Loan Agreement, of the Remarketing Agreement, of Obligation No. [x], or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it except for any recital or representation specifically relating to the Bond Trustee or its powers. The Bond Trustee assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed in connection with the issuance of the Bonds. The Bond Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Bond Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Bond Trustee may become the owner of Bonds with the same rights it would have if it were not Bond Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

(b) The Bond Trustee shall not be liable for any error of judgment made in good faith by any of its officers, employees, agents or representatives, unless it shall be proved that the Bond Trustee was negligent in ascertaining the pertinent facts.

(c) The Bond Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or exercising any trust or power conferred upon the Bond Trustee under this Bond Indenture.

(d) The Bond Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Bond Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Bond Indenture unless such Bondholders shall have offered to the Bond Trustee security or indemnity, satisfactory to the Bond Trustee, against the costs, expenses and liabilities which may be incurred therein or thereby. The Bond Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or redemption premium, if any, with respect to the Bonds from its own funds; but rather the Bond Trustee's obligations shall be limited to the performance of its duties hereunder.

(e) Except with respect to Events of Default specified in Section 7.01(a) or (b), the Bond Trustee shall not be deemed to have knowledge of any Event of Default unless and until an officer at the Principal Office responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Bond Trustee shall have received written notice thereof at the Principal Office. The Bond Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Bond Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(f) The Bond Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys-in-fact, agents, receivers, officers, employees or representatives, and shall not be answerable for the negligence or misconduct of any such attorney-in-fact, agent, receiver, officer, employee or representative selected by it with due care. The Bond Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty hereunder, but the Bond Trustee shall not be answerable for the professional malpractice of any counsel or other professional (including without limiting the generality of the foregoing, attorneys-in-law or certified public accountants) in connection with the rendering of such counsel's or other professionals' advice in accordance with the terms of this Bond Indenture, if such counsel or other professional was selected by the Bond Trustee with due care.

(g) The Bond Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys that shall be released or withdrawn in accordance with the provisions hereof.

(h) Whether or not therein expressly so provided, every provision of this Bond Indenture, the Loan Agreement, Obligation No. [x] or related documents relating to the conduct or affecting the liability of or affording protection to the Bond Trustee shall be subject to the provisions of this Article.

(i) The Bond Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Bond Indenture at the request, order or direction of any of the Holders pursuant to the provisions of this Bond Indenture unless such Holders shall have offered to the Bond Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(j) The Bond Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Bonds. All indemnifications and releases from liability granted herein to the Bond Trustee shall extend to the directors, officers, employees and agents of the Bond Trustee.

(k) The Bond Trustee agrees to accept and act upon instructions or directions pursuant to this Bond Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Bond Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the City and Corporation elect to give the Bond Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Bond Trustee in its discretion elects to act upon such instructions, the Bond Trustee's understanding of such instructions shall be deemed controlling. The Bond Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bond Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The City and Corporation agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Bond Trustee, including without limitation, the risk of the Bond Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(l) The Bond Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Bond Trustee and could not have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

(m) The permissive right of the Bond Trustee to do things enumerated in this Bond Indenture shall not be construed as a duty and the Bond Trustee shall not be answerable with respect to such permissive items for other than its negligence or willful misconduct.

Section 8.04. Right of Bond Trustee to Rely on Documents. The Bond Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate,

report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Bond Trustee may consult with counsel, who may be counsel of or to the City and/or counsel selected by the Bond Trustee, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by this Bond Indenture the Bond Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the City, and such Certificate shall be full warrant to the Bond Trustee for any action taken or suffered in good faith under the provisions of this Bond Indenture in reliance upon such Certificate, but in its discretion the Bond Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Bond Trustee under the provisions of this Bond Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the City, the Corporation and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. The Corporation shall pay to the Bond Trustee from time to time reasonable compensation for all services rendered under this Bond Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Bond Indenture.

No provision of this Bond Indenture shall require the Bond Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers, if it has not received the agreed compensation for such services or, in cases where the Bond Trustee has a right to reimbursement or indemnification for such performance or exercise, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

## ARTICLE IX

### MODIFICATION OR AMENDMENT OF THE BOND INDENTURE AND LOAN AGREEMENT

Section 9.01. Amendments Permitted. (a) This Bond Indenture and the rights and obligations of the City and of the Holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the City and the Bond Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Bond Trustee. No such modification or amendment

shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Bond Indenture prior to or on a parity with the lien created by this Bond Indenture, or deprive the Holders of the Bonds of the lien created by this Bond Indenture on such Revenues and other assets (except as expressly provided in this Bond Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Bond Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the City and the Bond Trustee of any Supplemental Bond Indenture pursuant to this subsection (a), the Bond Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Bond Indenture to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

(b) This Bond Indenture and the rights and obligations of the City, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the City and the Bond Trustee may enter into without the necessity of obtaining the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City contained in this Bond Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the City, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Bond Indenture, or in regard to matters or questions arising under this Bond Indenture, as the City or the Bond Trustee may deem necessary or desirable and not inconsistent with this Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement this Bond Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds; or

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(c) The Bond Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Bond Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Bond Trustee's own rights, duties or immunities under this Bond Indenture or otherwise.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Bond Indenture pursuant to this Article, this Bond Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Bond Indenture of the City, the Bond Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Bond Indenture shall be deemed to be part of the terms and conditions of this Bond Indenture for any and all purposes.

Section 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Bond Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Bond Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Holder of any Bond Outstanding at the time of such execution and presentation of his Bond for the purpose at the Principal Corporate Trust Office of the Bond Trustee or at such additional offices as the Bond Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the City and the Bond Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared by the Bond Trustee at the expense of the Corporation, executed by the City and authenticated by the Bond Trustee, and upon demand of the Holders of any Bonds then Outstanding shall be exchanged at the Principal Corporate Trust Office of the Bond Trustee, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same maturity.

Section 9.04. Amendment of Particular Bonds. The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

## ARTICLE X

### DEFEASANCE

Section 10.01. Discharge of Bond Indenture. The Bonds may be paid by the City or the Bond Trustee on behalf of the City in any of the following ways:

- (i) by paying or causing to be paid the principal or redemption price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(ii) by depositing with the Bond Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay when due or redeem all Bonds then Outstanding; or

(iii) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

If the City shall also pay or cause to be paid all other sums payable hereunder by the City, then and in that case at the election of the City (evidenced by a Certificate of the City filed with the Bond Trustee signifying the intention of the City to discharge all such indebtedness and this Bond Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Bond Indenture and the pledge of Revenues and other assets made under this Bond Indenture and all covenants, agreements and other obligations of the City under this Bond Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the City, the Bond Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and upon satisfaction of all fees and expenses of the Bond Trustee the Bond Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to this Bond Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that moneys on deposit in the Rebate Fund shall continue to be applied as provided in Section 6.06.

Section 10.02. Discharge of Liability on Bonds. Upon the deposit with the Bond Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such Bond shall cease, determine and be completely discharged, except only that thereafter the Holder thereof shall thereafter be entitled to payment of the principal of and interest on such Bond by the City, and the City shall remain liable for such payment, but only out of such money or securities deposited with the Bond Trustee as aforesaid for their payment, subject, however, that the provisions of Section 10.04 shall apply in all events.

The City may at any time surrender to the Bond Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03. Deposit of Money or Securities with Bond Trustee. Whenever in this Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Bond

Trustee in the funds and accounts established pursuant to this Bond Indenture (other than the Rebate Fund) and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) direct obligations (including obligations issued or held in book-entry form in the books of the Department of the Treasury of the United States of America, the principal of and interest on each of which when due (without any income from the reinvestment thereof)) which will (as certified by an independent verifier acceptable to the City and Bond Trustee) provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or other provision satisfactory to the Bond Trustee shall have been made for the giving of such notice;

provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of this Bond Indenture or by Request of the City) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

Section 10.04. Payment of Bonds After Discharge of Bond Indenture. Notwithstanding any provisions of this Bond Indenture, any moneys held by the Bond Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two years after such principal or interest has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Bond Indenture), shall be repaid to the Corporation free from the trusts created by this Bond Indenture and all liability of the Bond Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Bond Trustee may (at the cost of the Corporation) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Bond Trustee, a notice, in such form as may be deemed appropriate by the Bond Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof.

## ARTICLE XI

### MISCELLANEOUS

Section 11.01. Liability of City Limited to Revenues. Notwithstanding anything in this Bond Indenture or in the Bonds contained, the City shall not be required to advance any

moneys derived from any source other than the Revenues and other assets pledged under this Bond Indenture for any of the purposes in this Bond Indenture mentioned, whether for the payment of the principal or redemption price of or interest on the Bonds or for any other purpose of this Bond Indenture. Nevertheless, the City may, but shall not be required to, advance for any of the purposes hereof any funds of the City which may be made available to it for such purposes.

Section 11.02. Successor is Deemed Included in All References to Predecessor. Whenever in this Bond Indenture either the City or the Bond Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Bond Indenture contained by or on behalf of the City or the Bond Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.03. Limitation of Rights. Nothing in this Bond Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the City, the Bond Trustee, the Corporation and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Bond Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the City, the Bond Trustee, the Corporation and the Holders of the Bonds.

Section 11.04. Waiver of Notice. Whenever in this Bond Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 11.05. Destruction of Bonds. Whenever in this Bond Indenture provision is made for the cancellation by the Bond Trustee and the delivery to the City of any Bonds, the Bond Trustee may, upon Request of the City, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the City, if the City shall so require), and deliver a certificate of such destruction to the City.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Bond Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Bond Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Bond Indenture, and this Bond Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The City hereby declares that it would have entered into this Bond Indenture and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of this Bond Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. (a) Any notice to or demand upon the Bond Trustee may be served or presented, and such demand may be made, at the Principal Corporate Trust Office of the Bond Trustee, or at such other address as may have been filed in writing by the Bond Trustee with the City. Any notice to or demand upon the City or the Corporation shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by confirmed facsimile transmission or by being deposited, certified or registered mail, postage prepaid, in a post office letter box, addressed, as the case may be, to the City at 3031 Torrance Boulevard, Torrance, California 90503, Attention: City Manager (or such other address as may have been filed in writing by the City with the Bond Trustee), or, to the Corporation at 3330 W. Lomita Blvd, Torrance, California 90505, Attention: Chief Financial Officer (or such other address as may have been filed in writing by the Corporation with the Bond Trustee), or to the Master Trustee at 700 South Flower Street, Suite 500, Los Angeles, California 90017-4104, Attention: Corporate Trust Division (or such other address as may have been filed in writing by the Master Trustee).

Section 11.08. Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Bond Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of this Bond Indenture and shall be conclusive in favor of the Bond Trustee and of the City if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the bond registration books held by the Bond Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Bond Trustee or the City in accordance therewith or reliance thereon.

Section 11.09. Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Bond Indenture, Bonds which are owned or held by or for the account of the City, the Corporation or any Member, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City, the Corporation or any Member or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the

purposes of this Section if the pledgee shall establish to the satisfaction of the Bond Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City, the Corporation or any Member or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Bond Trustee taken upon the advice of counsel shall be full protection to the Bond Trustee. Upon request of the Bond Trustee, the Corporation shall specify to the Bond Trustee those Bonds disqualified pursuant to this Section.

Section 11.10. Money Held for Particular Bonds. The money held by the Bond Trustee for the payment of the interest, principal or redemption price due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it without liability for interest thereon for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

Section 11.11. Funds and Accounts. Any fund required by this Bond Indenture to be established and maintained by the Bond Trustee may be established and maintained in the accounting records of the Bond Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every holder thereof.

Section 11.12. Waiver of Personal Liability. No Council member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of or premium, if any, or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Bond Indenture.

Section 11.13. Business Days. When any action is provided for herein to be done on a day named or within a specified time period, and the day or the last day of the period falls on a Saturday, Sunday or bank holiday in the city in which the Principal Corporate Trust Office or any affiliate office of the Bond Trustee is located, such action may be performed on the next ensuing business day with the same effect as though performed on the appointed day or within the specified period.

Section 11.14. Governing Law. This Bond Indenture shall be construed in accordance with and governed by the Constitution and the laws of the State of California.

Section 11.15. Execution in Several Counterparts. This Bond Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Bond Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the CITY OF TORRANCE has caused this Bond Indenture to be signed in its name by its City Administrator and its seal to be hereunto affixed and attested by its Deputy City Clerk, and in token of its acceptance of the trusts created hereunder, THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., has caused this Bond Indenture to be signed as Bond Trustee, all as of the day and year first above written.

CITY OF TORRANCE

By: \_\_\_\_\_  
City Administrator

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Bond Trustee

By: \_\_\_\_\_  
Authorized Officer

# Fixed Rate Loan Agreement

CITY OF TORRANCE

and

TORRANCE MEMORIAL MEDICAL CENTER

LOAN AGREEMENT

Dated as of September 1, 2010

relating to

[\$principal amount]  
CITY OF TORRANCE  
REVENUE BONDS  
(TORRANCE MEMORIAL MEDICAL CENTER),  
SERIES 2010A

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This LOAN AGREEMENT, dated as of September 1, 2010 (the “Loan Agreement”), between CITY OF TORRANCE, a municipal corporation and charter city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the “City”), and TORRANCE MEMORIAL MEDICAL CENTER, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Corporation”);

W I T N E S S E T H:

WHEREAS, the City is a municipal corporation and charter city duly organized and existing under a freeholders’ charter pursuant to which the City has the right and power to make and enforce all laws and regulations in respect to municipal affairs and certain other matters in accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and the charter of the City (together, the “Law”);

WHEREAS, the City Council of the City acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Article II, Section 6 of the Charter, has adopted the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the “Law”), and has therein authorized the provision of financial assistance to health facilities for the purposes and subject to the conditions described therein;

WHEREAS, the Corporation has requested has requested financial assistance from the City to refund on a current basis the City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center), Series 1992 (the “Prior Bonds”) and to finance a portion of the costs of constructing and equipping certain additions and improvements to its health care facilities located within the geographic boundaries of the City (as further defined herein, the “Project”);

WHEREAS, the City, after due investigation and deliberation, has authorized the issuance of its Revenue Bonds (Torrance Memorial Medical Center), Series 2010A (the “Bonds”), in an aggregate principal amount of [principal amount in words] (\$[principal amount]) for such purposes;

WHEREAS, the Corporation has requested the City to enter into this loan agreement specifying the terms and conditions of a loan by the City to the Corporation of the proceeds of the Bonds and of the payment by the Corporation to the City of the amounts required for the payment of the principal of, premium, if any, and interest on the Bonds and certain related expenses;

WHEREAS, pursuant to a master indenture of trust, dated as of June 1, 2001, and amended and restated as of September 1, 2010 (the “the Master Indenture”), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the “Master Trustee”), and a supplemental master indenture of trust, dated as of September 1, 2010, between the Corporation and the Master Trustee, the Corporation has issued its Obligation No. [x] to evidence the obligation of the Members to make payments sufficient to pay the principal of and interest on the Bonds;and

WHEREAS, the City and the Corporation have each duly authorized the execution, delivery and performance of this Loan Agreement;

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

## ARTICLE I

### DEFINITIONS; INTERPRETATION

Section 1.1. Definitions. Unless otherwise required by the context, all terms used herein shall have the meanings assigned to such terms in Section 1.01 of the Bond Indenture, dated as of September 1, 2010 (the "Bond Indenture") between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bond Trustee"), as originally executed and as amended or supplemented from time to time.

#### Section 1.2. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

Section 1.3. Content of Certificates and Opinions. Every certificate or opinion provided for herein with respect to compliance with any provision hereof shall include and be based on the information described in Section 1.02 of the Bond Indenture.

## ARTICLE II

### ISSUANCE OF BONDS AND OBLIGATION NO. [x]

Section 2.1. The Bonds. The City has authorized the issuance of the Bonds pursuant to the Bond Indenture in the aggregate principal amount of [principal amount in words] (\$[principal amount]). The Corporation hereby approves the Bond Indenture; the assignment thereunder to the Bond Trustee of the right, title and interest of the City (with certain exceptions, including but not limited to those set forth in Sections 3.2 and 5.5 hereof) in this Loan Agreement and Obligation No. [x]; and the issuance thereunder by the City of the Bonds. All rights accruing to or vested in the City with respect to Obligation No. [x] may be exercised by the Bond Trustee.

Section 2.2. Issuance of Obligation No. [x]. In consideration of the issuance of the Bonds by the City and the application of the proceeds thereof as provided in the Bond Indenture, the Corporation agrees to issue, and to cause to be authenticated and delivered to the City or its designee, pursuant to the Master Indenture and Supplement No. [x], concurrently with

the issuance and delivery of the Bonds, Obligation No. [x] in substantially the form set forth in Section 11 of Supplement No. [x]. The City agrees that Obligation No. [x] shall be registered in the name of the Bond Trustee. The Corporation agrees that the aggregate principal amount of Obligation No. [x] shall be limited to \$[principal amount], except for any Obligation No. [x] authenticated and delivered in lieu of another Obligation No. [x] as provided in Section 6 of Supplement No. [x] with respect to the mutilation, destruction, loss or theft of Obligation No. [x]. Issuance and delivery of the Bonds by the City shall be a condition of the issuance and delivery of Obligation No. [x].

Section 2.3. Restrictions on Number and Transfer of Obligation No. [x].

(a) The Corporation agrees that, except as provided in subsection (b) of this Section, so long as any Bond remains Outstanding, Obligation No. [x] shall be issuable only as a single obligation without coupons, registered as to principal and interest in the name of the Bond Trustee, and no transfer of Obligation No. [x] shall be registered under the Master Indenture or be recognized by the Corporation except for transfers to a successor Bond Trustee.

(b) Upon the principal of all the Master Indenture Obligations Outstanding (within the meaning of that term as used in the Master Indenture) being declared immediately due and payable, Obligation No. [x] may be transferred if and to the extent that the Bond Trustee requests that the restrictions of subsection (a) of this Section on transfers be terminated.

### ARTICLE III

#### LOAN OF PROCEEDS; PAYMENTS

Section 3.1. Loan of Proceeds; Payments of Principal, Premium and Interest. The City hereby loans and advances to the Corporation, and the Corporation hereby borrows and accepts from the City a loan in a principal amount equal to the aggregate principal amount of the Bonds, the net proceeds of which loan shall be equal to the net proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of this Loan Agreement and the Bond Indenture. In consideration of the loan of such proceeds to the Corporation, the Corporation agrees to pay, or cause to be paid, "Loan Repayments" in an amount sufficient to enable the Bond Trustee to make the transfers and deposits required at the times and in the amounts pursuant to Section 5.02 of the Bond Indenture. Each Loan Repayment shall be made in immediately available funds. Notwithstanding the foregoing, the Corporation agrees to make payments, or cause payments to be made, not later than the times and in the amounts required to be paid as principal or redemption price of and interest on the Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Except as otherwise expressly provided herein, all amounts payable hereunder by the Corporation to the City shall be paid to the Bond Trustee or other parties entitled thereto as assignee of the City and this Loan Agreement and all right, title and interest of the City in any such payments are hereby assigned and pledged to the Bond Trustee so long as any Bonds remain Outstanding.

Section 3.2. Additional Payments. In addition to Loan Repayments, the Corporation shall also pay to the City or the Bond Trustee, as the case may be, "Additional Payments," as follows:

(a) All taxes and assessments of any type or character charged to the City or to the Bond Trustee affecting the amount available to the City or the Bond Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Bond Trustee and taxes based upon or measured by the net income of the Bond Trustee; provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the City or the Bond Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the City or the Bond Trustee;

(b) All reasonable fees, charges, expenses and indemnities of the Bond Trustee hereunder and under the Bond Indenture, as and when the same become due and payable;

(c) The fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the City or the Bond Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Loan Agreement or the Bond Indenture; and

(d) All other reasonable and necessary fees and expenses attributable to the Bonds, this Loan Agreement, Obligation No. [x], or related documents, including without limitation all payments required pursuant to the Tax Agreement.

Such Additional Payments shall be billed to the Corporation by or upon direction of the City or the Bond Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid for one or more of the above items. After such a demand, amounts so billed shall be paid by the Corporation within thirty (30) days after receipt of the bill by the Corporation.

The obligations of the Corporation under this Section shall survive the resignation or removal of the Bond Trustee under the Bond Indenture and payment of the Bonds and discharge of the Bond Indenture.

Section 3.3. Credits for Payments. The Corporation shall receive credit against its payments required to be made under Section 3.1, in addition to any credits resulting from payment or repayment from other sources, as follows:

(a) On installments of interest in an amount equal to moneys deposited in the Interest Account, which amounts are available to pay interest on the Bonds, to the extent such amounts have not previously been credited against such payments;

(b) On installments of principal in an amount equal to moneys deposited in the Principal Account, which amounts are available to pay principal of the Bonds, to the extent such amounts have not previously been credited against such payments;

(c) On installments of principal and interest in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts (as determined by Section 10.03 of the Bond Indenture) in cash or United States Government Obligations are on deposit as provided in Section 10.03 of the Bond Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal and interest which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due; and

(d) On installments of principal and interest in an amount equal to the principal amount of Bonds acquired by the Corporation and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee on behalf of the Corporation and surrendered to the Bond Trustee for cancellation, and the interest on such Bonds from and after the date interest thereon has been paid prior to surrender and cancellation. Such credits shall be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

Section 3.4. Prepayment. The Corporation shall have the right, so long as all amounts which have become due hereunder have been paid, at any time or from time to time to prepay all or any part of the Loan Repayments and the City agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds, as contemplated by subsections 3.3(c) and (d). All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund (or in such other Bond Trustee escrow account as may be specified by the Corporation) and, at the request of and as determined by the Corporation, credited against payments due hereunder or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made hereunder remain unpaid, the Corporation shall not be relieved of its obligations hereunder.

Section 3.5. Obligations Unconditional. The obligations of the Corporation hereunder are absolute and unconditional, notwithstanding any other provision of this Loan Agreement, Supplement No. [x], Obligation No. [x], the Master Indenture or the Bond Indenture. Until this Loan Agreement is terminated and all payments hereunder are made, the Corporation:

(a) will pay all amounts required hereunder without abatement, deduction or setoff except as otherwise expressly provided in this Loan Agreement;

(b) will not suspend or discontinue any payments due hereunder for any reason whatsoever, including, without limitation, any right of setoff or counterclaim;

(c) will perform and observe all its other agreements contained in this Loan Agreement; and

(d) except as provided herein, will not terminate this Loan Agreement for any cause, including, without limiting the generality of the foregoing, damage, destruction or condemnation of its health facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California, or any political subdivision of either thereof or any failure of the City to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement. Nothing contained in this Section 3.5 shall be construed to release the City from the performance of any of the agreements on its part contained herein, and in the event the City should fail to perform any such agreement on its part, the Corporation may institute such action against the City as the Corporation may deem necessary to compel performance.

The rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the City, the Master Trustee or the Bond Trustee owing to the Corporation, or by reason of any other indebtedness or liability at any time owing by the City, the Master Trustee or the Bond Trustee to the Corporation.

Section 3.6. Condition Precedent. The obligation of the City to make the loan as herein provided shall be subject to the receipt by it of the proceeds of the issuance and sale of the Bonds.

#### ARTICLE IV

##### FINDINGS OF THE CITY; REPRESENTATIONS AND WARRANTIES OF CORPORATION

Section 4.1. Findings of the City. The City hereby finds and determines that (i) the loan to be made hereunder with the proceeds of the Bonds will promote the purposes of the Law by providing funds to finance or refinance indebtedness incurred for acquiring, constructing, rehabilitating or improving a health facility; and (ii) said loan is necessary, essential, in the public interest, serves a public purpose, promotes the health, welfare and safety of the citizens of the City of Torrance, constitutes a municipal affair, may be expected to result in lower charges or containment of the rate of increase in hospital rates and a saving to third parties, including government and to others who must pay for care and meets the requirements of the Law.

Section 4.2. Representations and Warranties of the Corporation. The Corporation represents and warrants to the City that, as of the date of execution of this Loan Agreement, as of the date of delivery of the Bonds to the initial purchasers thereof and as of the date of delivery of Obligation No. [x] to the Bond Trustee:

(a) The Corporation is a nonprofit public benefit corporation duly incorporated under the laws of the State of California, has full legal right, power and authority to

enter into this Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x] and to carry out and consummate all transactions contemplated hereby and thereby and by proper corporate action has duly authorized the execution, delivery and performance of this Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x].

(b) The officers of the Corporation executing this Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x] are duly and properly in office and fully authorized to execute the same.

(c) This Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x] have been duly authorized, executed and delivered by the Corporation.

(d) This Loan Agreement and Supplement No. [x], when assigned to the Bond Trustee pursuant to the Bond Indenture, will constitute, and Obligation No. [x] constitutes, the legal, valid and binding agreements of the Corporation, enforceable against the Corporation in accordance with their terms for the benefit of the Holders of the Bonds, and any rights of the City and obligations of the Corporation not so assigned to the Bond Trustee constitute the legal, valid, and binding agreements of the Corporation enforceable against the Corporation in accordance with their terms; except as enforcement may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought.

(e) The execution and delivery of this Loan Agreement, Supplement No. [x], Obligation No. [x] and the Master Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, will not conflict with or constitute a violation or breach of or default under the articles of incorporation of the Corporation, its bylaws or any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement or instrument to which the Corporation is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Loan Agreement, Obligation No. [x], Supplement No. [x] or the Master Indenture or the financial condition, assets, properties or operations of the Obligated Group taken as a whole.

(f) No consent or approval of any trustee or holder of any indebtedness of the Corporation or any Member of the Obligated Group and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Loan Agreement, Supplement No. [x], Obligation No. [x] or the Master Indenture or heretofore required for the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(g) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other

governmental authority, pending, or to the knowledge of the Corporation, after reasonable investigation, threatened, against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material adverse effect upon the consummation of the transactions contemplated by, or the validity of, this Loan Agreement, Obligation No. [x], Supplement No. [x] or the Master Indenture or upon the financial condition, assets, properties or operations of the Obligated Group taken as a whole, and the Corporation is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Loan Agreement, Obligation No. [x], Supplement No. [x] or the Master Indenture, or the financial condition, assets, properties or operations of the Obligated Group taken as a whole. All tax returns (federal, state and local) required to be filed by or on behalf of the Corporation have been filed, and all taxes shown thereon to be due, including interest and penalties, except such, if any, as are being actively contested by the Corporation, in good faith, have been paid or adequate reserves have been made for the payment thereof.

(h) The audited combined financial statements of the Corporation for the fiscal years ended December 31, 2009 and December 31, 2008 (copies of which, audited by KPMG LLP, independent public accountants, have been furnished to the City), fairly state the financial position of the Corporation at December 31, 2009 and December 31, 2008, and the results of operations of the Corporation for the years ended on such dates.

(i) No information, exhibit or report furnished to the City by the Corporation in connection with the negotiation of this Loan Agreement, Obligation No. [x] or Supplement No. [x] (including without limitation information concerning the Corporation or the Members in the Official Statement of the City for the Bonds) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(j) The Corporation and each Member which will use proceeds of the Bonds is an organization described in Section 501(c)(3) of the Code, is exempt from federal income tax under Section 501(a) of the Code (except for unrelated business income subject to taxation under Section 511 of the Code), and is not a private foundation as described in Section 509(a) of the Code.

(k) The Corporation and each Member which will use proceeds of the Bonds does not restrict use of its facilities on racial or religious grounds or on any other legally impermissible basis.

(l) The Corporation and the other Members have good title to their facilities free and clear from all encumbrances other than Permitted Encumbrances (as defined in the Master Indenture).

## ARTICLE V

## COVENANTS

Section 5.1. Prohibited Uses. No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building used or to be used (A) primarily for sectarian instruction or study or as a place for religious worship, or (B) by a Person that is not an organization described in Section 501(c)(3) of the Code (a “501c3 Organization”) or a Governmental Unit, or (C) by a 501c3 Organization (including the Corporation) in an “unrelated trade or business” (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code.

Section 5.2. Nonliability of the City. The City shall not be obligated to pay the principal of, premium, if any, or interest on the Bonds, except from payments received hereunder, under Obligation No. [x] and other Revenues. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of, premium or interest on the Bonds and the issuance of the Bonds shall not, directly, indirectly, or contingently, obligate the State of California or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment.

The Corporation hereby acknowledges that the City’s sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation hereunder and by the Obligated Group pursuant to Obligation No. [x] and other Revenues, together with amounts on deposit in, and investment income on, certain funds and accounts held by the Bond Trustee under the Bond Indenture, and hereby agrees that if the payments to be made hereunder and under Obligation No. [x] shall ever prove insufficient to pay all principal of, premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Bond Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Bond Trustee, the Master Trustee, the Obligated Group, the City or any third party.

Section 5.3. Expenses. The Corporation covenants and agrees to pay and to indemnify the City and the Bond Trustee against all costs and charges, including fees of attorneys, accountants, consultants and other experts, incurred in good faith and arising out of or in connection with the transactions contemplated hereby and by the Bond Indenture.

Section 5.4. Tax Covenant. The Corporation covenants and agrees that it will at all times do and perform all acts and things permitted by law, the Tax Agreement and this Loan Agreement which are necessary in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Corporation agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds. The Tax Agreement is

hereby incorporated by reference into this Loan Agreement as if the provisions thereof were set forth herein in full.

Section 5.5. Special Services Covenant. The Corporation shall maintain facilities providing health care services to residents within the territorial limits of the City of Torrance, as long as any Bonds remain Outstanding; provided, however, the City, upon review of such facts as it deems relevant, may, from time to time, allow the Corporation to provide alternative services which provide public benefit to the City of Torrance and its residents, or deem this special services covenant to be satisfied in whole or in part.

Section 5.6. Financial Statements, Reports and Other Information. On an annual basis, the Corporation shall furnish to the Bond Trustee the documents and items required to be provided to the Master Trustee pursuant to Section 3.10 of the Master Indenture. The Bond Trustee shall furnish such documents and items to the City upon written request in accordance with the Bond Indenture.

Section 5.7. Continuing Disclosure. So long as the Bonds are in a Daily Interest Rate Period, a Weekly Interest Rate Period or a Bond Interest Term, the Corporation shall have no continuing disclosure obligation hereunder. Otherwise, the Corporation hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement or the Master Indenture, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event or an Event of Default under the Master Indenture; however, the Bond Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least twenty-five percent (25%) aggregate principal amount in Outstanding Bonds, shall, upon being indemnified against all costs and expenses in a manner reasonably acceptable to the Bond Trustee) take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under this Section 5.7.

Section 5.8. Bond Indenture. The execution of this Loan Agreement shall constitute conclusive evidence of approval of the Bond Indenture by the Corporation. Whenever the Bond Indenture by its terms imposes a duty or obligation upon the Corporation, such duty or obligation shall be binding upon the Corporation to the same extent as if the Corporation were an express party to the Bond Indenture, and the Corporation shall carry out and perform all of its obligations under the Bond Indenture as fully as if the Corporation were a party to the Bond Indenture.

Section 5.9. Acquisition, Construction and Installation of the Project. The Corporation shall acquire, construct and install the Project or cause such Project to be acquired, constructed and installed. The Corporation hereby certifies and represents that the total amount of the loan hereunder shall not exceed the total cost of the Project. The Corporation has entered or will enter into purchase commitments and agreements which provide, in the aggregate, for the acquisition, installation and construction of the Project by such date and at a price which will permit completion of the Project for an amount not to exceed the amount of money deposited in the Project Fund and other available funds. The Corporation hereby grants to the City, until completion of the Project, all rights of access necessary for the City to carry out its obligations

and to enforce its rights hereunder. It is expressly understood and agreed that the City and the Bond Trustee shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project or any expense incurred in connection with the Project and that all such costs and expenses shall be paid by the Corporation. The acquisition, installation and construction of the Project shall be in accordance with all applicable zoning, planning and building regulations, and the Corporation shall obtain all necessary governmental permits, licenses, certificates, authorizations and approvals necessary to be obtained for the acquisition, installation, construction and operation of the Project.

Section 5.10. Disbursements from the Project Fund. Disbursements will be made from the Project Fund to pay the costs of the Project and subject to the terms and conditions set forth in the Bond Indenture. In the event that amounts in the Project Fund are not sufficient to pay the costs of the Project in full, the Corporation nevertheless shall complete or cause the completion of the Project and shall pay at its own expense all such costs of completing the Project in excess of amounts available in the Project Fund, from its own funds, without any diminution or postponement of any Loan Repayment or Additional Payment and without any right of reimbursement from the City or the Bond Trustee.

## ARTICLE VI

### EVENTS OF DEFAULT AND REMEDIES

Section 6.1. Events of Default. Each of the following events shall constitute and be referred to herein as a “Loan Default Event”:

(a) Failure by the Corporation to pay in full any payment required hereunder or of the Obligated Group to pay in full any payment required under Obligation No. [x] when due, whether on an interest payment date, at maturity, upon a date fixed for prepayment, by declaration, upon tender of the Bonds for purchase pursuant to the Bond Indenture, or otherwise pursuant to the terms hereof or thereof;

(b) If any material representation or warranty made by the Corporation herein or made by the Corporation or any Obligated Group Member in any document, instrument or certificate furnished to the Bond Trustee or the City in connection with the issuance of Obligation No. [x] or the Bonds shall at any time prove to have been incorrect in any respect as of the time made;

(c) If the Corporation shall fail to observe or perform any other covenant, condition, agreement or provision in this Loan Agreement on its part to be observed or performed, or shall breach any warranty by the Corporation herein contained, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the City or the Bond Trustee; except that, if such failure or breach can be remedied but not within such sixty-day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty-day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Bond Trustee;

- (d) Any Event of Default as defined in and under the Bond Indenture; or
- (e) Any Event of Default as defined in and under the Master Indenture.

Section 6.2. Remedies on Default. If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Bond Trustee on behalf of the City, at the direction of or with the consent of the Credit Facility Provider, but subject to the limitations in the Bond Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due hereunder, to enforce performance and observance of any obligation or agreement of the Corporation hereunder or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given hereby or available hereunder or given by or available under any other instrument of any kind securing the Corporation's performance hereunder;

(b) By written notice to the Corporation declare all Loan Repayments and Additional Payments to be immediately due and payable under this Loan Agreement, whereupon the same shall become immediately due and payable; and

(c) Take any action at law or in equity to collect the payment required hereunder then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Corporation hereunder.

Section 6.3. Discontinuance or Abandonment of Default Proceedings. If any proceeding taken by the Bond Trustee on account of any Loan Default Event shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Bond Trustee, then and in every case the City, the Bond Trustee and the Corporation shall be restored to their former position and rights hereunder, respectively, and all rights, remedies and powers of the City and the Bond Trustee shall continue as though no such proceeding had taken place.

Section 6.4. Remedies Cumulative. No remedy conferred upon or reserved to the City or the Bond Trustee hereby or now or hereafter existing at law or in equity or by statute, shall be exclusive but shall be cumulative with all others. Such remedies are not mutually exclusive and no election need be made among them, but any such remedy or any combination of such remedies may be pursued at the same time or from time to time so long as all amounts realized are properly applied and credited as provided herein. No delay or omission to exercise any right or power accruing upon any Loan Default Event shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient by the City or the Bond Trustee. In the event of any waiver of a Loan Default Event hereunder, the parties shall be restored to their former positions and rights hereunder, but no such waiver shall extend to any other or subsequent Loan Default Event or impair any right arising as a result thereof. In order to entitle the Bond Trustee to exercise any remedy reserved to it, it shall not be necessary to give notice other than as expressly required herein. To the extent that this Loan Agreement confers upon or gives or

grants the Bond Trustee any right, remedy or claim under or by reason of this Loan Agreement, the Bond Trustee is hereby explicitly recognized as a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted.

Section 6.5. Application of Moneys Collected. Any amounts collected pursuant to action taken under this Article shall be applied in accordance with the provisions of Article VII of the Bond Indenture and to the extent applied to the payment of amounts due on the Bonds shall be credited against amounts due on Obligation No. [x].

Section 6.6. Attorneys' Fees and Other Expenses. If, as a result of the occurrence of a Loan Default Event, the City or the Bond Trustee employs attorneys or incurs other expenses for the collection of payments due hereunder or for the enforcement of performance or observance of any obligation or agreement on the part of the Corporation, the Corporation will, on demand, reimburse the City or the Bond Trustee, as the case may be, for the fees of such attorneys and such other expenses so incurred.

Section 6.7. Notice of Default. The Corporation agrees that, as soon as is practicable, and in any event within five (5) days, the Corporation will furnish the Bond Trustee and the Credit Facility Provider notice of any event which is a Loan Default Event pursuant to Section 6.1 which has occurred and is continuing on the date of such notice, which notice shall set forth the nature of such event and the action which the Corporation proposes to take with respect thereto; provided, however, that with respect to a Loan Default Event pursuant to Section 6.1(a), the Bond Trustee shall give the Corporation immediate telephonic notice on the date such default occurs.

## ARTICLE VII

### MISCELLANEOUS

Section 7.1. Amendments and Supplements. This Loan Agreement may be amended, changed or modified only as provided in Section 6.08 of the Bond Indenture.

Section 7.2. Time of the Essence; Nonbusiness Days. Time shall be of the essence of this Loan Agreement. When any action is provided for herein to be done on a day named or within a specified time period, and the day or the last day of the period falls on a day other than a Business Day, such action may be performed on the next ensuing Business Day with the same effect as though performed on the appointed day or within the specified period.

Section 7.3. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon the City and the Corporation and their respective successors and assigns, subject to the limitations contained herein; provided, however, that the Bond Trustee shall have only such duties and obligations as are expressly given to it hereunder.

Section 7.4. Entire Agreement. This Loan Agreement, together with all agreements and documents incorporated by reference herein, constitutes the entire agreement of the parties and is not subject to modification, amendment, qualification or limitation except as expressly provided herein.

Section 7.5. Severability. If any covenant, agreement or provision, or any portion thereof contained in this Loan Agreement, where the application thereof to any Person or circumstance is held to be unconstitutional, invalid or unenforceable, the remainder of this Loan Agreement and the application of such covenant, agreement or provision, or portion thereof, to other Persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Loan Agreement shall remain valid, and the Bondholders shall retain all valid rights and benefits accorded to them under this Loan Agreement and the Constitution and laws of the State of California.

Section 7.6. Notices.

(a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be deemed sufficiently given or served if given by confirmed facsimile transmission or in writing, mailed by first-class mail, postage prepaid and addressed as follows:

(1) to the City at:

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503  
Attention: City Manager  
Telephone:  
Fax:

(2) to the Corporation at:

Torrance Memorial Medical Center  
3330 W. Lomita Blvd,  
Torrance, California 90505  
Attention: Chief Financial Officer  
Telephone:  
Fax:

(3) to the Bond Trustee at:

(b) The Corporation, the City, or the Bond Trustee may at any time and from time to time by notice in writing to the other Persons listed in Section 7.6(a) designate a different address or addresses for notice under this Loan Agreement.

Section 7.7. Term. Except as otherwise provided herein this Loan Agreement shall remain in full force and effect from the date of execution hereof until no Bonds remain Outstanding under the Bond Indenture and all payments required hereunder have been made.

Section 7.8. Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 7.9. Governing Law. This Loan Agreement shall be governed by and construed according to the laws of the State of California applicable to contracts made and performed within such State.

Section 7.10. Waiver of Personal Liability. No City Council member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal (or redemption price) of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the execution and delivery of this Loan Agreement; but nothing herein contained shall relieve any such City Council member, officer, agent or employee from the performance of any official duty provided by law or by this Loan Agreement.

IN WITNESS WHEREOF, the City and the Corporation have each caused this Loan Agreement to be executed in their respective names as of the date first written above.

CITY OF TORRANCE

By: \_\_\_\_\_  
City Administrator

TORRANCE MEMORIAL MEDICAL CENTER

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

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## Fixed Rate Official Statement Front

SSD DRAFT 07/13/10

## PRELIMINARY OFFICIAL STATEMENT DATED AUGUST \_\_, 2010

NEW ISSUE - BOOK-ENTRY ONLY

Ratings: S&P: \_\_  
Moody's: \_\_  
See "RATINGS" herein

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel expresses no opinion regarding whether such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income or any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds. See "TAX MATTERS" herein.*

**[\$140,000,000]\***  
**City of Torrance**  
**Revenue Bonds**  
**(Torrance Memorial Medical Center),**  
**Series 2010A**

**Dated: Date of Delivery****Due: September 1, as set forth on the inside cover hereof**

The City of Torrance Revenue Bonds (Torrance Memorial Medical Center), Series 2010A (the "Series 2010A Bonds"), are limited obligations of the City of Torrance, California (the "City") secured under the provisions of a Bond Indenture, dated as of September 1, 2010 (the "Bond Indenture"), between the City and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"), and a Loan Agreement, dated as of September 1, 2010 (the "Loan Agreement"), between the City and Torrance Memorial Medical Center (the "Corporation"), all as described herein, and will be payable from Loan Repayments made by the Corporation under the Loan Agreement and from certain funds held under the Bond Indenture. The obligation of the Corporation to make such payments will also be secured by the issuance of Obligation No. 2 under the Master Indenture, as more fully described herein, pursuant to which the Corporation and any future Members of the Obligated Group (collectively, the "Obligated Group"), jointly and severally, are obligated to make payments on Obligation No. 2 in an amount sufficient to pay principal of and premium, if any, and interest on the Series 2010A Bonds when due. See "SECURITY FOR THE SERIES 2010A BONDS" herein. As of the date hereof, the Corporation is the only Member of the Obligated Group.

The Series 2010A Bonds will mature and bear interest at the rates set forth on the inside cover payable on March 1, 2011 and semiannually thereafter on each September 1 and March 1 until maturity or earlier redemption. The proceeds of the Series 2010A Bonds will be applied by Corporation to (1) finance or reimburse certain capital expenditures with respect to its health care facilities; and (2) to pay costs of issuance of the Series 2010A Bonds. See "PLAN OF FINANCING" herein.

The Series 2010A Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") under the book-entry only system maintained by DTC. So long as Cede & Co. is the registered owner of the Series 2010A Bonds, the principal of and premium, if any, and interest on the Series 2010A Bonds will be payable by the Bond Trustee to DTC, which will in turn remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Series 2010A Bonds, as described herein. See APPENDIX F—"BOOK-ENTRY ONLY SYSTEM" attached hereto. Investment in the Series 2010A Bonds will be available in denominations of \$5,000 and integral multiples thereof.

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\* Preliminary, subject to change.

The Series 2010A Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein under the caption “THE SERIES 2010A BONDS — Redemption.”

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SEE MATURITY SCHEDULE ON INSIDE FRONT COVER

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THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 2 AND THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2010A BONDS, NOR WILL THE SERIES 2010A BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

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This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are instructed to read the entire Official Statement to obtain information essential to making an informed investment decision. An investment in the Series 2010A Bonds involves certain risks. See “BONDHOLDERS’ RISKS” herein.

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*The Series 2010A Bonds are offered when, as and if issued and received by the Underwriters subject to prior sale and to the approval of validity and certain other legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Certain other matters will be passed upon for the City by its counsel, [City discussing], for the Corporation by its counsel, McDermott Will & Emery LLP, and for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P. It is expected that the Series 2010A Bonds in definitive form will be available for delivery through the facilities of DTC on or about September \_\_, 2010.*

**CITI**

**J.P. MORGAN**

**Dated: September \_\_, 2010**

**MATURITY SCHEDULE\*****\$(140,000,000)****\$ \_\_\_\_\_ Serial Bonds**

<b>Maturity Dates (September 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP<sup>(1)</sup></b>
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\$ \_\_\_\_\_ % Term Bonds due September, \_\_\_\_\_ – Yield \_\_\_\_\_ % CUSIP<sup>(1)</sup>  
 \$ \_\_\_\_\_ % Term Bonds due September, \_\_\_\_\_ – Yield \_\_\_\_\_ % CUSIP<sup>(1)</sup>

\* Preliminary, subject to change.

<sup>(1)</sup> Copyright 2010, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the City or the Corporation and are included solely for the convenience of the holders of the Series 2010A Bonds. Neither the City nor the Corporation is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2010A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Series 2010A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2010A Bonds.

This Official Statement does not constitute an offer to sell the Series 2010A Bonds or the solicitation of an offer to buy the Series 2010A Bonds, nor shall there be any sale of the Series 2010A Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Series 2010A Bonds and, if given or made, such information or representation must not be relied upon. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with and as part of its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information relating to the City set forth herein under the captions “THE CITY OF TORRANCE” and “ABSENCE OF MATERIAL LITIGATION—The City” has been furnished by the City and the information relating to DTC and the book-entry system set forth in APPENDIX F—“BOOK-ENTRY ONLY SYSTEM” has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters or the Corporation. All other information set forth herein has been obtained from the Corporation and other sources (other than the City) that are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by and is not to be construed as a representation by the City or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale of Series 2010A Bonds made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the City, the Corporation or DTC since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2010A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010A BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2010A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE BOND INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2010A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH SERIES 2010A BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2010A BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT.

**CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions “INTRODUCTION—Plan of Financing” and “PLAN OF FINANCING” in the forepart of this Official Statement and the statements contained in APPENDIX A—“INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—[\_\_\_\_\_].”

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.



## OFFICIAL STATEMENT

**§[140,000,000]\***  
**CITY OF TORRANCE**  
**REVENUE BONDS**  
**(TORRANCE MEMORIAL MEDICAL CENTER),**  
**SERIES 2010A**

### INTRODUCTION

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein or in APPENDIX C have the same meaning as in the Master Indenture or the Bond Indenture (each as defined below).

#### **Purpose of this Official Statement**

This Official Statement is provided to furnish information in connection with the offering of the §[140,000,000]\* City of Torrance Revenue Bonds (Torrance Memorial Medical Center), Series 2010A (the "Series 2010A Bonds"). The Series 2010A Bonds will be issued in accordance with the provisions of the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the "Bond Law"), and will be issued and delivered pursuant to and secured by the Bond Indenture, dated as of September 1, 2010 (the "Bond Indenture"), between the City of Torrance, California (the "City") and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"). The proceeds of the sale of the Series 2010A Bonds will be loaned to the Corporation pursuant to a Loan Agreement, dated as of September 1, 2010 (the "Loan Agreement"), between the City and Torrance Memorial Medical Center (the "Corporation").

#### **The Corporation and the Obligated Group**

The Corporation is a nonprofit public benefit corporation incorporated under the laws of the State of California. [*SSD to add brief summary paragraph based on completed Appendix A*]. See APPENDIX A--"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER."

The Corporation is currently the only member of the Obligated Group created under the Master Indenture (as defined herein). Additional Members may join the Obligated Group and Members may withdraw from the Obligated Group, upon compliance with the terms of the Master Indenture. The Corporation and any future Members of the Obligated Group are collectively referred to herein as the "Obligated Group," "Members" or "Members of the Obligated Group."

#### **Security**

The Series 2010A Bonds are limited obligations of the City and are payable solely from Revenues, which consist primarily of payments by the Corporation received by the Bond Trustee as Loan Repayments (as defined herein) under the Loan Agreement, and from certain funds held by the Bond

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\* Preliminary, subject to change.

Trustee under the Bond Indenture. Pursuant to the Loan Agreement, the Corporation agrees to make the Loan Repayments to the Bond Trustee in an amount sufficient to pay the principal of, premium, if any and interest on the Series 2010A Bonds, when due, and to pay certain other fees and expenses. To secure the Corporation's obligations under the Loan Agreement, the Corporation will issue Obligation No. 2 ("Obligation No. 2") under the Master Indenture (defined below) to the Bond Trustee.

The Corporation's obligations under the Loan Agreement will be secured by Obligation No. 2 issued under and pursuant to the Master Indenture of Trust, dated as of June 1, 2001 (the "Original Master Indenture"), as amended and restated by the Amended and Restated Master Indenture of Trust, dated as of September 1, 2010 (the "Amended and Restated Master Indenture," and as supplemented and amended from time to time, the "Master Indenture"), between The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the "Master Trustee") and the Corporation, including as supplemented by the Supplemental Master Indenture for Obligation No. 2, dated as of September 1, 2010 ("Supplement No. 2"), between the Corporation and the Master Trustee. The Corporation and any future Member(s) of the Obligated Group are jointly and severally obligated to make payments on Obligation No. 2, when due. Obligation No. 2 entitles the Bond Trustee, as the holder of Obligation No. 2, to the protection of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. Under the Master Indenture, the Corporation, as the Obligated Group Representative and acting on behalf of the Obligated Group, may execute and deliver obligations (each, an "Obligation" and collectively, the "Obligations") to evidence or secure Indebtedness or for other purposes. All Obligations issued under the Master Indenture, including Obligation No. 2, are the joint and several obligations of the Corporation and any future Members of the Obligated Group and are secured by a security interest in the Gross Receivables of the Obligated Group. For additional information regarding the Master Indenture, Supplement No. 2 and Obligation No. 2, see "SECURITY FOR THE SERIES 2010A BONDS—The Master Indenture" herein and APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE."

*Except for the security interest granted to the Master Trustee by the Obligated Group in Gross Receivables described below under "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010A BONDS—The Master Indenture—Security Interest in Gross Receivables," the Series 2010A Bonds are not secured by a reserve fund or a mortgage of or security interest in any real or personal property of any Members of the Obligated Group.* Pursuant to the Master Indenture, the Obligated Group agrees that it will not create, assume or suffer to exist, any Lien upon its Property, including Gross Receivables, other than Permitted Encumbrances, unless all Obligations will be secured prior to any Indebtedness or other obligation secured by such Lien. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010A BONDS—The Master Indenture" herein and APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE."

#### **Consent to Amendments to Original Master Indenture by Purchase of Series 2010A Bonds**

*Holders and Beneficial Owners of the Series 2010A Bonds are deemed by their purchase of the Series 2010A Bonds: (i) to have consented to certain amendments to the Original Master Indenture, which are contained in the Amended and Restated Master Indenture and which are summarized in APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE" and (ii) to have directed the Bond Trustee, as holder of Obligation No. 2, to consent to the Amended and Restated Master Indenture. The Amended and Restated Master Indenture will become effective upon issuance of the Series 2010A Bonds.*

### **Additional 2010 Obligations, Obligation No. 1 and Other Indebtedness**

Simultaneously with the issuance of the Series 2010A Bonds, the Corporation has asked the City to issue its \$[60,000,000]\* Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B (the "Series 2010B Bonds") and its \$[34,800,000]\* Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010C (the "Series 2010C Bonds" and together with the Series 2010A Bonds and the Series 2010B Bonds, the "Series 2010 Bonds"). Each series of the Series 2010 Bonds will be sold pursuant to a separate bond purchase agreement, and pursuant to each, the sale and issuance of any series of Series 2010 Bonds will not be conditioned upon the sale and issuance of any other series of Series 2010 Bonds. The Series 2010B Bonds and the Series 2010C Bonds will each be secured by a separate Obligation, each issued and secured under the Master Indenture ("Obligations No. 3" and "Obligation No. 5," respectively). In addition, the Series 2010B Bonds and the Series 2010C Bonds will be supported initially by a separate irrevocable letter of credit issued by Citibank, N.A. and J.P. Morgan Chase Bank, N.A., respectively (together the "2010 Letter of Credit Banks"). The Corporation's reimbursement obligations to the 2010 Letter of Credit Banks with respect to such letters of credit will also each be secured by a separate Obligation, each issued and secured under the Master Indenture ("Obligation No. 4" and "Obligation No. 6" and together the "2010 Bank Obligations"). Obligation No. 3, Obligation No. 4, Obligation No. 5 and Obligation No. 6 are collectively referred to herein as the "Additional 2010 Obligations." The Series 2010B Bonds and the Series 2010C Bonds are being issued for the purposes discussed under the heading "PLAN OF FINANCING," which include refunding of the Series 1992 Bonds (as described thereunder). In addition, the City has previously issued its \$65,000,000 original principal of its Hospital Revenue Bonds (Torrance Memorial Medical Center), Series 2001A (the "Series 2001A Bonds"), which are currently outstanding in the aggregate principal amount of \$[ ] and which are secured by Obligation No. 1 issued under the Master Indenture (the "Obligation No. 1").

Following the issuance of the Series 2010 Bonds and the refunding of the Series 1992 Bonds (as more fully described herein), the Corporation will have \$\_\_\_\_\_ of Long-Term Indebtedness Outstanding, which is the sum of the aggregate principal amount of the Series 2010 Bonds and the outstanding Series 2001A Bonds.

### **Limited Obligation of the City**

THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 2 AND THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2010A BONDS, NOR WILL THE SERIES 2010A BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

### **Plan of Financing**

The proceeds of the Series 2010A Bonds will be applied by Corporation to (1) finance and reimburse certain capital expenditures with respect to its health care facilities; and (2) to pay costs of issuance of the Series 2010A Bonds. See "PLAN OF FINANCING" herein for a more full description of the plan of finance, including a discussion of the planned use of the proceeds of the Series 2010B Bonds and the Series 2010C Bonds.

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\* Preliminary, subject to change.

### **Continuing Disclosure**

Pursuant to Rule 15(c)2-12 promulgated by the Securities and Exchange Commission (the “Rule”), the Corporation, on behalf of the Obligated Group, will enter into a Continuing Disclosure Agreement for the benefit of the Holders of the Series 2010A Bonds to provide certain information annually and quarterly and to provide notice of certain events to the Municipal Securities Rulemaking Board, as described under “CONTINUING DISCLOSURE AGREEMENT” herein and in APPENDIX E hereto.

### **Bondholders’ Risks**

There are risks associated with the purchase of the Series 2010A Bonds. See the information under the heading “BONDHOLDERS’ RISKS” herein for a discussion of certain of these risks.

### **Availability of Documents**

The descriptions and summaries of various documents set forth in this Official Statement do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions hereof. All such summaries herein are qualified by reference to each such document in its entirety and are further qualified in their entirety by reference to laws and principles of equity and bankruptcy and other laws relating to or affecting the enforceability of creditors’ rights. Further descriptions of the Master Indenture, Supplement No. 2, the Bond Indenture and the Loan Agreement are set forth in APPENDIX C hereto. All references herein to the Series 2010A Bonds, Obligation No. 2, the Master Indenture, Supplement No. 2, the Continuing Disclosure Agreement, the Bond Indenture and the Loan Agreement are qualified in their entirety by such documents, copies of which are available from the Underwriters prior to the issuance of the Series 2010A Bonds and thereafter may be examined or obtained at the expense of the person requesting the same at the corporate trust office of the Bond Trustee in Los Angeles, California. Information relating to The Depository Trust Company (“DTC”) and the book-entry only system has been furnished by DTC.

## **THE CITY OF TORRANCE**

### **- General**

The City was founded in 1912 and incorporated in 1921. The City, which currently covers an area of approximately 21 square miles, is located in southwestern Los Angeles County, approximately 20 miles southwest of downtown Los Angeles.

The City is organized and exists under a charter (the “Charter”) pursuant to which the City has the right and power to make and enforce all laws and regulations with respect to municipal affairs and certain other matters in accordance with provisions of the California Constitution.

The City uses a Council-Mayor form of government. The City Council consists of seven members, including the Mayor. The City Council appoints the City Manager, who leads the executive branch of City government and is responsible for the administration of various City departments.

### **Authority to Issue Bonds; Limited Obligations**

The City Council, acting under and pursuant to the powers reserved to the City under the Constitution of the State of California and the Charter, has enacted the Bond Law, which establishes a procedure for the authorization, issuance and sale of revenue bonds by the City for the purpose (among others) of making loans to provide financing for health facilities located within its boundaries.

THE SERIES 2010A BONDS, WHICH ARE ISSUED IN ACCORDANCE WITH THE BOND LAW, ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 2 AND THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2010A BONDS, NOR WILL THE SERIES 2010A BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

## **PLAN OF FINANCING**

### **The Series 2010A Bonds**

The proceeds of the Series 2010A Bonds will be applied by Corporation to (1) finance and reimburse certain capital expenditures with respect to its health care facilities; and (2) to pay costs of issuance of the Series 2010A Bonds.

See “SOURCES AND USES OF FUNDS” herein. See also APPENDIX A—“INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—[FACILITIES]” for a more detailed description of the Corporation’s [expansion and modernization program].

### **The Series 2010B Bonds and Series 2010C Bonds**

Simultaneously with the issuance of the Series 2010A Bonds, the City is issuing the Series 2010B Bonds and Series 2010C Bonds. Each series of the Series 2010 Bonds will be sold pursuant to a separate bond purchase agreement, and pursuant to each, the sale and issuance of any series of Series 2010 Bonds will not be conditioned upon the sale and issuance of any other series of Series 2010 Bonds. The proceeds of the Series 2010B Bonds will be applied by the Corporation (1) to finance and reimburse certain capital expenditures with respect to its health care facilities; (2) to pay capitalized interest on the Series 2010B Bonds; and (3) to pay costs of issuance of the Series 2010B Bonds. The proceeds of the Series 2010C Bonds will be applied by the Corporation (1) to refund on a current basis the City’s outstanding Hospital Revenue Bonds (Little Company of Mary Hospital - Torrance Memorial Medical Center), Series 1992 (the “Series 1992 Bonds”), currently outstanding in the aggregate principal amount of \$34,800,000, and (2) to pay costs of issuance of the Series 2010C Bonds.

See “SOURCES AND USES OF FUNDS” herein. See also APPENDIX A—“INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—[FACILITIES]” for a more detailed description of the Corporation’s [expansion and modernization program].

**SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of proceeds of the Series 2010 Bonds:

	Series 2010A Bonds <sup>(1)</sup>	Series 2010B Bonds <sup>(1)</sup>	Series 2010C Bonds <sup>(1)</sup>	Total
<b>Sources of Proceeds</b>				
Principal Amount				
Original Issue Premium/Discount				
<b>Total Sources</b>				
<b>Uses of Proceeds</b>				
Deposits to Project Funds				
Refunding of Series 1992 Bonds				
Costs of Issuance <sup>(2)</sup>				
<b>Total Uses</b>				

<sup>(1)</sup> Each series of the Series 2010 Bonds will be sold pursuant to a separate bond purchase agreement, and pursuant to each, the sale and issuance of any series of Series 2010 Bonds will not be conditioned upon the sale and issuance of any other series of Series 2010 Bonds.

<sup>(2)</sup> Includes proceeds applied for the payment of legal and accounting fees, Underwriters' discount, printing costs, rating agency fees and miscellaneous other costs of issuance.

**ANNUAL DEBT SERVICE REQUIREMENTS\***

The following table sets forth the amounts to be required in each [Fiscal Year ending December 31] for the payment of interest when due and of principal at maturity or upon mandatory sinking fund redemption for the Series 2010A Bonds, the Series 2010B Bonds, the Series 2010C Bonds, the Series 2010D Bonds and the Series 2001A Bonds, and assumes the refunding of the Series 1992 Bonds occurs simultaneously with the issuance of the Series 2010 Bonds.

[Fiscal Year] Ending [December 31],	Series 2010A Bonds		Series 2010B Bonds		Series 2010C Bonds		Series 2001A Bonds		Estimated Total Long-Term Debt Service <sup>(2)(5)</sup>
	Principal <sup>(1)</sup>	Interest	Total Debt Service <sup>(2)</sup>	Total Debt Service <sup>(2)</sup>	Total Debt Service <sup>(2)</sup>	Total Debt Service <sup>(1)</sup>			
2009									
2010									
2011									
2012									
2013									
2014									
2015									
2016									
2017									
2018									
2019									
2020									
2021									
2022									
2023									
2024									
2025									
2026									
2027									
2028									
2029									
2030									
2031									
2032									
2033									
2034									
2035									
2036									
2037									
2038									
2039									
2040									
<b>TOTAL</b>									

<sup>(1)</sup> Includes mandatory sinking fund redemption.

<sup>(2)</sup> [To Come - assumption regarding variable rate interest rate]

<sup>(3)</sup> Assumes that the Series 1992 Bonds are redeemed with a portion of the proceeds of the Series 2010C Bonds. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

\*Preliminary, subject to change.

## THE SERIES 2010A BONDS

### General

The Series 2010A Bonds will mature in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The Series 2010A Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2010A Bonds.

### Description of Terms of Series 2010A Bonds

The Series 2010A Bonds will be dated the date of delivery, and will bear interest at the rates set forth on the inside cover page of this Official Statement. Interest on the Series 2010A Bonds will be payable on March 1, 2011 and semiannually thereafter on March 1 and September 1 of each year until maturity or redemption, to the persons whose names appear on the registration books of the Bond Trustee as the Holders thereof as of the 15th day of the month immediately preceding such interest payment date (each, a “Record Date”) (except with respect to interest in default, for which a special record date shall be established). The Series 2010A Bonds are issuable in the denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2010A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

So long as Cede & Co. is the registered owner of the Series 2010A Bonds, the principal of and premium, if any and interest on the Series 2010A Bonds is payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to Participants for subsequent delivery to the Beneficial Owners. See APPENDIX F—“BOOK-ENTRY ONLY SYSTEM.” If the book-entry system for the Series 2010A Bonds is ever discontinued, payment of interest on the Series 2010A Bonds will be made by check mailed on each interest payment date to each Holder at its address as it appears on the bond registration books, or at the written request of any Holder of at least \$1,000,000 in aggregate principal amount of Series 2010A Bonds received prior to the Record Date for such interest payment date, by wire transfer to a bank account or number located within the United States of America designated by the Holder to the Bond Trustee for such purpose. Payment of the principal of and premium, if any, on the Series 2010A Bonds will then be payable upon presentation and surrender thereof at the principal corporate trust office of the Bond Trustee.

## Redemption\*

**Optional Redemption.** The Series 2010A Bonds maturing on or after September 1, \_\_\_\_, are subject to redemption prior to their respective stated maturities, at the option of the City (which shall be exercised upon the written request of the Corporation), in whole or in part, from any source of available funds, on any date (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturities, and by lot within each maturity) on or after September 1, \_\_\_\_, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

**Mandatory Sinking Account Redemption.** The Series 2010A Bonds maturing on September 1, \_\_\_\_ are subject to redemption prior to their respective maturities in part (by lot) prior to their stated maturity from the Mandatory Sinking Account Payments set forth below at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Account Payment Dates	Sinking Account Payments
---	-----------------------------

† Maturity

The Series 2010A Bonds maturing on September 1, \_\_\_\_ are subject to redemption prior to their respective maturities in part (by lot) prior to their stated maturity from the Mandatory Sinking Account Payments set forth below at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Account Payment Dates	Sinking Account Payments
---	-----------------------------

† Maturity

**Extraordinary Redemption.** The Series 2010A Bonds are also subject to redemption prior to their respective stated maturities, at the option of the City (which shall be exercised upon the written request of the Corporation), as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of

\* Preliminary, subject to change.

maturities, and by lot within each maturity) from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Redemption Fund, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

**Notice of Redemption.** Notice of redemption will be mailed by first class mail, postage prepaid, by the Bond Trustee not less than 20 days and not more than 60 days prior to the redemption date to the respective Holders of any Series 2010A Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. Each notice of redemption shall state the date of such notice, the date of issue of the Series 2010A Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Series 2010A Bonds of such maturity, to be redeemed and, in the case of Series 2010A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on such date there will become due and payable on each of such Series 2010A Bonds the redemption price thereof or of such specified portion of the principal amount thereof in the case of a Series 2010A Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue and be payable, and shall require that such Series 2010A Bonds be then surrendered at the address or addresses of the Bond Trustee specified in the redemption notice.

Any notice of optional redemption given pursuant to the Bond Indenture may be rescinded by written notice given to the Bond Trustee by the Corporation no later than five Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given pursuant to the Bond Indenture.

Failure by the Bond Trustee to give notice of redemption pursuant to the Bond Indenture to any one or more of the respective Holders of any Series 2010A Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holder or Holders to whom such notice was given.

**Selection of Bonds for Redemption.** Whenever provision is made in the Bond Indenture for the redemption of less than all of the Series 2010A Bonds or any given portion thereof, the Bond Trustee shall select the Series 2010A Bonds to be redeemed, from all Series 2010A Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Bond Trustee in its sole discretion shall deem appropriate and fair; provided however that in such instances as provided for herein where the Corporation is to specify the amount or maturities of Series 2010A Bonds to be redeemed the Bond Trustee shall redeem Series 2010A Bonds in accordance with any such specification.

**Effect of Redemption.** Notice of redemption having been duly given as provided in the Bond Indenture, and moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the Series 2010A Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Series 2010A Bonds (or portions thereof) so called for redemption shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, interest on the Series 2010A Bonds so called for redemption shall cease to accrue, such Series 2010A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Bond Indenture, and the Holders of such Series 2010A Bonds shall have no rights in respect thereof except to receive payment of such redemption price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

## SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010A BONDS

### General

The principal of and premium, if any, and interest on the Series 2010A Bonds are limited obligations of the City and payable solely from Revenues (as defined in the Bond Indenture), which consist primarily of payments required to be paid by the Corporation to the City under the Loan Agreement (the “Loan Repayments”), and from certain funds held under the Bond Indenture (other than the Rebate Fund). In the Loan Agreement, the Corporation agrees to make payments to the City which, in the aggregate, are required to be in an amount sufficient for the payment of the principal of and premium, if any, and interest on the Series 2010A Bonds, when due. Under the Bond Indenture, the City will assign its right, title and interest in the Loan Agreement (except for the right to receive any Administrative Fees and Expenses payable to the City). The obligation of the Corporation to pay the principal of and premium, if any, and interest on the Series 2010A Bonds is also secured by Obligation No. 2 issued under the Master Indenture, as described below.

THE SERIES 2010A BONDS, WHICH ARE ISSUED IN ACCORDANCE WITH THE BOND LAW, ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 2 AND THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2010A BONDS, NOR WILL THE SERIES 2010A BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

### The Master Indenture

*Consent to Amendments to Original Master Indenture by Purchase of Series 2010A Bonds. Holders and Beneficial Owners of the Series 2010A Bonds are deemed by their purchase of the Series 2010A Bonds: (i) to have consented to certain amendments to the Original Master Indenture, which are contained in the Amended and Restated Master Indenture and which are summarized in APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE” and (ii) to have directed the Bond Trustee, as holder of Obligation No. 2, to consent to the Amended and Restated Master Indenture. The Amended and Restated Master Indenture will become effective upon issuance of the Series 2010A Bonds.*

**General.** The Master Indenture imposes certain covenants and restrictions on the Members of the Obligated Group for the benefit of the holders of all Obligations, including the Bond Trustee as holder of Obligation No. 2 securing the Series 2010A Bonds. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.” These covenants include, among others, the following.

**Joint and Several Obligations.** Obligation No. 2 will be issued at the time of delivery of the Series 2010A Bonds under and pursuant to the Master Indenture and will be secured under the Master Indenture on a parity with the Obligation No. 1, the Additional 2010 Obligations and any additional Obligations subsequently issued thereunder by any Member of the Obligated Group. All Members of the Obligated Group are required to make payments on Obligation No. 2 in an amount sufficient to pay the principal of and premium, if any, and interest on the Series 2010A Bonds. Under the Master Indenture, the Corporation, as the Obligated Group Representative and acting on behalf of the Obligated Group, may execute and deliver additional Obligations to evidence or secure additional Indebtedness or for other purposes.

Under the Master Indenture, each Member of the Obligated Group is jointly and severally liable to pay all Obligations, including Obligation No. 2, Obligation No. 1, the Additional 2010 Obligations and any additional Obligations issued under the Master Indenture. There may be limitations on enforceability of the

joint and several obligations of Members of the Obligated Group to pay Obligations, as discussed under “BONDHOLDERS’ RISKS—Limitations on Enforceability of the Master Indenture and the Bond Indenture” herein. For a discussion of admission to or withdrawal from the Obligated Group, see APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—[\_\_\_\_\_].” Currently the Corporation is the only Member of the Obligated Group.

***Security Interest in Gross Receivables.*** To secure their obligation to make Required Payments (as defined in the Master Indenture) under the Master Indenture and their other obligations, agreements and covenants to be performed and observed under the Master Indenter, the Corporation has granted (and any additional Members of the Obligated Group will grant) to the Master Trustee security interests in its Gross Receivables. “Gross Receivables” means all of the accounts, chattel paper, instruments and general intangibles (all as defined in the Uniform Commercial Code (the “UCC”)) of each Obligated Group Member, as are now in existence or as may be hereafter acquired, and the proceeds thereof, excluding, however, all receivables representing donor restricted gifts, grants, bequests, donations, legacies, pledges and contributions heretofore or hereafter acquired by any Obligated Group Member. The enforceability, priority and perfection of the security interest in Gross Receivables may be limited by a number of factors, or may be subordinated to Permitted Encumbrances and to the interests and claims of others in certain circumstances, as discussed under “BONDHOLDERS RISKS—Limitations on Enforceability of the Master Indenture and the Bond Indenture.” The Master Indenture shall be deemed a “security agreement” for purposes of the UCC. The Master Trustee’s security interest in the Gross Receivables shall be perfected, to the extent that such security interests may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. Each Member is required to execute (if required by the UCC) and cause to be filed, in accordance with the requirements of the UCC, financing statements in form and substance satisfactory to the Master Trustee; and, from time to time thereafter, is required to execute and deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain perfected such security interests or give public notice thereof.

Upon written request from the Obligated Group Representative, the Master Trustee shall take all procedural steps necessary to effect the subordination of its security interest in the Gross Receivables granted under the Master Indenture to security interests constituting Permitted Encumbrances.

For information with respect to the Obligated Group and the Gross Receivables generated by the Obligated Group, see APPENDIX A and APPENDIX B hereto.

***Except for this security interest granted to the Master Trustee by the Obligated Group in Gross Receivables, the Series 2010A Bonds are not secured by a reserve fund or a mortgage of or security interest in any real or personal property of any Members of the Obligated Group.***

If an Event of Default occurs under the Master Indenture, it is uncertain whether the Bond Trustee could obtain a remedy under the Bond Indenture or the Master Indenture on behalf of the Holders of the Obligations adequate to provide full and timely payment of the Series 2010A Bonds. See “BONDHOLDERS RISKS—Limitations on Enforceability of the Master Indenture and the Bond Indenture.”

***Additional 2010 Obligations, Obligation No. 1 and Other Indebtedness.*** Simultaneously with the issuance of the Series 2010A Bonds, the City is issuing the Series 2010B Bonds and the Series 2010C Bonds. The Series 2010B Bonds and the Series 2010C Bonds will be secured by Obligation No. 3 and Obligation No. 5, respectively, and the Corporation’s reimbursement obligations to the 2010 Letter of Credit Banks will be secured by the separate 2010 Bank Obligations, in each case such Obligation to be issued and secured under the Master Indenture. The Series 2010B Bonds and the Series 2010C Bonds are being issued for the purposes discussed herein under the heading “PLAN OF FINANCING.” In addition,

the City has previously issued the Series 2001A Bonds, which are currently outstanding in the principal amount of \$[ ] and which are secured by Obligation No. 1 issued under the Master Indenture.

Following the issuance of the Series 2010 Bonds and the refunding of the Series 1992 Bonds, the Corporation will have \$ [ ]\* of Long-Term Indebtedness Outstanding, which is the sum of the aggregate principal amount of the Series 2010 Bonds and the outstanding principal of the Series 2001A Bonds.

***Additional Indebtedness and Obligations.*** Additional Obligations on a parity with Obligation No. 2, Obligation No. 1 and the Additional 2010 Obligations may be issued by the Members of the Obligated Group for the purposes, upon the terms and subject to the conditions, all as provided in the Master Indenture. Subject to the conditions contained therein, the Master Indenture also permits the Members of the Obligated Group to incur additional secured and unsecured indebtedness in addition to any Obligations issued thereunder and to enter into Guaranties. The Obligated Group may (but need not) secure Indebtedness and other obligations by additional Obligations issued under the Master Indenture. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE— [ ]:”

***Covenant Against Encumbrances.*** Pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not create, assume or suffer to exist, any Lien upon its Property, including its Gross Receivables, other than Permitted Encumbrances, unless all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE— [ ]:”

***Consolidation, Merger, Sale or Conveyance.*** Under the Master Indenture, a Member of the Obligated Group may merge or consolidate with, or sell or convey all or substantially all of its assets to any Person who is not a Member of the Obligated Group upon compliance with the provisions of the Master Indenture summarized under APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE— [ ]:” These transactions could, in certain circumstances, result in substantial changes in the effect of covenant restrictions on the Obligated Group in the Master Indenture or the substitution of different security for the Series 2010A Bonds, and the successor entity could have substantial debt outstanding that is entitled to security in addition to that provided for the benefit of the Series 2010A Bonds.

***Sale, Lease or Other Disposition of Property.*** The Master Indenture also imposes certain limits upon the sale or other disposition by any Member of the Obligated Group of its Property, as described in APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE— [ ]:”

### **Limitations on Enforceability**

For a discussion of certain risks related to bankruptcy and other limitations on creditors’ rights, the security interest in Gross Receivables, master indenture financings and the enforceability of the Bond Indenture, the Loan Agreement and the Master Indenture, see “BONDHOLDERS’ RISKS – Limitations on Enforceability of the Master Indenture and Bond Indenture” and “—Matters Relating to the Security for the Series 2010A Bonds” herein.

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\* Preliminary, subject to change.

## BONDHOLDERS' RISKS

*The following is a discussion of certain risks that could affect payments to be made by the Corporation and future Members of the Obligated Group with respect to the Series 2010A Bonds. Such discussion is not exhaustive and should be read in conjunction with all other parts of this Official Statement, and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2010A Bonds should analyze carefully the information contained in this Official Statement, including the APPENDICES hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described under "INTRODUCTION—Availability of Documents."*

\* Preliminary, subject to change.

### **General**

The Series 2010A Bonds will be payable by the City solely from amounts payable by the Corporation under the Loan Agreement. The principal of and premium, if any, and interest on the Series 2010A Bonds is also payable by the Corporation and any future Members of the Obligated Group under Obligation No. 2 issued to the Bond Trustee. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010A BONDS" above. The ability of the Corporation to realize revenues in amounts sufficient to pay the principal of and premium, if any, and interest on the Series 2010A Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that revenues will be realized by the Corporation in amounts sufficient to pay the principal of and premium, if any, and interest, when due, on the Series 2010A Bonds and the other obligations of the Corporation. None of the provisions of the Loan Agreement or the Master Indenture provide any assurance that the obligations of the Corporation will be paid as and when due if the Corporation becomes unable to pay its debts as they come due or the Corporation otherwise becomes insolvent.

The Obligated Group is subject to a wide variety of federal and State of California (the "State") regulatory actions and to legislative and policy changes by those governmental agencies and private entities that administer the Medicare and Medi-Cal (Medicaid) programs and by private entities that administer other health care payment arrangements. The Obligated Group is subject to actions by, among others, the federal Centers for Medicare and Medicaid Services ("CMS"), the U.S. Department of Health and Human Services ("DHHS"), the National Labor Relations Board, The Joint Commission and other federal, State and local governmental agencies.

The future financial condition of the Obligated Group could be adversely affected by, among other things: changes in the method and amount of payments to the Obligated Group by governmental payors and nongovernmental payors, changes in the structure of how health care is delivered and paid for as a result of the recently enacted national health care reform legislation, the financial viability of health care payors, increased competition from other health care entities, the costs associated with responding to governmental regulations, inquiries and investigations, demand by patients for health and medical care, changes in the methods by which employers purchase health care for employees, the capability of management of the Obligated Group, volatility of income of the Obligated Group from investments and contributions, future changes in the economy, demographic changes, availability of physicians and nurses and malpractice claims and other litigation. These factors and others may adversely affect payments by the Corporation under the Loan Agreement and by the Obligated Group pursuant to Obligation No. 2 and, consequently, payment of the principal of and premium, if any, and interest on the Series 2010A Bonds.

## Recently Enacted Health Care Reform Legislation

Congress recently enacted the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Reform Act”). The Health Reform Act mandates substantial changes in how and to whom government and private health insurance is provided and in payments to providers of health care services to government beneficiaries. The implementation of the Health Reform Act is phased in over several years and requires adoption by federal and state governments of substantial new regulations and policies, the effect of which cannot be predicted.

The Health Reform Act seeks to substantially expand health insurance coverage, generally beginning in 2014, by:

- **Medicaid Expansion:** substantially increasing the federally and state-funded Medicaid (Medi-Cal) insurance program, and authorizing states to establish federally subsidized non-Medicaid (Medi-Cal) health plans for low-income residents not eligible for Medicaid (Medi-Cal);
- **Private Insurance Mandate:** requiring that most adults secure private health insurance, if not eligible for the Medicaid (Medi-Cal) or other federally-funded insurance programs or covered by employer-provided insurance, and providing graduated subsidies to assist in purchasing insurance;
- **Employer Insurance Expansion:** requiring most employers with more than 50 employees to provide health insurance to employees or pay a federal fee; and
- **Regulating Health Insurance Coverage:** mandating private health insurance benefits and expansion of coverage for dependents, and preventing private health insurers from limiting annual benefits, denying coverage due to pre-existing conditions (effective immediately for children), or rescinding coverage, among other provisions.

These provisions, when and if implemented, are generally expected to decrease the uninsured population and decrease expenses for bad debt and charity care, but to an extent that cannot be predicted.

The Health Reform Act also seeks to pay providers less for health care services provided under federally-funded health insurance programs by:

- **Reducing Payments:** reducing increases in Medicare “market baskets” used to determine compensation rates (as described below) by amounts estimated to total \$150 billion over 10 years, reducing Medicaid disproportionate share funding by \$4 billion over 10 years, denying payment for services after certain readmissions, further decreasing diagnosis related groups (“*DRG*”) payments generally and adjusting payments to incentivize the delivery of quality care (and the achievement of positive outcomes for patients), and requiring that Medicare’s contingent fee third-party audit program be extended to Medicaid payments; and
- **Innovation:** establishing a federal Center for Medicare and Medicaid Innovation to develop new payment models that are expected to further reduce payments for services to Medicare-beneficiaries, implementing a Medicare “bundled payment” pilot program for the same purpose, increasingly linking payments to patient outcomes, and establishing a federal Independent Payment Advisory Board to propose further reductions in Medicare payments (which become effective unless overridden by Congress).

[*Corporation to confirm* - Corporation management expects these provisions to materially reduce or limit future increases in the payments that the Corporation receives for providing services to government beneficiaries.]

The Health Reform Act seeks to increase competition among private health insurers by providing for state health insurance exchanges. The Health Reform Act also prevents private insurers from adjusting insurance premiums based on health status, gender, or other specified factors. The Corporation expects these provisions could adversely affect the ability of private insurers to pay the Corporation for services provided to patients with private health insurance.

The Health Reform Act reduces payments for services to Medicare beneficiaries because Congress expected that hospitals will realize savings in bad debt and charity care expenses, since they are expected to provide care to fewer uninsured patients as a result of mandated increases in insurance coverage. However, the constitutionality of Health Reform Act provisions designed to expand health insurance coverage has been challenged, certain Members of Congress have proposed a repeal or amendment of the provisions, and there is no assurance that they will be implemented. In addition, health care insurance premium assistance will not be available for undocumented patients, so the Health Reform Act is not expected to reduce the number of uninsured undocumented patients. Accordingly, even if the Health Reform Act's provisions are fully implemented, there can be no assurance that the Corporation will realize sufficient savings in bad debt and charity care expenses to offset reductions in payments for services to Medicare-beneficiaries. If the revenue received by the Corporation for providing services to Medicare-beneficiaries is insufficient to cover the costs of furnishing the services, and if the Corporation does not realize offsetting reductions in bad debt and charity care expenses, the Health Reform Act could have a substantial adverse affect on the Corporation's financial condition.

It is difficult to predict the impact of the Health Reform Act due to the law's complexity, lack of implementing regulations or interpretive guidance, implementation over several years, and possible future amendments, repeal, or judicial invalidation of portions of the Health Reform Act, as well as an inability to foresee how individuals and businesses will respond to the choices afforded them by the Health Reform Act. Management of the Corporation is therefore unable to predict the impact of the Health Reform Act on the Corporation at this time.

The financial and other results of operation included in APPENDICES A and B were realized prior to enactment of the Health Reform Act. No assurance can be given that they are indicative of results of operations that the Corporation will be able to achieve after implementation of the Health Reform Act.

### **General Economic Conditions; Bad Debt and Indigent Care; Investment Losses**

Hospitals are economically influenced by the environment in which they operate. To the extent that (1) employers reduce their workforces, (2) employers reduce their budgets for employee health care coverage or (3) private and public health insurers seek to reduce payments to or utilization of hospital services, hospitals may experience decreases in insured patient volume and payments for services. In addition, to the extent that state, county or city governments are unable to provide a "safety net" of medical services to patients without health insurance, pressure is applied to local hospitals to increase free care.

Continued and future economic downturns and/or lower funding of federal Medicare and State Medi-Cal (Medicaid) and other State health care programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. An increase in unemployment or continuation of high unemployment may result in a significant number of patients no longer having health insurance coverage, which may result in decreased payments to hospitals or loss of payment for services provided. These conditions may give rise to increased bad debt and higher levels of indigent care utilization.

In the current economic environment, nonoperating revenue from investments may be reduced or eliminated. Investment losses (even if unrealized) may cause financial covenants to be violated and may

jeopardize a hospital's financial condition. Losses in pension and benefit funds may result in increased funding requirements by hospitals. Potential failure of lenders, insurers or vendors may negatively impact a hospital's financial condition and philanthropic support may decrease. These factors may have a material adverse impact on hospitals and the health care system.

### **Significant Risk Areas**

Certain of the primary risks associated with the operations of the Corporation are briefly highlighted in general terms below, and are discussed in greater detail in subsequent sections. The occurrence of one or more of these and other risks could have a material adverse effect on the financial condition and result of operations of the Corporation, and in turn, the ability of the Corporation and the Obligated Group to make payments under the Loan Agreement and Obligation No. 2.

***Reliance on Payments from Government.*** Hospitals and health care systems rely to a high degree on revenues from Medicare and Medicaid, which is called Medi-Cal in the State. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Implementation of the Health Reform Act, discussed above, and any future changes in the law and regulations governing these governmental programs, as well as in payment policy and timing, create uncertainty and could have a material adverse impact on hospitals' payments from Medicare and Medicaid (Medi-Cal). Such State and federal programs are a significant source of revenues to many hospitals. These programs often pay hospitals and physicians at levels that may be below the actual cost of the care. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare and Medicaid (Medi-Cal) outlays for hospitals. This could have a material adverse impact on hospitals. Because Medi-Cal is partially funded by the State, the continuing adverse fiscal condition of the State may result in lower funding levels and/or payment delays. See “—Patient Service Revenues—State Budget” herein below.

***Rate Pressure from Insurers and Major Purchasers.*** Certain hospital markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over hospital rates, utilization and competition. Rate pressure imposed by health insurers or other major purchasers may have a material adverse impact on hospitals, particularly if major purchasers put increasing pressure on payors to restrict rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals in the form of payment shortfalls or delays, and/or continuing obligations to care for managed care patients without receiving payment.

***Nonoperating Revenues.*** Nonoperating revenue derived from investments can be significant to hospitals. Investment income may be reduced, eliminated or impacted by incurred losses as a result of general market conditions or specific investment losses, even when such losses are unrealized.

***Nonprofit Health Care Environment.*** Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements that apply to nonprofit tax-exempt organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, “excess benefit transactions” with insiders and exemption of property from real property taxation. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the “IRS”), labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation. The challenges and examinations and any resulting legislation, regulations, judgments or penalties could have a material adverse effect on nonprofit hospitals and other nonprofit health care providers.

**Capital Needs vs. Capital Capacity.** Hospital operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State require that many hospital facilities be substantially modified, replaced or closed. See “—Earthquakes” below. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of construction may exceed estimates. Total capital needs may exceed capital capacity. Furthermore, availability of capital for hospitals and health systems may be reduced as a result of recent credit market dislocations. It is uncertain how long those conditions may persist and it is possible that capital availability may be negatively affected over the long term for reasons related to the credit markets.

**Construction Risks.** Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of skilled trade labor, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds. See APPENDIX A— “INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—FACILITIES.”

**Government “Fraud” Enforcement.** To ensure the integrity of the Federal health care programs, CMS, DHHS, the Office of Inspector General (“OIG”), and the Department of Justice (“DOJ”) have paid close attention to the business practices and conduct of health care providers. The federal and state governments, including California, impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of fraud in the Medicare and Medicaid (Medi-Cal) programs, as well as other state and federally-funded health care programs. This body of laws and regulations impact a broad spectrum of hospital commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials, and discounts, among other functions and transactions.

Enforcement actions may pertain to not only deliberate violations, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Enforcement actions may extend to conduct that occurred in the past. The government periodically conducts widespread investigations covering categories of services, or certain accounting or billing practices.

Violations and alleged violations carry significant sanctions, which may be aggressively pursued by the government. The government may seek a wide array of civil, administrative, criminal, and monetary penalties, including withholding essential hospital payments under the Medicare or Medicaid programs, or exclusion from those programs. Negative publicity and large settlements and/or adverse results of litigation could result in payment of substantial fines and prospective restrictions that may have a materially adverse impact on hospital operations, financial condition, results of operations and reputation, and generally are not covered by insurance.

**Personnel Shortages.** Currently, a shortage of physicians and nursing and other technical personnel exists which may have its primary impact on hospitals. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In California, State regulation of nurse staff ratios will likely intensify the shortage of nursing personnel. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals.

***Labor Costs and Disruption.*** Hospitals are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital operations and financial condition. Hospital employees are increasingly organized in collective bargaining units, and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation.

***Technical and Clinical Developments.*** New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher hospital costs, reductions in patient populations and/or new sources of competition for hospitals.

***Costs and Restrictions from Governmental Regulation.*** Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of government. The level and complexity of regulation is increasing, bringing with it operational limitations, enforcement and liability risks, and significant and sometimes unanticipated cost impacts.

***Proliferation of Competition.*** Hospitals increasingly face competition from specialty providers of care. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations. These new sources of competition may have a material adverse impact on hospitals, particularly where a group of a hospital's principal physician admitters may curtail their use of a hospital service in favor of competing facilities.

***California Medi-Cal Program.*** The State of California selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients. The State is obligated to make contractual payments only to the extent the legislature appropriates adequate funding. Except in areas of the State that have been excluded from contracting, a general acute care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate such contracts on 120 days' notice and the State may terminate without notice under certain circumstances. The Corporation currently participates in the Medi-Cal program. No assurances can be made that the Corporation will be awarded future Medi-Cal contracts or that any such contracts will reimburse the Corporation for the cost of delivering services. Attempts to balance or reduce the federal budget and/or California's budget will likely negatively impact Medi-Cal spending. See "—Patient Service Revenues—State Budget" herein below.

***Pension and Benefit Funds.*** As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes.

***Medical Liability Litigation and Insurance.*** Medical liability litigation is subject to public policy determinations and legal and procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resulting liabilities, may increase in the future. Hospitals may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

**Facility Damage.** Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, other natural causes, fire, deliberate acts of destruction, or various facilities system failures may have material adverse impact on hospital operations, financial conditions and results of operations.

### **Nonprofit Health Care Environment**

As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex business transactions [*TMMC to confirm* - and is a major employer in its geographic area]. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are in compliance with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medi-Cal (Medicaid) compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

**Congressional Hearings/Legislation.** In recent years, three Congressional Committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health care providers. Among legislation proposed or discussed as a result of these hearings and proceedings are: (1) establishment of minimum required levels of charity care to be provided by nonprofit health care providers; (2) periodic review of hospitals' tax-exempt status by the IRS; and (3) greater and more uniform reporting of charitable and community benefit activities.

**IRS Examination of Compensation Practices.** In February 2009, the IRS issued its hospital Compliance Project Final Report (the "IRS Final Report") that examined tax-exempt organizations practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicates that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures and (2) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

**California Attorney General.** California nonprofit corporations, including the Corporation, are subject at all times to examination by the California Attorney General (the "AG") to ensure that the purposes of the nonprofit corporations are being carried out. The AG has, in recent years, made inquiries regarding the billing practices of nonprofit hospitals. It is unclear whether these inquiries represent an increased interest or scrutiny by the AG of hospital billing practices generally, or whether the AG will extend its inquiry to other nonprofit hospital issues. The AG also increased its scrutiny of California nonprofit corporations with the passage of the California Nonprofit Integrity Act, which became effective in 2005.

**Litigation Relating to Billing and Collection Practices.** Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to

provide charity care to uninsured patients and have overcharged uninsured patients. Some of these cases have been dismissed by the courts, and some hospitals have entered into substantial settlements. A number of cases are still pending in various courts around the country.

**Challenges to Real Property Tax Exemptions.** Recently, the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

**Action by Purchasers of Hospital Services and Consumers.** Major purchasers of hospital services could take action to restrict hospital charges or charge increases. In California, the California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted.

**Form 990.** In December 2007, the IRS released a new Form 990, which is applicable to tax years beginning after January 1, 2008. The new Form 990 imposes significant additional compliance and reporting requirements by nonprofit institutions with respect to outstanding tax-exempt obligations. These reporting and recordkeeping requirements go beyond what many health care institutions have done historically and will require substantial additional effort on the parts of health care institutions with outstanding tax-exempt obligations.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse impact on the financial condition of the Corporation and, in turn, its ability to make payments under the Loan Agreement and Obligation No. 2.

## **Patient Service Revenues**

**The Medicare Program.** Medicare is the federal health insurance system under which hospitals are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state and/or The Joint Commission. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, and services. The Medicare program will be affected by the federal Health Reform Act, discussed above.

[**TMMC to confirm/provide** - For the fiscal years ended December 31, 2008 and 2009, Medicare payments represented approximately [29.1]% and [29.3]%, respectively, of the Corporation's gross patient service revenue, excluding Medicare managed care, which was approximately [ ]% and [ ]%, respectively. See APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—SUMMARY OF FINANCIAL POSITION—Sources of Revenues."]

Components of the American Recovery and Reinvestment Act of 2009 (the "ARRA") provide for Medicare incentive payments beginning in 2011 to hospital providers meeting designated deadlines for

the installation and use of electronic health information systems. For those hospital providers failing to meet a 2016 deadline, Medicare payments may be significantly reduced.

***Hospital Inpatient Reimbursement.*** Hospitals are generally paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as DRGs. The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates are subject to adjustment by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

***Other Medicare Service Payments.*** Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

***Reimbursement of Hospital Capital Costs.*** Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of the Corporation's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

***[TMMC to advise if applicable - Medical Education Payments.*** Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination.]

***Medi-Cal Program.*** Medicaid is the joint state-federal assistance program for certain qualifying individuals and their dependants operated by individual states with the financial participation of the federal government. Medi-Cal is the California program of medical assistance, funded jointly by the federal government and the State. The federal government provides substantial funding to the Medi-Cal program, so long as it meets federal standards.

***[TMMC to confirm*** - For the fiscal years ended December 31, 2008 and 2009, the Corporation received approximately [3.9]% and [4.0]%, respectively of gross patient service revenues each year from State Medi-Cal programs. See APPENDIX A— "INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—SUMMARY OF FINANCIAL POSITION—Sources of Revenues."]

***State Budget.*** The State continues to face severe financial challenges resulting from an excess of expenditures over revenues. The financial challenges facing the State may negatively affect hospitals in a number of ways, including, but not limited to, reductions in Medi-Cal payment rates, a greater number of indigent patients who are unable to pay for their care and/or a greater number of individuals who qualify for Medi-Cal.

The 2010-11 State Budget proposed by the Governor is pending in the State legislature. ***[TMMC to confirm*** - Based on existing contracts with the California Medical Assistance Commission, management of the Obligated Group does not currently expect the 2010-11 State Budget proposed by the Governor to have any material adverse affect on the financial condition or results of operations of the Corporation, and the proposed outpatient Medi-Cal reductions, if adopted, in management's opinion, would not have a material adverse affect on the results of operations of the Corporation.] However, it is

not possible to predict how the final budget that will be adopted by the State legislature may impact the Obligated Group.

**Health Plans and Managed Care.** Private health insurance will be affected by the federal Health Reform Act discussed above.

Most private health insurance coverage is provided by various types of “managed care” plans, including health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”), that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Medicare and Medicaid (Medi-Cal) also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider’s ability to manage this component of revenue and cost.

Some HMOs employ a “capitation” payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is “assigned” or otherwise directed to receive care at a particular hospital. The hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital’s actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay the hospital. Hospitals from time to time have disputes with managed care payors concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing the Corporation’s market share and net patient services revenues. Conversely, participation may result in lower net income if participating the Corporation is unable to adequately contain its costs. Thus, managed care poses a significant business risk (and opportunity) that hospitals face.

[*TMMC to provide* - For the fiscal years ended December 31, 2008 and 2009, managed care payments (including Medicaid and Medi-Cal contracts and all capitated and non-capitated managed care) constituted approximately [ ]% and [ ]%, respectively, of gross patient service revenues of the Corporation. See APPENDIX A—“INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—SUMMARY OF FINANCIAL POSITION—Sources of Revenues.”

**Technological Changes.** Medical research and resulting discoveries have grown exponentially in the last decade. These new discoveries may add greatly to the Corporation’s cost of providing services with no or little offsetting increase in federal reimbursement and may also render obsolete certain of the Corporation’s health services. New drugs and devices may increase hospitals’ expense because, for the most part, the costs of new drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care and are often not covered for outpatient services.

## Future Federal Legislation

In addition to the Health Reform Act, future legislation, regulation or other actions by the federal government are expected to continue the trend toward greater limitations on reimbursement for health care services. Future changes to the Medicare or Medi-Cal programs could result in substantial reductions in the amounts of governmental payments to health care providers, which in turn could have a material adverse affect on the revenues of the Corporation.

## Regulatory Matters

Complex health care laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims and receiving reimbursement for such services. Implementation of the Health Reform Act will require the federal and State governments to adopt new regulations. A substantial portion of these laws target fraud and abuse, and address a broad range of unlawful conduct, including, but not limited to, submitting claims for services that are not in fact provided, billing in a manner that does not comply with government requirements or including inaccurate billing information, billing for medically unnecessary services, or billings accompanied by an illegal inducement to utilize or recommend utilization of a service or product. Laws governing fraud and abuse have broad application to hospitals and their financial relationships.

Violation of federal and state fraud and abuse laws may result in a broad range of criminal, civil and administrative sanctions, including the exclusion of a hospital from participation in the Medicare/Medicaid (Medi-Cal) programs, civil monetary penalties, and suspension of Medicare/Medicaid (Medi-Cal) payments, among others. Fraud and abuse cases may be prosecuted by one or more government entities (in many cases as a result of private “whistleblower” actions), and more than one of the available sanctions may be, and often are, imposed for each violation.

Fraud and abuse laws are numerous, highly technical in nature, and frequently changing. Hospitals devote substantial resources to ensure effective compliance with these laws and regulations. Fraud investigations, prosecutions, adjudications, settlements and related publicity resulting from these legal proceedings could have a material adverse effect on the future operations or financial condition of the Corporation. See “—Enforcement Activity” below. Major elements of these complex laws and regulations are generally summarized below.

***False Claims Act.*** The criminal False Claims Act, or Criminal FCA, prohibits anyone from knowingly submitting a false, fictitious or fraudulent claim to the federal government. There are numerous specific rules that a health care provider must follow with respect to the submission of claims. Violation of the Criminal FCA can result in imprisonment and/or potentially substantial fines for an individual or an organization.

The civil False Claims Act, or Civil FCA, makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. Civil FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the Civil FCA can result in settlements that require multi-million dollar payments and compliance agreements. The Civil FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The Civil FCA has become one of the government’s primary weapons against health care fraud. Civil FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital or other health

care provider. In May 2009, President Obama signed the “Fraud Enforcement and Recovery Act” into law, which expands the number of actions for which contractors may be held liable under the Civil FCA and gives federal authorities more funding and broader enforcement powers.

***Anti-Kickback Statute.*** The federal “Anti-Kickback Statute” is a criminal statute that, in part, prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is paid by any federal or state health care program. Because terms such as “any remuneration,” “directly or indirectly,” and “in cash or in kind” are extremely broad, the Anti-Kickback Statute is susceptible to expansive interpretation. At a minimum, the Anti-Kickback Statute is implicated by many common health care transactions in which a hospital may engage, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions.

Violation or alleged violation of the Anti-Kickback Statute can result in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Statute can be prosecuted either criminally or civilly. Each violation is a felony, subject to potentially substantial fines, imprisonment and/or exclusion from the Medicare and Medi-Cal (Medicaid) programs, any of which could have a material adverse impact on the financial condition of a hospital or health care system.

***“Stark” Self-Referral Prohibitions.*** To prevent perceived abuses of over-utilization, the Stark Law prohibits certain physician self-referral arrangements. Under the Stark Law, if a physician has a financial relationship with an entity, the physician may not refer patients to that entity for the furnishing of “designated health services” (“DHS”) for which payment may be made under the Medicare program, and the entity may not submit claims to Medicare for DHS provided pursuant to a prohibited referral, unless a Stark Law exception applies. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark Law violation. Many ordinary business practices and economically desirable arrangements between physicians and hospitals or other health care providers arguably constitute “financial relationships” within the meaning of the Stark Law. The prohibition on referrals and billing would be triggered by the financial relationship unless the relationship fully complied with one of several exceptions. Most providers of DHS with physician relationships have some exposure to liability under the Stark statute.

Medicare may deny payment for all services related to a prohibited referral and a hospital or other health care provider that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate the Stark Law, a hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital or other health care provider may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medi-Cal programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital or other health care provider.

***HIPAA.*** The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) criminalized a wide array of conduct involving public and private health care benefits by creating new offenses of health care fraud and applying pre-existing prohibitions to health plans and contracts. HIPAA dramatically increased the applicable civil monetary penalties, added offenses that trigger exclusion from Medicare, and broadened the group of individuals who could be sanctioned. In addition, HIPAA includes administrative simplification provisions that require standardization of electronic transactions, specific security protections for medical information and processes, privacy protections for patient medical

records, and establishment of national employer and provider identifiers. DHHS and CMS have promulgated rules related to electronic transactions, national employer identifiers, national provider identifiers, security, and medical records privacy. Rules regarding national health plan identifiers, claims attachments standards and first report of injury standards have been published in proposed form or are under development

ARRA alters certain rules regarding the use and disclosure of protected health information, extends certain HIPAA provisions to business associates and creates new security breach notification requirements. Under ARRA, DHHS is required to conduct periodic compliance audits of HIPAA-covered entities and their business associates. The Obligated Group may incur significant costs in implementing the policies and systems required to bring itself into compliance with these new requirements.

ARRA also broadens the scope of the federal privacy and security regulatory landscape, including significantly expanding the reach of HIPAA. Among other things, ARRA strengthens the HIPAA enforcement provisions, which may result in increased enforcement activity. ARRA broadens the applicability of the criminal penalty provisions under HIPAA to employees of covered entities and requires DHHS to impose penalties on violations resulting from willful neglect. ARRA also significantly increases the amount of civil penalties under HIPAA. In addition, ARRA authorizes state attorneys general to bring civil actions seeking either injunction or damages in response to violations of HIPAA privacy and security regulations that threaten state residents.

***Exclusions from Medicare or Medi-Cal Participation.*** The government may exclude a hospital from federal health care program participation in instances of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government may also exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from a federal health care program means that a hospital would be decertified under that program and no program payments can be made.

***Compliance with Conditions of Participation.*** CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

***Enforcement Activity.*** Enforcement activity against health care providers has increased, and enforcement authorities may aggressively pursue perceived violations of health care laws. In the current regulatory climate, it is anticipated that many hospitals and physician groups may be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above. The cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could also be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance.

***Liability Under State “Fraud” and “False Claims” Laws.*** Hospital providers in California also are subject to a variety of state laws, related to false claims (similar to the FCA or that are generally applicable false claims laws) and anti-kickback (similar to the federal Anti-Kickback Statute or that are generally applicable anti-kickback or fraud laws). These prohibitions are similar in public policy and scope to the federal laws, and could pose the possibility of material adverse impact for the same reasons as the federal statutes.

***Enforcement Affecting Clinical Research.*** In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also heightened enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protections, one of the agencies with responsibilities for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration (“FDA”) also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. The FDA’s inspection of facilities increased significantly in recent years. These agencies’ enforcement powers range from substantial fines and penalties to exclusions of researchers and suspension or termination of entire research programs.

***EMTALA.*** The Emergency Medical Treatment and Active Labor Act (“EMTALA”) is a federal civil statute that generally requires hospitals to treat or conduct a medical screening for emergency conditions and to stabilize a patient’s emergency medical condition before releasing, discharging or transferring the patient. A hospital that violates EMTALA is subject to civil penalties per offense and possible exclusion from the Medicare and Medicaid (Medi-Cal) programs. In addition, the hospital may be liable under a civil claim brought by an individual who has suffered harm as a result of the actions surrounding the EMTALA violation.

***Licensing, Surveys, Investigations and Audits.*** Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses could reduce hospital utilization or revenues, or a hospital’s ability to operate all or a portion of its facilities.

***Investments.*** [Corporation to provide any updates - Investment income has during certain fiscal years constituted a significant portion of the net income of the Corporation. No assurance can be given that the investments of the Corporation will produce positive returns or that losses on investments will not occur in the future.] To the extent investment returns are lower than anticipated or losses on investments occur, the Corporation may also be required to make additional deposits in connection with pension fund liabilities.

***Environmental Laws and Regulations.*** Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property.

Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

**Medicare Recovery Audit Contractor Reviews (“RAC Audits”).** In March 2005, CMS announced a three-year demonstration project using recovery audit contractors to audit claims made by hospitals in California, Florida and New York. Since that time, hospitals in each of these states, [Corporation to review/confirm/revise - including the hospital operated by the Corporation, have received RAC Audit requests on an on-going basis and in the normal course of business. In some cases, the audits may lead to repayment demands, while in other cases the audit results may indicate additional moneys due to the hospitals being audited. Corporation has responded directly to the RAC Audit requests and, as of the date hereof, has made repayments to the Medicare program to the extent claims were determined to be valid in the amount of \$[\_\_\_\_\_]. The permanent RAC Audit program became effective on July 1, 2009. The RAC auditors are preparing their audit programs and it is anticipated that audits will commence during the first quarter of calendar year 2010. It is unknown if Corporation’s outcomes during the demonstration project will be replicated in the permanent program.

#### **Business Relationships and Other Business Matters**

**Integrated Physician Groups.** Hospitals often own, control or have affiliations with relatively large physician groups. Generally, the sponsoring hospital will be the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital or health system’s investment at risk, and potentially reducing its managed care leverage and/or overall utilization.

**Hospital Pricing.** Inflation in hospital costs may evoke action by legislatures, payors or consumers. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services.

**Indigent Care.** Tax-exempt hospitals often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner-city hospitals may treat significant numbers of indigents. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage

exclusions under local, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

***Physician Medical Staff.*** The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

An emerging area of potential risk for all hospitals surrounds the appropriate management of physician conflicts of interest with hospitals that grant practice privileges. Described as "economic credentialing" by physicians who oppose efforts of hospitals to manage the presence of direct competitors within the leadership or boardroom, the issue requires all hospitals to thoughtfully manage these potential conflicts to maintain a healthy, collegial and professional relationship required with the independent medical staff, while ensuring the organization is not suffering irreversible harm from a competitor gaining specific or specialized information not available to the public regarding the Obligated Group's plans. In the worst circumstances, such efforts have led to litigation and potentially material impacts on the practice patterns of physicians at a specific facility. It is not possible to predict the course of such decisions or make any assurance that the Obligated Group will be successful in managing such conflicts without causing some changes in physician practice patterns, which could have a material adverse effect on the Obligated Group.

***Physician Supply.*** Sufficient community-based physician supply is important to hospitals and health systems. A shortage of physicians could become a significant issue for California health providers to face in the coming years. In addition, CMS annually reviews overall physician reimbursement formulas. Changes to physician compensation formulas could lead to physicians locating their practices in communities with lower Medicare populations. Hospitals and health systems may be required to invest additional resources for recruiting and retaining physicians, or may be required to increase the percentage of employed physicians in order to continue serving the growing population base and maintain market share.

***Competition Among Health Care Providers.*** Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and/or revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's heart surgeons develop their own specialty heart hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters) taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not

accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A moratorium imposed under Stark on physician investment in new specialty hospitals recently expired. A variety of proposals have been advanced recently to permanently prohibit such investments. Nonetheless, specialty hospitals continue to represent a significant competitive challenge for full-service hospitals.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of the hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

**Technology.** Scientific and technological advances, new procedures, drugs and devices, preventive medicine, occupational health and safety, and outpatient health care delivery may reduce utilization and revenues of the Corporation in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and hospitals may have to incur significant costs to acquire the equipment needed to maintain or enhance their competitive position. ARRA allocates \$20 billion to health care information technology, and in February 2009, President Obama called for the establishment of a nationwide electronic medical records system, such system to be in place by 2014. The costs to acquire and implement an electronic medical records system are significant but it is widely believed that such systems will lead to greater efficiencies in the provision of patient care and improved quality of care. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of the Corporation to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations. DHHS published a safe harbor to the Anti-Kickback Law and an exception to Stark allowing hospitals to provide to physicians certain electronic medical record and electronic prescribing technology below the hospital's cost. This resulting increase in demand for hospitals to provide covered technology could have a material adverse consequence on the financial condition of the Corporation.

**Antitrust.** Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, and anticompetitive business conduct or practices. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability for hospitals and other health care providers are joint action among providers with respect to payor contracting, medical staff credentialing disputes and anticompetitive business conduct or practices by hospitals and other health care providers with sufficiently large market share.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. Moreover, successful private or governmental litigants may obtain injunctive relief that can affect the defendant's ability to conduct or continue certain business practices or activities.

**Labor Relations and Collective Bargaining.** Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in

significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation.

***Wage and Hour Class Actions and Litigation.*** Federal law and many states impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these “wage and hour” issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to the Corporation could have a material adverse impact on its financial condition and result of operations.

***Health Care Worker Classification.*** Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

***Staffing.*** In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals.

***Professional Liability Claims and General Liability Insurance.*** In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital’s status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of a hospital if determined or settled adversely.

There is no assurance that hospitals will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against a hospital or that such coverage will be available at a reasonable cost in the future.

## **Joint Ventures**

The OIG has expressed its concern in various advisory bulletins and other guidance that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Statute, since

the parties to joint ventures are typically in a position to refer patients of federal health care programs. In its 1989 Special Fraud Alert, the OIG raised concerns about certain physician joint ventures where the intent is not to raise investment capital to start a business but rather to “lock up a stream of referrals from the physician investors and compensate these investors indirectly for these referrals.” The OIG listed various features of suspect joint ventures, but noted that its list was not exhaustive. These features include: (i) whether investors are chosen because they are in a position to make referrals; (ii) whether physicians with more potential referrals are given larger investment interests; (iii) whether referrals are tracked and referral sources shared with investing physicians; (iv) whether the overall structure is a “shell” (i.e., one of the parties is an ongoing entity already engaged in a particular line of business); and (v) whether investors are required to invest a disproportionately small amount or are paid extraordinary returns in comparison with their risk.

In April 2003, the OIG issued a Special Advisory Bulletin indicating that “contractual joint ventures” (where a provider expands into a new line of business by contracting with an entity that already provides the items or services) may violate the Anti-Kickback Statute and expressed skepticism that existing statutory or regulatory safe-harbors would protect suspect contractual joint ventures. In January, 2005, the OIG published its Supplemental Program Guidance for Hospitals and reiterated its concerns regarding joint ventures entered into by hospitals.

In addition, under the federal tax laws governing Section 501(c)(3) organizations, a tax-exempt hospital’s participation in a joint venture with for-profit entities must further the hospital’s exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital’s tax-exemption may be revoked, the hospital’s income from the joint venture may be subject to tax, or the parties may be subject to some other sanction. See “BONDHOLDERS’ RISKS—Tax-Exempt Status of the Corporation and the Series 2010A Bonds” for further discussion of risks related to the tax-exempt status of the Corporation.

Finally, many hospital joint ventures with physicians may also implicate the federal Stark Law.

Any evaluation of compliance with the Anti-Kickback Statute, the Stark Law or tax laws governing Section 501(c)(3) organizations depends on the totality of the facts and circumstances. [*TMMC to confirm* - While management of the Corporation believes that the joint venture arrangements to which the Corporation is a party are in material compliance with the Anti-Kickback Statute and OIG pronouncements], the Stark Law and the tax laws governing Section 501(c)(3) organizations, any determination that the Corporation is not in compliance could have a material adverse effect on the future financial condition of the Corporation.

### **Limitations on Enforceability of the Master Indenture and Bond Indenture**

***Bankruptcy.*** In the event of bankruptcy of the Corporation or any future Member of the Obligated Group, the rights and remedies of the Holders of the Series 2010A Bonds are subject to various provisions of the federal Bankruptcy Code. If a Member were to file a petition in bankruptcy, payments made by such Member during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such entity’s liquidation. Security interests and other liens granted to the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or

enhance the rights of the Master Trustee. If the bankruptcy court so ordered, the property of such Member, including accounts receivable, other Gross Receivables and proceeds thereof, could be used for the financial rehabilitation of such Member despite any security interest of the Master Trustee therein. The rights of the Master Trustee to enforce its security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

The Corporation and any future Member of the Obligated Group could file a plan for the adjustment of its debts in any such proceeding, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which conditions are that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, the obligations of the Corporation and any future Members of the Obligated Group to pay the principal of and premium, if any, and interest on the Series 2010A Bonds is not secured by a lien on or security interest in any assets or revenues of the Obligated Group, other than Gross Receivables and the lien on certain funds held by the Bond Trustee under the Bond Indenture. Except with respect to such security interest in Receivables and the pledge of such funds under the Bond Indenture, in the event of a bankruptcy of the Obligated Group, Holders would be unsecured creditors and would be in an inferior position to any secured creditors and on a parity basis with all other unsecured creditors.

In the event of bankruptcy of Obligated Group, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Series 2010A Bonds from gross income for federal income tax purposes.

***Security Interest in Gross Receivables.*** The enforceability, priority and perfection of the security interest granted by the Members of the Obligated Group in Gross Receivables may be limited by a number of factors, or be subordinated to the interest and claims of others. Some examples of such factors and cases of subordination or prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or State bankruptcy or insolvency laws that may affect the enforceability of the Master Indenture or of the security interest of Gross Receivables and (vi) rights of third parties, and in some instances, the Members of the Obligated Group, in Gross Receivables constituting cash or instruments and not in the possession of the Master Trustee or the its agent. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

***Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes.*** It is possible that the joint and several obligations of each Member of the Obligated Group to make payments under Obligations in respect of moneys used by another Member may be avoided in an action brought by creditors of the first Member pursuant to California’s fraudulent conveyance statutes or may be avoided for the benefit of other creditors by a debtor or trustee in bankruptcy in the event of the bankruptcy of such Member. Depending upon whether the federal Bankruptcy Code or California’s fraudulent conveyance statutes are applicable, an obligation may be avoided if (a) the obligation was incurred without receipt by the Member of “fair consideration” or “reasonably equivalent value,” and (b)

the obligation renders the Member “insolvent,” as such terms are defined under the applicable statute. Interpretation by the courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. For example, the joint and several obligation under the Master Indenture to pay all Obligations issued thereunder, including payments in respect of funds used for the benefit of other Members, may be held to be a “transfer” which makes such Members “insolvent,” in the sense that the total amount due under all Obligations could be considered as causing liabilities to exceed its assets. Also, a Member may be deemed to have received less than “fair consideration” for its joint and several obligation because only a portion of the proceeds of the Series 2010A Bonds are to be used to finance facilities occupied or used by a Member. While a Member may benefit generally from facilities financed with proceeds of the Series 2010A Bonds for the other Members, the actual cash value of this benefit may be less than the value of the Member’s joint and several obligation.

In addition, Members that are nonprofit corporations may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others. Such a determination may be made if the Member making the payments has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, to the extent that payments (i) are requested to be made with respect to payments on any Obligation which was issued for a purpose which is not consistent with the charitable purposes of the Obligated Group, or which was issued for the benefit of an entity other than a not-for-profit corporation which is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Code and is not a “private foundation” as defined in Section 509(a) of the Code; (ii) are requested to be made from any property of the Obligated Group which is donor restricted or which is subject to a direct or express trust which does not permit the use of such property for such payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Obligated Group; or (iv) are requested to be made pursuant to any loan violating applicable usury laws, other than such laws in the State of California.

*Enforceability of the Bond Indenture, Loan Agreement and the Master Indenture.* The legal right and practical ability of the Bond Trustee to enforce rights and remedies under the Bond Indenture and the Loan Agreement, and of the Master Trustee to enforce remedies under the Master Indenture, may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors’ rights and by application of equitable principles. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, may otherwise not be readily available or may be limited by certain legal principles.

The various legal opinions delivered concurrently with the issuance of the Series 2010A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors’ rights or the enforceability of certain remedies or document provisions.

### **Matters Relating to the Security for the Series 2010A Bonds**

The Series 2010A Bonds are not secured by a mortgage on the facilities of, or any other assets of, the Obligated Group except for the security interest granted under the Master Indenture in Gross Receivables, which secures all Obligations including Obligation No. 2 securing the Series 2010A Bonds, Obligation No. 1, the Additional 2010 Obligations and any additional Obligations.

Pursuant to the terms of the Master Indenture, each Member of the Obligated Group may incur additional Indebtedness (including additional Obligations) which is entitled to the benefits of security which does not extend to any other Indebtedness (including Obligation No. 2 which secures the Series

2010A Bonds). Such security may include a depreciation reserve, debt service or interest reserve or similar fund which may secure such other Indebtedness. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

Under the terms of the Master Indenture, the Obligated Group may grant liens that constitute Permitted Encumbrances to secure obligations to other persons, which Permitted Encumbrances may be superior to the security interest in Gross Receivables, which secures all Obligations including Obligation No. 2. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

Pursuant to the provisions of the Master Indenture, certain of the rights and remedies afforded the holders of Obligations under the Master Indenture, including without limitation the right to demand acceleration of Obligations (including Obligation No. 2), may be initiated by the holders of 25% or more in aggregate principal amount of the Obligations Outstanding, subject to the right of the holders of a majority in aggregate principal amount of Obligations Outstanding to direct all remedies under the Master Indenture.

Certain amendments or supplements may be made to the Master Indenture, the Bond Indenture, the Loan Agreement or Obligation No. 2 without notice to, or the consent of, any of the Holders of the Series 2010A Bonds. Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of the owners of not less than a majority of the principal amount of the Outstanding Series 2010A Bonds. Certain amendments to the Master Indenture may be made with the consent of the holders of not less than a majority in aggregate principal amount of Outstanding Obligations and such majority may be comprised wholly or partially of the holders of Obligations other than Obligation No. 2, and such amendments may adversely affect the Bondholders. SEE APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE” and “—BOND INDENTURE” and “—LOAN AGREEMENT.”

### **Tax-Exempt Status of the Corporation and the Series 2010A Bonds**

*[McDermott and Orrick to review/revise]*

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2010A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of such obligations, limitations on the investment earnings of such proceeds prior to expenditure, a requirement that certain investment earnings on such proceeds be paid periodically to the United States Treasury, and a requirement that the issuer of the obligations file an information report with the IRS. The Corporation has covenanted in the Loan Agreement that it will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Series 2010A Bonds as taxable, retroactively to the date of execution and delivery. The City has covenanted in the Bond Indenture that it shall at all times do and perform all acts and things permitted by law that are necessary and desirable in order to assure that interest paid on the Series 2010A Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not be so excluded. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2010A Bonds, as described under the caption “TAX MATTERS.” The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the Series 2010A Bonds, and the opinion of Bond Counsel is not binding on the IRS.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt obligations. The Series 2010A Bonds may be, from time to time, subject to audits by the IRS. There is

no assurance that an IRS examination of the Series 2010A Bonds will not adversely affect the market value of the Series 2010A Bonds. See “TAX MATTERS” herein]

### **Consolidation, Merger, Sale or Conveyance**

The Corporation may merge into, or consolidate with, or sell, transfer, assign or otherwise convey all or substantially all of its Property to another Member or to any Person who is not a Member of the Obligated Group, upon compliance with the provisions of the Master Indenture summarized herein under the caption, “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2010A BONDS—The Master Indenture—Consolidation, Merger, Sale or Conveyance,” and in APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—[\_\_\_\_\_].” These transactions could, in certain circumstances, result in substantial changes in the effect of covenant restrictions on the Obligated Group in the Master Indenture or the substitution of different security for the Series 2010 Bonds, and any successor entity to the Corporation could have substantial debt outstanding that is entitled to security in addition to that provided for the benefit of the Series 2010 Bonds.

### **Construction Risks**

The development, construction and renovation of hospital facilities are susceptible to various risks and uncertainties, such as: inflation of construction costs; general construction risks, including cost overruns, change orders and plan or specification modification, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences; changes and concessions required by governmental or regulatory authorities; delays in obtaining, or inability to obtain, all licenses, permits and authorizations required to complete and/or operate the project; and disruption of existing operations and facilities.

*[Language regarding GMP contract to come* - The anticipated costs and construction period for components of the projects comprising Corporation’s plans for expansion are based upon budgets, some conceptual design documents and construction schedule estimates prepared by the Corporation in consultation with the Corporation’s architects and contractors as more fully described in APPENDIX A. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns cannot be financed on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. The completion dates of any of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that any project will be completed, if at all, on time or within established budgets, or that any project will result in increased earnings. Significant delays, cost overruns, or failures of the construction or renovation projects to achieve market acceptance could have a material adverse effect on the hospitals’ business, financial condition and results of operations. Furthermore, the projects, including the projects financed and refinanced by the Series 2010A Bonds, may not help the Corporation compete with new or increased competition and may not result in increased net income.]

Certain permits, licenses and approvals necessary for some of the Corporation’s current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development or renovation projects can be extensive and may include state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. The Corporation may not receive the necessary permits, licenses and approvals or obtain the necessary permits, licenses and approvals within the anticipated time frame.

The failure to complete any construction or renovation project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have an adverse effect on the Corporation's business, financial condition and results of operations. Further, the magnitude and scope of construction and renovation projects, and the management of multiple construction and renovation projects at the same time, may divert management resources from ongoing operations and/or construction and/or opening of any one project. Corporation management's inability to devote sufficient time and attention to ongoing operations and/or any one project may have an adverse affect on the ongoing operations of the hospitals or delay the construction or opening of any or all of the projects. Any delay caused by such circumstances could have a negative effect on business and operations.

In addition, although hospital construction and renovation is generally planned to have minimal impact on ongoing operations, no assurances can be given that the construction and renovation at the Corporation's facilities will not disrupt the ongoing operations of its hospital or that it will be implemented as planned. Therefore, the construction and renovation of hospital facilities may adversely impact the business, operations and revenues of the Corporation.

### **Trading Market for the Series 2010A Bonds**

There can be no assurance that there will be a secondary market for the purchase and sale of the Series 2010A Bonds. Any secondary market will depend on prevailing market conditions, the evaluation of the Corporation's resources and the financial condition and results of operations of the Corporation and any future Members of the Obligated Group.

### **Earthquakes**

The Corporation's facilities are situated in an active earthquake zone. A significant earthquake in the region could have a material adverse effect on the Corporation and could result in material damage and temporary or permanent cessation of operations at one or more of the Corporation's facilities. [*TMMC to confirm* - The Corporation does not have earthquake insurance].

Legislation adopted in California in 1994 requires all urgent care facilities in the State to survive earthquakes without collapsing or posing a treat of significant loss of life as of January 1, 2008. All hospitals must be seismically evaluated and retrofitted, if needed, to be in substantial compliance with the Hospital Facilities Seismic Safety Act by January 1, 2030. Delays in compliance with the January 1, 2008 deadline were permitted if a hospital owner showed that capacity lost in the closure of a facility could not be provided by another facility in the area or if a hospital owner agreed that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards. The 2013 deadline may be extended up to two years to January 1, 2015 if the hospital demonstrates certain requirements, including that it is under construction at the time of the request for the extension, it has made reasonable progress in meeting the deadline, and it cannot meet the deadline due to reasons beyond its control. For information on the Corporation's compliance with the seismic safety standards, see APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—FACILITIES—Expansion and Modernization Program."

### **Bond Ratings**

There is no assurance that the ratings assigned to the Series 2010A Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of such Series 2010A Bonds.

### **Additional Risk Factors**

The following factors, among others, may also adversely affect the operation of health care facilities, including the Corporation's facilities, to an extent that cannot be determined at this time:

1. Any termination or alteration of existing agreements between the Corporation and individual physicians and physician groups who render services to the patients of the Corporation or any termination or alteration of referral patterns by individual physicians and physician groups who render services to the patients of the Corporation with whom the Corporation does not have contractual arrangements.
2. An inflationary economy and difficulty of the Corporation to increase charges and fees for services may adversely affect the Corporation's operating margins.
3. The cost and effect of any future unionization of employees of the Corporation.
4. An inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Corporation.
5. Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s.
6. Increased unemployment or other adverse economic conditions in the Corporation's service area which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the Corporation's service area or by the closing of operations of one or more major employers in such service areas may result in a significant change in the demographics of such service areas, such as a reduction in the population.
7. Acts of terrorism in the Corporation's service area, against the Corporation or others.

In the future, other events may adversely affect the operations of the Corporation, as well as other health care facilities, in a manner and to an extent that cannot be determined at this time.

### **RELATIONSHIPS AMONG PARTIES**

The Bank of New York Mellon Trust Company, N.A. ("BNY") is acting in the dual role of Bond Trustee and Master Trustee. The Master Trustee is required under the Master Indenture to act for the benefit of the holders of all Obligations issued thereunder and the Bond Trustee is the holder of Obligation No. 2 issued to secure the Series 2010A Bonds. A conflict of interest might arise with BNY serving in such dual capacities.

[The Assistant City Manager of the City is also a member of the Board of Trustees of the Corporation. A conflict of interest might arise in connection with the City's role as issuer of the Series 2010A Bonds.]

**/OTHER PARTIES TO ADVISE AS TO OTHER RELATIONSHIPS TO DISCLOSE/****ABSENCE OF MATERIAL LITIGATION****The City**

[**THE CITY TO CONFIRM** - There is not now pending nor, to the knowledge of the City, threatened any litigation or other proceedings: restraining or enjoining the issuance or delivery of the Series 2010 Bonds or affecting the validity of the Series 2010 Bonds or the proceedings or authority under which Series 2010 Bonds are to be issued; questioning the creation, organization nor existence of the City or the title of any of the present members or other officers of the City to their respective offices; nor which in any manner questions the authority or right of the City to enter into the Bond Indenture or the Loan Agreement, or to issue or secure the Series 2010 Bonds in the manner provided in the Bond Indenture.]

**The Corporation**

[**TMMC TO CONFIRM** - There is not now pending nor, to the knowledge of the Corporation, threatened, any litigation or other proceedings: restraining or enjoining the issuance or delivery of the Series 2010 Bonds or affecting the validity of the Series 2010 Bonds, the Loan Agreement, the Master Indenture, Obligation No. 2, Obligation No. 3, Obligation No. 5 or the 2010 Bank Obligations; nor which in any manner questions the authority or right of the Corporation to enter into the Loan Agreement, or to issue or secure Obligation No. 2, Obligation No. 3, Obligation No. 5 or the 2010 Bank Obligations in the manner provided in the Master Indenture.

In addition, no litigation or proceedings are pending or, to the knowledge of the Corporation, threatened against the Corporation except (i) litigation in which the probable ultimate recoveries and the estimated costs and expenses of defense, in the opinion of counsel to the Corporation, will be entirely within the applicable insurance policy limits (subject to applicable deductibles), and (ii) litigation in which, in the opinion of such counsel, an adverse determination would not have a material adverse effect on the operations or condition, financial or otherwise, of the Corporation.]

**CONTINUING DISCLOSURE**

The City has determined that no financial or operating data concerning the City is material to an evaluation of the offering of the Series 2010A Bonds or to any decision to purchase, hold or sell Series 2010A Bonds, and the City will not provide any such information. Pursuant to the Rule and the Continuing Disclosure Agreement, the Corporation has undertaken all responsibilities for any continuing disclosure to holders of Series 2010A Bonds, and the City shall have no liability to the holders of the Series 2010A Bonds or any other person with respect to the Rule. Pursuant to the Continuing Disclosure Agreement, the Corporation has agreed to provide certain quarterly and annual financial information and notification of material events to the Municipal Securities Rulemaking Board. The form of the Continuing Disclosure Agreement containing the covenants made by the Corporation thereunder for the benefit of the Beneficial Owners of the Series 2010A Bonds is attached in APPENDIX E—“FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made by the Corporation in order to assist the Underwriters in complying with the Rule. [**TMMC to confirm** - The Corporation has never failed to comply in any material respect with any previous undertaking with respect to the Rule to provide annual reports or notices of material events.]

Failure by the Corporation to comply with the Continuing Disclosure Agreement will not constitute an event of default under the Master Indenture, the Loan Agreement or the Bond Indenture. The holders of the Series 2010A Bonds are limited to the remedies described in the Continuing

Disclosure Agreement. Failure by the Corporation to comply with the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2010A Bonds in the secondary market. Consequently, any such failure may adversely affect the transferability and liquidity of the Series 2010A Bonds and their market price.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel expresses no opinion regarding whether such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2010A Bonds is less than the amount to be paid at maturity of such Series 2010A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2010A Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2010A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2010A Bonds is the first price at which a substantial amount of such maturity of the Series 2010A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2010A Bonds accrues daily over the term to maturity of such Series 2010A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2010A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2010A Bonds. Beneficial Owners of the Series 2010A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2010A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010A Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2010A Bonds. The City and the Corporation have made certain representations and have covenanted to comply with

certain restrictions, conditions and requirements designed to ensure that interest on the Series 2010A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2010A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2010A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of McDermott Will & Emery, LLP, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Series 2010A Bonds in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2010A Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2010A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2010A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2010A Bonds. Prospective purchasers of the Series 2010A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2010A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2010A Bonds ends with the issuance of the Series 2010A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City, the Corporation or the Beneficial Owners regarding the tax-exempt status of the Series 2010A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City, the Corporation and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City or the Corporation legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010A Bonds, and may cause the City, the Corporation or the Beneficial Owners to incur significant expense.

### RATINGS

The Series 2010A Bonds have been rated "[ ]" by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. ("S&P") and "[ ]" by Moody's Investors Service ("Moody's"). These ratings reflects only the views of S&P and Moody's, and any explanation of the significance of such ratings should be obtained from S&P and Moody's from the following addresses: Standard & Poor's, a division of The McGraw-Hill Companies, Inc., Public Finance Department, 55 Water Street, New York, New York 10041 or from Moody's at the following address: Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, NY 10007. In order to obtain such ratings, the Corporation furnished certain information and materials to S&P and Moody's, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions. There is no assurance that either of the ratings will be maintained for any given period of time or that they will not be revised downward, suspended or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. The Corporation undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained or other actions by a rating agency relating to its rating may have an adverse effect on the market price of the Series 2010A Bonds.

The Corporation expects to furnish each rating agency such information and materials as it may request. The Corporation, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of the rating on the Series 2010A Bonds.

### LEGAL MATTERS

The validity of the Series 2010A Bonds and certain other are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain other legal matters will be passed upon for the City by its special counsel, [ ], California, for the Corporation by its special counsel, McDermott Will & Emery LLP, and for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P., California.

### INDEPENDENT PUBLIC ACCOUNTANTS

*[KPMG to confirm language]* - The financial statements of Torrance Memorial Medical Center as of December 31, 2009 and 2008, and for the years then ended, included in APPENDIX B to this Official

Statement, have been audited by KPMG LLP, independent public accountants, as stated in their report appearing herein.]

### FINANCIAL ADVISOR

Kaufman, Hall & Associates, Inc. ("Kaufman Hall"), El Segundo, California, was engaged by the Corporation to provide financial advisory services in connection with the issuance and delivery of the Series 2010A Bonds. Kaufman Hall is a national consulting firm which acts as capital advisor to health care organizations.

### UNDERWRITING

The Series 2010A Bonds are being purchased by Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. (together, the "Underwriters") pursuant to a Bond Purchase Agreement relating to the Series 2010A Bonds (the "Bond Purchase Agreement"). The Underwriters have agreed to purchase the Series 2010A Bonds at an aggregate price of \$\_\_\_\_\_ (being the principal amount of the Series 2010A Bonds of \$\_\_\_\_\_, plus/minus net original issue premium/discount of \$\_\_\_\_\_, and less an Underwriters' discount of \$\_\_\_\_\_, which includes certain expenses of the Underwriters). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2010A Bonds if any are purchased, subject to certain terms and conditions set forth therein, including the delivery of specified opinions of counsel and of a certificate of the Corporation to the effect that there has been no material adverse change in its condition, financial or otherwise, from that set forth in this Official Statement. However, pursuant to the Bond Purchase Agreement, the sale and issuance of the Series 2010A Bonds is not conditioned upon the sale or issuance of the Series 2010B Bonds or the Series 2010C Bonds. The Corporation has agreed to indemnify the Underwriters, the City and the Bond Trustee against certain liabilities to the extent permitted by law.

The initial public offering prices or yields set forth on the inside front cover hereof may be changed without notice from time to time by the Underwriters, and the Underwriters may offer and sell Series 2010A Bonds to certain purchasers at prices lower than the public offering prices stated on the inside cover page hereof. The Corporation has been advised by the Underwriters that (i) they presently intend to make a market in the Series 2010A Bonds offered hereby, (ii) they are not, however, obligated to do so, (iii) any market-making may be discontinued at any time, and (iv) there can be no assurance that an active public market for the Series 2010A Bonds will develop.

**[Citi to confirm language** - Citigroup Inc., parent company of Citigroup Global Markets Inc., one of the underwriters of the Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2010A Bonds.]

J.P.Morgan Securities Inc. ("JPMSI"), one of the Underwriters of the Series 2010A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings [~~DELETE FOR POS UNLESS IT IS CERTAIN THAT UBS AND CHARLES SCHWAB WILL PARTICIPATE:~~ , including the Series 2010A Bonds,] at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase Series 2010A Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells

### MISCELLANEOUS

The references to and the descriptions of the Series 2010A Bonds, the Master Indenture, Supplemental Indenture No. 2, the Loan Agreement, the Bond Indenture, Obligation No. 2 and the Additional 2010 Obligations contained herein and in APPENDIX C hereto are brief descriptions of certain provisions thereof. Such descriptions do not purport to be complete. For full and complete statements of such provisions, reference is made to such documents. Copies of such documents are on file in the office of the Underwriters and following delivery of the Series 2010A Bonds will be on file at the principal corporate trust office of the Bond Trustee in Los Angeles, California.

The attached APPENDICES are integral parts of this Official Statement and should be read together with the balance of this Official Statement. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The use and distribution of this Official Statement have been approved by the City. This Official Statement and its use and distribution have been duly approved by the Corporation. This Official Statement is not to be construed as a contract or agreement between the City or the Corporation and the purchasers or Holders of any of the Series 2010A Bonds.

### CITY OF TORRANCE

By /s/ \_\_\_\_\_  
 Name:  
 Title:

Approved:

### TORRANCE MEMORIAL MEDICAL CENTER

By /s/ \_\_\_\_\_  
 Name:  
 Title:

# Appendix A

**APPENDIX A****INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER**

*The information contained herein was provided and approved by the Corporation. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. Neither the City nor the Underwriters have undertaken to independently verify such information, and neither the City nor the Underwriter make any representation as to its accuracy or completeness. Capitalized terms used in this APPENDIX A and not otherwise defined have the meanings set forth in the body of this Official Statement or in APPENDIX C.*

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**MAP OF SOUTHERN CALIFORNIA**

**[Insert map of Southern California]**

## INTRODUCTION

### General

Torrance Memorial Medical Center (the “Corporation”) is a California nonprofit public benefit corporation, organized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”). The Corporation owns and operates the Torrance Memorial Medical Center (the “Medical Center”) which is located in Torrance, California (the “City”).

Founded by Jared Sydney Torrance in 1925, the Medical Center was the first hospital in the South Bay area of Los Angeles and opened with 32 beds. The Corporation has responded to the growing needs of the City and the South Bay for hospital services by expanding the Medical Center’s facilities and adopting medical technologies to streamline operations and enhance patient outcomes. Today, the Medical Center has 401 licensed beds and serves Los Angeles’s South Bay and Palos Verdes Peninsula communities, which have a combined population of approximately 900,000, including the cities of Torrance, Lomita, El Segundo, Hermosa Beach, Manhattan Beach, Redondo Beach, Palos Verdes, Gardena, Hawthorne, Lawndale, Carson, Harbor City, Wilmington and San Pedro. See map on page 18.

At the time of issuance of the Series 2010 Bonds, the Corporation will be the only member of the Obligated Group formed pursuant to the Master Indenture. The organization chart on the following page identifies the organizations affiliated with the Corporation. No affiliate of the Corporation is a member of the Obligated Group, and no affiliate of the Corporation is obligated to make payments on the Series 2010 Bonds, the Obligation Nos. 2, 3 and 5 securing the Series 2010 Bonds or other Obligations issued by the Corporation under the Master Indenture.

All capitalized terms used and not otherwise defined in this Appendix A shall have the meanings for such terms specified in the front part of this Official Statement or in Appendix C.

### Mission, Values & Strategic Plan/Core Strategies

The Corporation’s mission is to provide quality healthcare services, predominantly to the residents of the South Bay and Palos Verdes Peninsula communities, described above. Under the governance of the Corporation’s community-based Board of Trustees, the Corporation serves the public interest by improving the communities’ health within the scope and expertise of its resources, offering current medical technologies, and maintaining long-term stability in order to assure its strength and viability. The Corporation’s Board of Trustees endorses a set of values which guides the delivery of patient services and the Medical Center’s relationship with patients, physicians, employees and the communities which it serves.

The Corporation’s current strategic plan for the Medical Center establishes the following priorities:

***Quality and Patient Safety.*** In partnership with affiliated physicians, the Medical Center will achieve superior quality, patient safety and value through the identification and standardization of clinical protocols and enhanced information technology support.

***Physician Alignment.*** The Medical Center will attract and retain superior physicians by offering opportunities for alignment and partnership using several models and approaches while maximizing operating performance.

***Workforce Development.*** The Medical Center will be a destination workplace to grow and develop staff and management (top talent) that creates the highest value, safe, quality and cost-effective care.

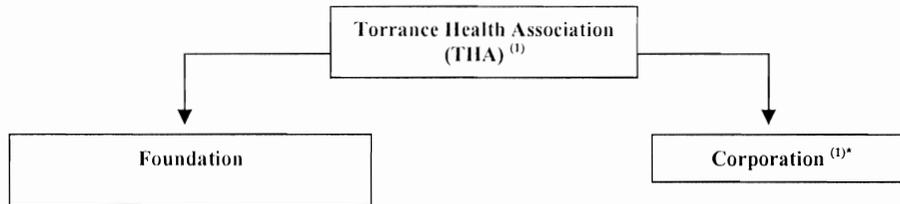
**Financial Stewardship.** The Medical Center will maintain financial viability through strong financial and operational performance, cost management, value-added capital investments and philanthropy and capital structure management.

**Meeting Community Needs.** The Medical Center will pursue fiscally responsible growth and retain patients within the Medical Center system, addressing market factors (regionalization, technology advances, consumer-driven decision making, reimbursement trends) and community needs.

## ORGANIZATIONAL STRUCTURE

### Obligated Group

The Corporation is currently the sole member of the “Obligated Group” created pursuant to the Master Indenture, which is described in the forepart of this Official Statement. The Obligated Group is the central financing and credit vehicle for the Medical Center. Torrance Health Association (“THA”), a California nonprofit public benefit corporation, is the sole member of the Corporation and of the Torrance Memorial Medical Center Health Care Foundation (the “Foundation”). The organizational chart is shown below.



(1) Not for Profit, 501(c)(3) Corporation

☐ Obligated Group Member

\*The Corporation has no subsidiaries

## GOVERNANCE AND MANAGEMENT

The governing body of the Corporation is its Board of Trustees (the “Board”), which is composed of 12 trustees. THA elects all members of the Board. Three members of the Board must be members of the active Medical Staff of the Medical Center. The remainder of the Board are members of the community. All members of the Board are voting members.

Each member of the Board may be elected to a maximum of two successive three-year terms. Nomination for Board membership is made by the Nominating Committee of the Board. Approximately one-third of the members of the Board is elected annually by THA’s board and serve generally up to two three-year terms, but THA has the power to exempt a trustee from the two-term limit. Once elected to the Board, any trustee who is a compensated officer of the Corporation may be re-elected at the end of each term for so long as such person remains a compensated officer of the Corporation. The Board meets at least four times per fiscal year and more frequently if necessary.

The members of the Board, the initial date of their terms, the year in which their current terms of office expire, and their occupations are shown below.

### Corporation Board of Trustees

Trustee Name	Occupation	Trustee Since	Term Expiration
William Collier, Esq., Chairman	Attorney	February 1993	(1)
Pamela Crane, Secretary	Marketing Director of Family Owned Business	July 1998	(1)
Karen Cutler	Community Volunteer	May 2007	May 2013
Sally Eberhard	Senior Vice President, Planning & Development of Corporation	May 2009	(2)
Michael Falvey, MD, Vice Chairman	Plastic Surgeon	September <sup>(3)</sup> 2007	May 2013
Dennis Fitzgerald, Treasurer	Sr. Vice President, Investments, Wells Fargo Advisors	July 1982	April 1999 <sup>(1)</sup>
Mary Giordano	Assistant City Manager, City of Torrance	May 2008	May 2014
George Graham	Retired President/CEO, TMMC 'President Emeritus'	May 2009	May 2015
Sherry Kramer	Community Affairs Director, Continental Development Corporation	May 2010	May 2016
Craig Leach, Vice Treasurer	President/CEO of Corporation	October 2001	(2)
John McNamara, MD	Senior Vice President, Chief Medical Officer of Corporation	May 2008	May 2011
David Rand, MD	Infectious Disease Physician	May 2010	May 2016

(1) THA granted exemption from term limit.

(2) Employee member, terms automatically renewed.

(3) Elected mid term to replaced physician who left the area.

The Bylaws of the Corporation provide for the following standing committees of its Board: Audit Committee; Executive Committee; Finance and Long Range Planning Committee; Bylaws and Nominating Committees; Compensation Subcommittee of Executive Committee; Community Benefits Planning Committee; Performance Improvement/Patient Safety Committee and Pension Committee.

Under the Conflicts of Interest Policy of the Corporation, members of its Board and all officers are required to report to the Board any potential conflicts of interest which may arise from their position as officers or members of the Board, are required to disclose all such potential conflicts, and are required to abstain from voting on transactions involving conflicts of interest. Certain members of the Board have affiliations with businesses, associations, firms or persons that have professional relationships with Corporation and comply with the Conflict of Interest Policy with respect to such affiliations.

#### Executive Management

The principal officers of the Corporation's management team are profiled below.

**CRAIG LEACH, President and Chief Executive Officer.** Age 54. Craig Leach began his position as President / Chief Executive Officer with the Corporation on January 1, 2006. Craig has been with the Corporation for 26 years, serving five years as the Chief Operating Officer and the ten years prior to that as the Chief Financial Officer. Craig graduated from Loyola Marymount University in 1977 and became a Certified Public Accountant while working for a public accounting firm in Los Angeles. He then served as administrative controller for Centinela Hospital in Inglewood, California before joining the Corporation in May 1984.

**DOUG KLEBE, *Senior Vice President and Chief Financial Officer***. Age 53. Doug Klebe began his position as Chief Financial Officer with the Corporation in September 2001. He has held positions in healthcare financial management since 1984, and held senior-level positions at hospitals and physician management services organizations since 1987. He oversees the Medical Center's information technologies strategy and departments, and has extensive experience with application and platform implementation. Doug graduated summa cum laude from Moorhead State University in Moorhead Minnesota.

**SALLY EBERHARD, *Senior Vice President, Planning and Development***. Age 60. Sally Eberhard has served as Senior Vice President, Planning and Development with the Corporation since June 1996 and held the position of Vice President, Planning and Marketing during the prior 11 years. Sally obtained a bachelors degree from Stanford University and completed a doctoral degree in health services and hospital administration from the UCLA School of Public Health. Previously, she held administrative positions at Little Company of Mary Hospital and Hollywood Presbyterian Hospital.

**PEGGY BERWALD, *Senior Vice President, Patient Services***. Age 58. Peggy Berwald began her position as Senior Vice President, Patient Services/Chief Nursing Officer with the Corporation in summer 2003. Peggy has been with the Corporation for 32 years, including the previous three years as the Vice President, Nursing Services, and in the 22 years prior to that she held positions from a critical care staff nurse to progressive nursing management positions in critical care, medical-surgical services and coordinated care. She graduated from St. Alexis Hospital School of Nursing in Cleveland, Ohio in 1973. Prior to joining the Corporation in February 1978, Peggy had worked at University Hospitals in Cleveland, Ohio State University Hospitals, and Little Company of Mary Hospital in Torrance. She received her BSN from California State University in 1988 and MSN in Nursing Administration from UCLA in 2000.

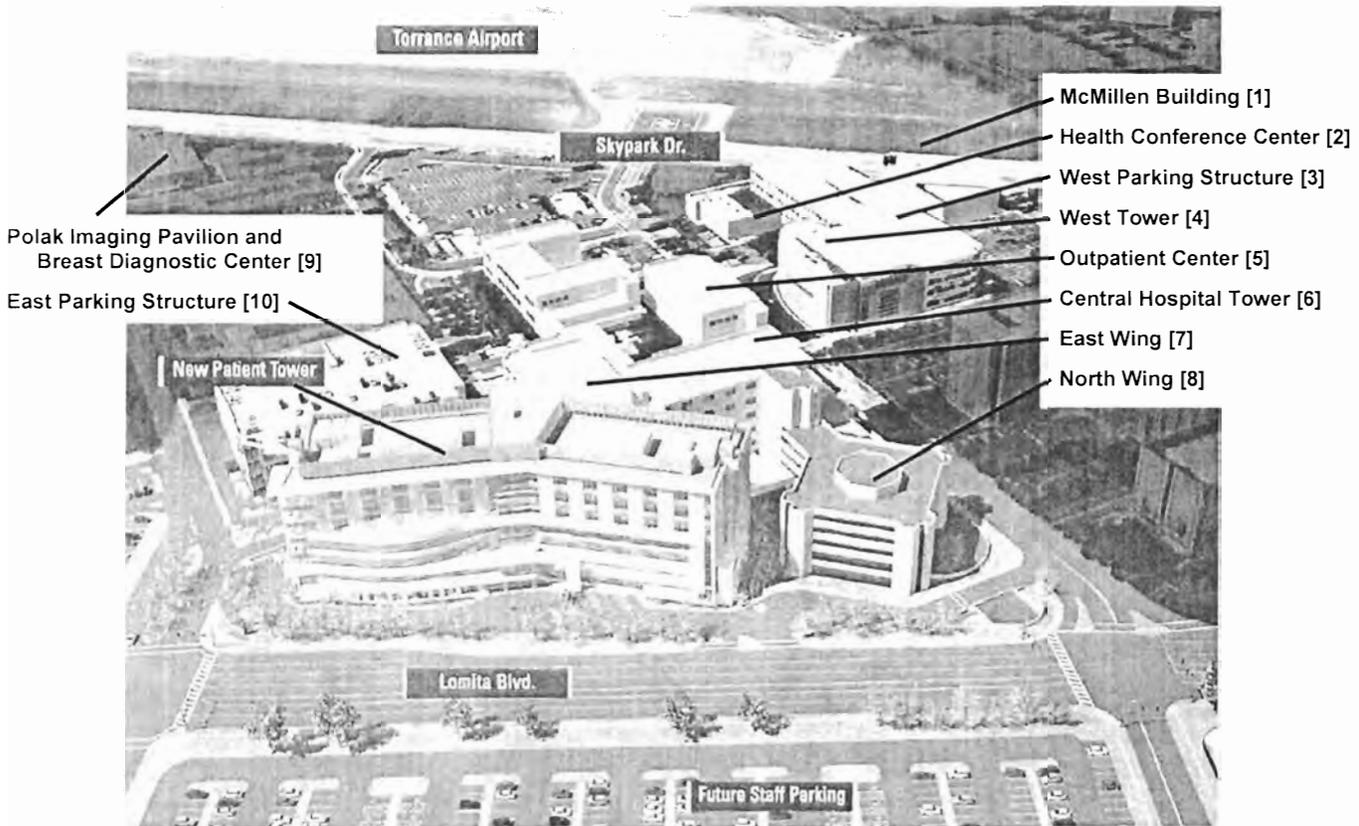
**JOHN MCNAMARA, MD, *Senior Vice President, Chief Medical Officer***, Age 60. John McNamara, MD, has been Senior Vice President, Chief Medical Officer since February 2009. Prior to that, he practiced Vascular Surgery at the Medical Center for 29 years. During those years, he served as both the Chairman of the Department of Surgery and also as Chief of Staff. Dr. McNamara graduated with a Doctorate of Medicine in 1974 from Louisiana State University. After training in general surgery at Louisiana State University he obtained vascular surgery training in California. Following completion of that training he began practicing at the Medical Center in 1980.

## FACILITIES

### Medical Center Expansion and Modernization Program

In 2000, the Corporation embarked on a substantial, multi-year expansion and modernization program (the "EMP") for the Medical Center. The initial phases of the EMP are substantially complete and are discussed under "FACILITIES—Initial Phases—Completed Portions of EMP – 2000 through 2010" below. The Medical Center is now in the final phase of this EMP, which involves the construction of a New Main Tower to replace and/or augment the Medical Center's existing inpatient space, described under "— Next Phase of EMP —The New Main Tower Project" below.

The entire Medical Center is comprised of 17 buildings at various locations totaling 1,353,715 square feet, which includes the initial phases of the EMP, plus another nine leased suites. The principal Medical Center campus is comprised of nine buildings located on approximately 22 acres in Torrance, California (see map below).



### Initial Completed Phases of EMP — 2000 through 2010

Within this subsection, the bracketed numbers correspond to the locations on the Medical Center map above.

The following is a description of the initial phases of the Corporation's expansion and modernization program with the year of completion noted.

*Neonatal Intensive Care Unit (2001):* The Medical Center's expanded Neonatal Intensive Care Unit (NICU) is licensed at Level III. This expansion added 8 beds, including 2 infant warmers and four isolettes, bringing total capacity to 25 newborns. [7]

*George and Reva Graziadio Radiology Center (2001):* Located on the ground floor of the Central Hospital Tower which was built in 1972, this Radiology Center specializes in interventional and diagnostic procedures for in-patients. [6]

*East Parking Structure (2002):* A second multilevel parking structure was opened on the east side of the campus, providing 650 additional parking spaces, bringing total structure and surface parking on the campus to approximately 2,100 spaces. [10]

*Progressive Care Unit (2002):* Expansion of the Progressive Care Unit (PCU) on the seventh floor of the Central Hospital Tower increased the total number of PCU beds to 70. [6]

*Critical Care Unit (2002):* A new eight-bed Intensive Care Critical Care Unit (ICCU) was constructed. With this addition, the Medical Center's total critical care capacity was increased to 38 beds. [6]

*Thelma McMillen Center for Chemical Dependency Treatment (2003):* This medical building, located adjacent to the west parking structure [3] was purchased and renovated and includes 10,000 square feet dedicated to outpatient chemical dependency treatment programs for adults and adolescents, as well as community outreach programs. The building also houses other outpatient services and physician offices. [1]

*West Tower (2004):* This 95,000 square-foot, five-story tower contains administrative and outpatient services, which were relocated from the Central Hospital Tower. [6] Some of the vacated space now houses 25 additional inpatient beds. See “—Lemkin Pavilion,” below. [4]

*Labor/Deliver/Recovery (LDR) Rooms (2004):* Reconfiguration of a portion of the East Wing [7] contains the Family Birth Center with 14 highly specialized suites designed to allow labor, delivery and recovery to happen in one room. [7]

*Polak Imaging Pavilion (2004):* The Polak Imaging Pavilion was opened in 2000 and enlarged from 2003 through 2005 to 20,000 square feet to provide expanded outpatient diagnostic radiology services, including MRI and MRA, CT and CTA, as well as digital X-ray. These expansions included additions of a PET/CT unit, two MRI units, 10 ultrasound rooms and five radiology suites with digital X-ray units. [9]

*Polak Breast Diagnostic Center (2007):* Adjacent to the Polak Imaging Pavilion, the Polak Breast Diagnostic Center (BDC) is equipped with eight digital mammography units, four breast ultrasound units, one stereotactic biopsy unit and one bone density unit. This BDC performs more than 40,000 exams annually. Three off-campus satellite BDCs are located in the cities of Carson (2 digital mammography units, performing more than 5,000 exams annually), Manhattan Beach (2 digital Mammography units performing more than 7,100 exams annually) and—added in 2007—Rolling Hills Estates (2 digital mammography units, now performing more than 7,600 exams annually). [9]

*Emergency Department (2007):* The Medical Center's emergency department (the “ED”) was expanded into space vacated by the relocation of outpatient services. [6] The vacated space—approximately 9,700 square feet—was converted to ten additional treatment beds and allowed relocation and upgrade of the ED entrance, waiting and triage areas. [7]

*Lemkin Pavilion (2008):* This 25-bed inpatient unit was built in space vacated when administrative offices moved to the West Tower. This unit meets the need for additional acute beds, and is configured for the comfort and care of cancer and palliative care patients and their families. [8]

*Five New Surgical Suites (2008):* Five new surgical suites were constructed in the Outpatient Center building. This additional surgical capacity has reduced wait times for scheduling of surgical procedures and allows for additional surgical procedures. [5]

*Endoscopy Center (2008):* The Medical Center's Endoscopy Center was expanded to include five procedure rooms and 15 beds to accommodate patients before and after their gastrointestinal, pain-management or bronchoscopy procedures. [6]

### **Next Phase of EMP — The New Main Tower Project**

The next phase of EMP includes: (1) construction of a new 389,000 square foot, seven-story patient bed tower and connector buildings to existing Medical Center buildings (anticipated completion in 2014) (the “New Main Tower”); (2) preparation of additional surface parking for employees and volunteers (anticipated completion in 2012); and (3) remodeling of space in the East Wing that will be vacated in 2015 when the New Main Tower opens, including addition of a new 28-bed neonatal intensive care unit (anticipated completion in 2016). Collectively, this final phase of the EMP is referred to as the “New Main Tower Project.”

Upon its completion, all of the existing semi-private acute care beds in the Central Hospital Tower will have been replaced with private beds. The total number of patient beds and operating and procedure rooms will be increased, as discussed below under “—Available Bed Capacity Comparison” and “—Procedure Room Comparison.”

The initial rationale for this New Main Tower Project was, in part, to comply with California State Senate Bill 1953 (“SB1953”) enacted in California Legislature in 1994. SB1953 requires each acute care hospital in California to either comply with new hospital seismic safety standards or cease acute care operations by various deadlines. Since 1994, the California Building Standards Commission and the Office of Statewide Health Planning and Development (“OSHPD”) have revised their initial seismic safety requirements. Under these revisions, the Medical Center’s Central Hospital Tower may be used for acute care services through December 31, 2029. For additional discussion of seismic safety requirements, see “BONDHOLDERS’ RISKS—Earthquakes” in the front part of this Official Statement.

The Medical Center is in varying stages of compliance with the increased seismic requirements applicable to its existing acute care facilities. As stated, the acute inpatients areas are compliant with the provisions of SB1953 through 2029. Completion of the New Main Tower Project will have all areas of the Medical Center slated for inpatient services compliant beyond December 31, 2029. The Medical Center will not meet the December 31, 2012 deadline for meeting the NPC-3 seismic requirements (anchoring and bracing of equipment, fixtures, etc.) in the Central Hospital Tower that will be abandoned when the New Tower is placed in service in early to mid 2015. The Medical Center has been meeting with legislative representatives to exempt the Medical Center from meeting these requirements. Additionally, legislation is expected to be introduced that will extend the NPC-3 deadlines.

Despite the completion of earlier phases of the Corporation’s EMP over the past decade, the Corporation forecasts continued increase in demand for services of the Medical Center. Construction of the New Main Tower is a priority of the Corporation to address its need for additional inpatient beds. The need for these beds will increase with the aging of the population of the Medical Center’s primary and secondary service areas (see “SERVICE AREA AND COMPETITION—Service Area”) and as a result of the closure over the past 12 years of five hospitals in the South Bay and adjacent areas with an aggregate loss of approximately 1,300 beds. The Medical Center is currently operating at near capacity of its available beds. The Medical Center’s occupancy rate of its available beds averaged 79.5% during the first sixth months of 2010, despite a decrease in length of stay. However, this occupancy percentage understates the number of beds available to treat inpatients for two reasons. First, most of the beds in the Central Hospital Tower being replaced by New Main Tower are semi-private, which limits occupation of the second bed to a patient of the same gender, thereby limiting true capacity. Second, this occupancy percentage does not take into account beds occupied by patients who are being treated in the inpatient areas under “observation” status, but who have not been admitted as inpatients to the Medical Center.

The combination of these two factors, plus the as-measured occupancy percentage of 79.5% during the first six months of 2010, means the Medical Center is at or above capacity on many days, especially

during the winter months and flu season. Without additional beds available to accommodate new admissions, patient flow throughout the Medical Center is compromised, causing delayed admissions and extended wait times in its Emergency Department. Replacement of the semi-private rooms in the Central Hospital Tower with private rooms in the New Main Tower is also expected to improve overall patient satisfaction, thereby maintaining or improving the Medical Center's patient survey results used by Medicare to determine a portion of Medicare reimbursement.

The following table compares the current available bed capacity of the Medical Center to expected available bed capacity in 2016 following completion of the New Main Tower Project.

#### Available Bed Capacity Comparisons

	<b>2010 Available Bed Capacity<sup>(1)</sup></b>	<b>2016 Expected Available Bed Capacity<sup>(1)</sup></b>	<b>Net Increase in Available Beds</b>
Medical/Surgical	226	245	19
Critical Care (includes Burn Center)	38	48	10
Pediatric	20	20	0
Obstetrics	28	28	0
NICU	25	28	3
Total Acute	337	369	32
Transitional Care/SNF	40	40	0
Total	377 <sup>(1)</sup>	409 <sup>(2)</sup>	32

Source: Corporation.

<sup>(1)</sup> The Medical Center has 401 beds licensed for inpatient use; however, actual capacity is reduced by current space constraints, such as the essential, daily use of up to 24 inpatient-licensed beds for patients recovering from interventional outpatient procedures. Available 2010 bed capacity includes 149 Medical/Surgical and Pediatric beds in semi-private rooms.

<sup>(2)</sup> Available 2016 bed capacity includes all 409 licensed beds. All inpatient acute-care rooms will be private, and the Medical Center will not use inpatient-licensed beds in the New Main Tower for observation of patients recovering from interventional outpatient procedures.

The following table compares the current procedure room capacity to expected procedure room capacity in 2016 following completion of the New Main Tower Project.

#### Procedure Room Comparison

	<b>2010 Procedure Rooms</b>	<b>2016 Expected Procedure Rooms</b>
Operating Rooms	19	21
Cardiac Catheterization Laboratories	3	5
Interventional Radiology Rooms	2	2
C-Section Operating Rooms	3	3

Source: Corporation.

The Medical Center's New Main Tower has been designed to accommodate the latest medical technologies and to anticipate future needs of physicians, employees, patients and visitors. All rooms will be private, optimizing infection and noise control, ensuring patient privacy and providing an optimal healing environment. Services located in the basement will include the inpatient pharmacy, central services and a mechanical/power plant. The first floor will be accessible through a landscaped outdoor plaza, and will feature a lobby, private interview areas for admitting patients, diagnostic and treatment imaging services, a gift shop, a café, chapel and healing garden. The second floor will be dedicated to providing highly advanced procedural technologies which will include new operating rooms (to replace those in the Central Hospital Tower), cardiac catheterization laboratories, interventional radiology rooms and pre- and post-recovery units. The third and fourth floors will be home to intensive and coronary care units, the burn center and the progressive care unit. There will be approximately 50 private inpatient rooms with visitor space on both the fifth and sixth floors. The seventh floor will be shelled in for future inpatient growth, providing flexibility to meet future community needs for acute services.

The overall design of the New Main Tower is environmentally sensitive, from the selection of building materials to the water-efficient landscaping. Careful consideration has been given to the New Main Tower's impact on traffic—on and off campus—as well as provision of ample parking for visitors, patients and staff. At a cost equivalent to construction of a multilevel structure to provide additional parking, the Medical Center has purchased a 15.9 acre property across Lomita Boulevard from the Medical Center campus. The Corporation expects that this property will be converted to surface parking prior to the opening of the New Main Tower and that in the long term it may be used to provide space for additional hospital facilities.

#### **New Main Tower Project Costs**

Capital spending at the Medical Center for the ten-year period beginning January 1, 2010, through December 31, 2019, is projected by the Corporation to total \$585 million, which consists of the New Main Tower Project and other improvements, as described below.

**The Medical Center has negotiated a guaranteed maximum price contract with McCarthy building Company as of August 18, 2010. This contract includes the completion of site work as well as the construction of the New Main Tower. It excludes change orders, which could potentially be made to the approved construction plan. However, the Medical Center has included a \$35 million construction contingency within the budget to accommodate such change orders.** The current estimate of the total cost of the New Main Tower Project, including components included in the GMP contract, planning expenses, design costs, equipment and information technology, and costs incurred prior to 2010, is approximately \$479 million. There will be additional costs associated with completing and opening the New Main Tower Project, including transition and move-related expenses, estimated at approximately \$5 million. See "BONDHOLDERS' RISKS—Other Risk Factors—Construction Risks" in the front part of this Official Statement.

<b>Costs of New Main Tower Project 2009-2015 (in millions)</b>	
Land / Site Work	\$34
Design / Engineering / Permits / Utilities / Insurance	\$69
New Tower Construction Costs	\$266
Equipment	\$75
Contingency	\$35
Less: Pre-2010 Expenditures	\$(17)
<b>Total Estimated Project Costs 2010 - 2015</b>	<b>\$462</b>

Other components of this projected \$585 million capital expenditures plan over 10 years include: routine replacement of existing equipment, estimated at \$69 million; a new intensive care neonatal nursery; and other costs necessary to bring the facilities in the Central Hospital Tower, which will be replaced by the New Main Tower, to nonstructural seismic compliance, estimated at \$23 million; and costs of projects and initiatives to upgrade and expand services not included in the New Main Tower Project including replacement of a Radiation Oncology linear accelerator, estimated at \$31 million. The Corporation will also continue to invest in Information Technologies—data center upgrades and software conversion/implementations to integrate and meet new Meaningful Use criteria contained in the HITECH provisions of the American Recovery and Reinvestment Act of 2009. The HITECH provisions provide incentive payments to hospitals that meet specific criteria established by the Centers for Medicare and Medicaid Services (CMS) for use of electronic health records.

Post New Main Tower Projects include the estimated costs of upgrading certain areas of the Central Hospital Tower to nonstructural seismic standards which would, among other things, convert what are currently semi-private inpatient acute beds to skilled nursing, if the Corporation determines there continues to be a need for skilled nursing beds in the South Bay Area.

As previously stated, the seventh floor will be shelled in for future inpatient growth, providing flexibility to meet future community needs for acute services. The shelled space could increase capacity by 52 beds.

<b>Projected Capital Spending 2010 - 2019 (in millions)</b>	<b>Total</b>
Total Expected New Tower Project Related Costs – (2010–2015)(1)	\$462
Routine Capital Equipment / Refurbishment (2010–2019)	\$69
Other Projects / Initiatives (2010 – 2013)	\$31
Post New Main Tower Projects (2015-2017)	\$23
<b>Total Estimated Capital Spending (2010 – 2019)</b>	<b>\$585</b>

<sup>(1)</sup> Total Project Costs of \$479 million less pre-2010 expenditures of \$17 million

As set forth in the table below, the New Main Tower Project is expected to be funded from a number of sources, including operating cash flow, proceeds from the Series 2010 Bonds of \$197 million and a \$75 million capital fundraising campaign which is currently in progress and is described under “FUNDRAISING,” below. The Medical Center expects to finance over half the cost of its Projected Capital Spending from 2010–2019, including the New Main Tower, from operating cash flow.

<b>Funding Sources of New Main Tower Project and Other Projected Capital Spending</b> (in millions)	
Operating Cash Flow <sup>(1)</sup>	\$313
Series 2010 Bond Proceeds <sup>(2)</sup>	\$197
Capital Campaign	\$75
<b>Total Sources</b>	<b>\$585</b>

<sup>(1)</sup> See APPENDIX B—TORRANCE MEMORIAL MEDICAL CENTER FINANCIAL STATEMENTS FOR DECEMBER 31, 2009 AND 2008—Statement of Cash Flows for historical cash flow information

<sup>(2)</sup> Estimated Series 2010 Bond Proceeds of \$200 million less estimated costs of issuance of \$3 million

In the event the Corporation does not meet its financial goals for operating performance or for the capital fund raising campaign, the Corporation currently plans to take any combination of the following actions:

- Forego additional funding of cash reserves / board-designated assets from excess cash flow.
- Reduction of the contingency amount (\$35 million) included in estimated \$462 million remaining costs of the New Main Tower Project.
- Foregoing or delaying routine capital expenditures and other discretionary projects.
- Using existing available funds (\$223 million at December 31, 2009).

### FUNDRAISING

Since its founding in 1925, the Medical Center has been the beneficiary of significant philanthropic support from individuals, corporations and foundations. The Medical Center benefits from the support of a dedicated Board, an experienced development department and volunteer support groups and auxiliaries, and the Foundation.

The Foundation is organized under the nonprofit public benefit corporation law of California for charitable purposes and is tax-exempt under the Code. Its charitable purposes are limited to providing financial and other support, including establishment of a permanent endowment fund, for the benefit of THA and other corporations or organizations controlled by THA or designated by THA for such support, including, but not limited to, the Medical Center. To date, THA has only designated the Medical Center to receive financial support from the Foundation. To date, the Medical Center has received all financial support provided by the Foundation, except \$2 million transferred to THA for the acquisition and development of a medical office building to support the Medical Center’s chemical dependency program.

Over the past five years, the Foundation has raised over \$38 million to supplement the Corporation’s budgeted funding for capital improvements and to support its healthcare services such as the palliative care, outpatient chemical dependency treatment, cardiovascular intervention programs, child and adult fitness programs, radiologic imaging and the breast diagnostic center.

The Corporation provides the Foundation with a staff of eight full-time employees devoted to fundraising activities, including cultivation and solicitation of grants, corporate gifts, major gifts, planned gifts and annual gifts. See information regarding fundraising in footnotes 2(f) and (l) in the Corporation's Financial Statements included in APPENDIX B.

To finance a portion of the New Main Tower Project, the Corporation announced a \$75 million Capital Campaign in September 2007. This campaign, conducted by the Foundation, encompasses gifts that would normally be received for annual support as well as new bequests, gifts and grants. As of July 1, 2010, a total of \$12,560,000 has been pledged for construction of the New Main Tower, of which \$9,454,000 has been collected. In the event that the Corporation does not meet its financial goals for this Capital Campaign, the Corporation would take a combination of actions described under "FACILITIES—New Main Tower Project Costs" above.

## PATIENT SERVICES

### General

During the fiscal year ended December 31, 2009, the Medical Center admitted more than 25,000 inpatients (excluding regular newborns) and treated more than 280,000 outpatients. See "SERVICE AREA AND COMPETITION—Utilization" herein.

The Medical Center ranks as the market leader in the annual National Research Corporation's survey of South Bay residents on healthcare attitudes and experiences, receiving top scores in 2009 for Best Overall Quality, Best Emergency Services, Most Preferred Hospital, and Most Preferred for cancer treatment, heart care, outpatient surgery, senior services, outpatient testing and community health programs.

The Medical Center provides a broad spectrum of health care services. The Corporation expects that most of its services will be enhanced by the New Main Tower Project. The Medical Center's services include, but are not limited to:

- Bariatric Surgery
- Blood Donor Center
- Breast Diagnostic Centers
- Burn Center
- Cancer Programs
- Cardiac Interventional Services
- Cardiothoracic Surgery
- Critical Care
- Chemical Dependency Treatment
- Diabetes Education and Treatment
- Eating Disorder Medical Stabilization Program
- Emergency Care
- Endoscopy Center
- Endovascular Surgical Services
- Family Birth Center
- Home Health and Hospice
- Laboratory Testing
- Medical Nutrition Therapy
- Medical/Surgical Nuclear Medicine
- Orthopedic Services
- Pain Management Post Acute Care
- Radiation Oncology
- Radiology
- Rehabilitation
- Sleep Disorders Center
- STEMI Receiving Center
- Certified Stroke Center
- Surgical Services
- Transitional Care
- Wound Healing Center

The Medical Center is recognized by accrediting agencies (noted below) for a number of specialty programs, including the following.

### **Cardiovascular Institute**

- Los Angeles County Department of Health Services designation as a STEMI Receiving Center
- The Joint Commission accreditation as a Primary Stroke Center

The Melanie and Richard Lundquist Cardiovascular Institute (the Lundquist Cardiovascular Institute)—an institute “without walls”—is comprised of programs and services located throughout the Medical Center Campus. It is staffed by specialists in cardiology, cardiothoracic surgery, emergency care, interventional cardiology, neuro-interventional radiology, nursing, vascular surgery and health education and provides diagnostic, treatment, rehabilitation and prevention services.

*Emergency Care.* A base station for Los Angeles County paramedics, the Medical Center’s Emergency Department connects physicians and nurses with paramedics to begin treatment in the field, and to prepare for incoming patients, many of whom must be moved from emergency care to surgery within minutes.

*Prevention and Awareness.* Classes, screenings and support groups promote a heart-healthy lifestyle: weight loss, smoking cessation, nutrition counseling, fitness testing, diabetes and stress management and the annual Lundquist Women’s Heart Health Conference.

*The New Main Tower Project* will strengthen the overall cardiovascular program by adding capacity for interventional and electrophysiology procedures and operating room capacity.

### **Cancer Center**

- American College of Surgeons as a Comprehensive Cancer Center
- American College of Radiology for mammography services and stereotactic biopsy program

The Cancer Center—a Center “without walls”—is comprised of programs and services located throughout the Medical Center Campus. In 2009, approximately 1,800 cancer cases were added to the Medical Center’s registry database, with the vast majority, 1,640 being analytic—i.e., diagnosed and received all or part of the first course of treatment at the Medical Center.

*Surgical Pathology.* Accurate diagnosis of suspected cancers is crucial to excellent patient outcomes. All of the Medical Center’s pathologists, having been trained at highly respected academic centers including UCLA, Stanford and Cornell Medical Centers, are board certified in both anatomical and clinical pathology. The department of pathology analyzes approximately 24,000 cases annually.

*Radiation Oncology.* Located in the basement of the Outpatient Center, the Department of Radiation Oncology is staffed and equipped to provide individualized computerized treatment planning and technology, including 3-D Conformal Radiation Therapy (3D-CRT, including IMRT), Conventional External Beam Radiation Therapy and Intra-cavity and Interstitial Therapy.

*Palliative Care.* This interdisciplinary team of physicians, nurses, social workers and a chaplain are specially trained to prepare patients for decisions they face during incurable illness, and assist those struggling with difficult treatment options.

*Cancer Resource Center.* The resource center provides information about a wide variety of cancer-related subjects as well as referrals to key support services. Averaging more than 350

client contacts per month, the Cancer Resource Center staff helps patients identify resources for services and products in the community.

*The New Main Tower.* The Cancer Center will benefit from numerous aspects of the New Main Tower, from additional operating and interventional-procedure rooms to additional beds for medical/surgical patients.

### **Surgical Services**

- *Committee on Trauma of the American College of Surgeons and the American Burn Association conferred verification*
- *American Society for Metabolic and Bariatric Surgery certification as a Bariatric Surgery Center of Excellence*

A long-time priority of the Corporation has been to provide of excellent surgical services. Among the five hospitals in the Medical Center's South Bay service areas, 43 percent of total surgical operations in 2009 were performed at the Medical Center (Source: OSHPD, 2009 Annual Reports).

The Medical Center has invested considerably in recent years in the expansion of its surgical room capacity, now totaling 18 surgical suites. The New Main Tower project will replace 8 operating rooms from the Central Hospital Tower with new surgical suites, and provide for a net addition of three suites, bringing the total to 21 operating suites.

Supported by a medical staff which includes surgeons of varying specialties, the Medical Center considers its surgical expertise to be focused in general and vascular surgery, cardiothoracic surgery, bariatric surgery, robotic surgery, neuro surgery, gynecological surgery and orthopedic surgery.

### **Family Birth Center**

The Medical Center offers prospective parents a full spectrum of birthing services—from preparatory classes through newborn care—all with a family focus.

*Labor/Deliver/Recovery.* Mother and coach enjoy the privacy of a private room and the assistance of experienced maternity nurses. Patients may opt to combine labor, delivery and recovery in the same room, and visitors, including children, are welcome. Staffing includes 24-hour availability of an anesthesiologist specially trained in and devoted solely to labor and delivery.

*Neonatal Intensive Care Unit.* For babies born prematurely or with special medical needs, neonatologists are on hand around the clock to be present during the delivery as needed. During 2009, the unit provided 5,907 patient days of NICU care. The Medical Center includes a level III neonatal intensive care unit, providing all services except cardiac surgeries.

*The New Main Tower* project will facilitate expansion of postpartum overflow capacity and creation of a new, state-of-the-art neonatal intensive care unit.

### **Burn Center**

- *Committee on Trauma of the American College of Surgeons and the American Burn Association conferred verification.*
- *Los Angeles County Department of Health Services designation as Regional Burn Center.*

One of only three specialized facilities in Los Angeles County that is an American Burn Association verified burn center, the Medical Center's Burn Center is also accredited by the Committee on Trauma of the American College of Surgeons and the Joint Commission, and is licensed by the Los Angeles Department of Health Services as a Regional Burn Center. The Burn Center is expected to be relocated to the New Main Tower following its completion, from the Burn Center's current location which was constructed almost 40 years ago.

### **Emergency Department**

- Los Angeles County Department of Health Services designation as a STEMI Receiving Center
- Joint Commission accreditation as a Primary Stroke Center
- Los Angeles County Department of Health Services designation as an Emergency Department Approved for Pediatric Patients (EDAP).

The Medical Center's emergency department ("ED") is one of the largest providers of 24-hour emergency services in Los Angeles's South Bay area, second only to Harbor/UCLA County Hospital.

Demand for ED services continues to accelerate as the area's population grows and ages. In 1997, the Medical Center's ED treated 38,490 people; in 2009, approximately 68,000. Of those, 21.4% were admitted to the Medical Center for inpatient treatment. The ED will benefit significantly from the increased capacity provided by the New Main Tower Project. Approximately 20% of patients seen in the ED require admission to the Medical Center. When the Medical Center is running at near available capacity during peak winter months, ED patients must wait in ED beds until inpatient beds are available. The New Main Tower Project will increase the number of available inpatient beds, thereby relieving this backlog of patients in the ED awaiting admission.

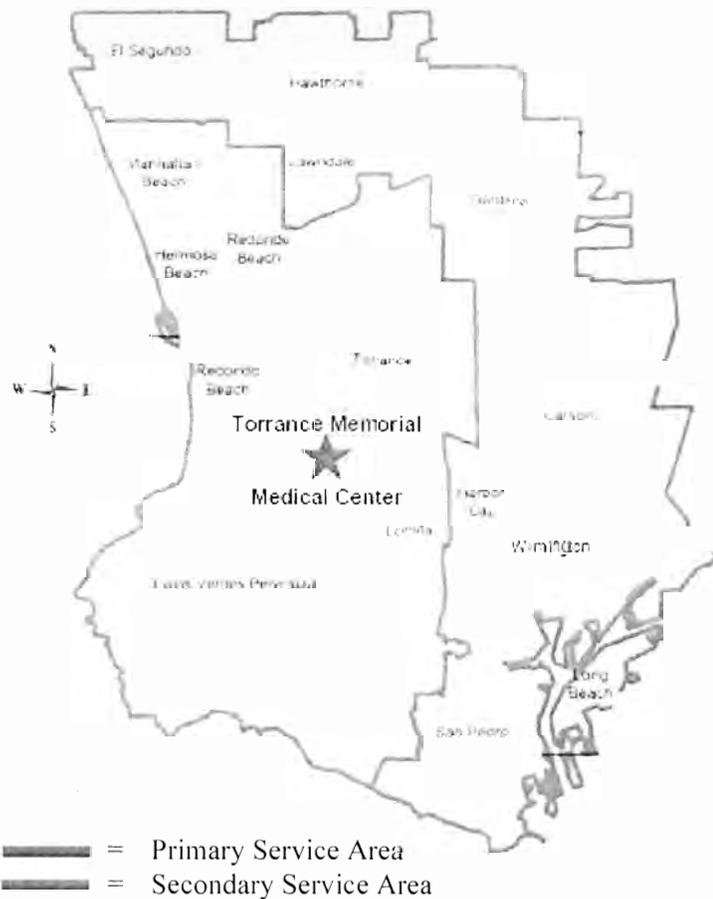
## **SERVICE AREA AND COMPETITION**

### **Service Area**

Within Los Angeles County, the Corporation identifies a primary service area and a secondary service area for the Medical Center. The primary service area includes the cities of Torrance, Palos Verdes Peninsula, Redondo Beach, Hermosa Beach, Manhattan Beach and Lomita. Approximately 47% of the Medical Center's patient discharges in 2009 came from its primary service area.

The Medical Center's secondary service area is comprised of surrounding communities, including Carson, Lawndale, Gardena, San Pedro, Hawthorne, El Segundo and Harbor City. This area represents 36% of the Medical Center's 2009 patient discharges.

The primary and secondary service areas are collectively known as the "South Bay Area" of Los Angeles County.



The South Bay Area has a population of approximately 900,000 people according to Nielsen Claritas. The population is projected by Nielsen Claritas to grow by 4.5% between 2009 and 2014, a slightly slower rate of projected growth than all Los Angeles County (4.9% over five years).

The population of the South Bay Area is older than that of Los Angeles County, with 13.3% over age 65 in 2009 compared to 11.7% in Los Angeles County. Since older populations use hospitals at approximately five times the rate of younger populations, the relatively older population of the South Bay Area will likely increase the demand for hospital services faster when compared to the overall Los Angeles County population.

According to Nielsen Claritas, 2009 median household income for the Medical Center's primary service area is approximately \$67,700 per year, compared with \$56,100 for Los Angeles County.

### Market Share and Competition

There are six hospitals competing in the Medical Center's primary and secondary service area (see map below). The Medical Center is the largest of these six acute hospitals, as measured by the number of acute hospital discharges.

**Largest Hospitals Ranked by Acute Hospital Discharges  
South Bay Service Area  
2009<sup>(1)</sup>**

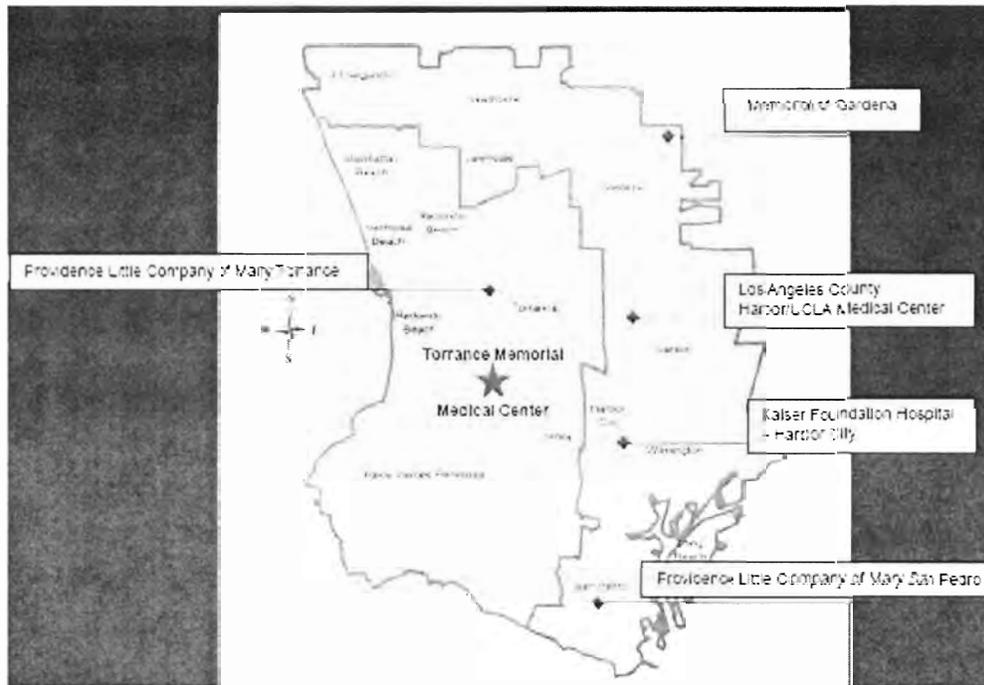
	<b>Hospital Discharges</b>
<b>1. Torrance Memorial Medical Center</b>	<b>25,275</b>
2. Los Angeles County Harbor/UCLA Medical Center	23,715
3. Providence Little Company of Mary Torrance	21,296
4. Kaiser Foundation Hospital - Harbor City	14,285
5. Memorial of Gardena	6,654
6. Providence Little Company of Mary San Pedro	7,654

Source: State of California Office of Statewide Health Planning & Development, Annual Utilization Report of Hospitals, 2009.

<sup>(1)</sup> Most recent data available.

The Medical Center considers Providence Little Company of Mary Torrance to be its primary competitor. Located within 2.16 miles of one another, both Providence Little Company of Mary Torrance and the Medical Center compete for general acute care admissions within the same market area and have a highly overlapping or common medical staff. In contrast, Kaiser Foundation – Harbor City predominately serves the Kaiser Health Plan member population and Los Angeles County Harbor/UCLA Medical Center is a county-owned teaching hospital that draws indigent and Medi-Cal patients from the broader County-wide region.

**Acute Hospitals in Service Area**



The following chart contains market share data for some<sup>(1)</sup> general acute care providers of service for the Medical Center's primary service area<sup>(2)</sup> for the calendar years 2006, 2007 and 2008 (the most recent market-share data available). The Medical Center's market share has remained the highest in the service area over the three years shown.

Hospital	2006	2007	2008
Torrance Memorial Medical Center	36.7%	35.9%	36.7%
Providence Little Company of Mary Torrance	27.2%	26.8%	26.7%
Kaiser Foundation Hospital – Harbor City	7.6%	8.4%	8.5%
Los Angeles County Harbor/UCLA Medical Center	5.5%	5.6%	5.5%
Cedars Sinai Medical Center <sup>(3)</sup>	2.7%	2.8%	3.1%
Providence Little Company of Mary San Pedro	2.8%	2.9%	3.1%

**Source:** Intellimed (Office of Statewide Health Planning & Development, State of California. Acute care admissions only. Excludes normal newborns.

<sup>(1)</sup> All other hospitals drawing from the Medical Center's primary service area have market shares less than 2.0% each.

<sup>(2)</sup> Primary Service Area is Zip Codes: 90254, 90266, 90274, 90275, 90277, 90278, 90501, 90503, 90504, 90505, 90717.

<sup>(3)</sup> Geographically located outside the Medical Center's Service Area, therefore not on map.

## Utilization

The following table sets forth selected historical utilization statistics of the Medical Center for fiscal years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and 2010.

	Medical Center Utilization Statistics				
	December 31			Six Months Ended June 30	
	2007	2008	2009	2009	2010
<b><u>Inpatient Activity</u></b>					
Acute	336	361	361	361	361
SNF	40	40	40	40	40
Licensed Beds	376	401	401	401	401
Acute	312	337	337	337	337
SNF	40	40	40	40	40
Available Beds <sup>(1)</sup>	352	377	377	377	377
Acute	21,649	23,223	23,776	11,966	12,747
SNF	1,306	1,323	1,499	753	763
Discharges	22,955	24,546	25,275	12,719	13,500
Acute	87,110	92,343	92,179	46,931	47,976
SNF	11,986	12,217	12,698	6,364	6,294
Patient Days	99,096	104,560	104,877	53,295	54,270
Average Daily Census	271.5	285.7	287.3	294.4	299.8
Average Length of Stay - Acute	4.0	4.0	3.9	3.9	3.8
Occupancy Rate (Licensed Beds)	72.2	71.2	71.6	73.4	74.8
Occupancy Rate (Available Beds)	77.1	75.8	76.2	78.1	79.5
Inpatient Surgery Cases	6,173	6,478	6,674	3,597	3,562
<b><u>Outpatient Activity</u></b>					
Hospital Outpatient Total	256,565	264,534	280,517	131,314	133,936
Outpatient Surgery Cases <sup>(2)</sup>	10,423	10,323	11,328	5,068	5,652
Emergency Services	63,407	64,184	67,805	32,126	32,411

Source: Corporation.

<sup>(1)</sup> 24 licensed inpatient beds are not available for inpatient use because they are used for outpatient procedures and other non-acute services

<sup>(2)</sup> Outpatient Surgery cases performed at the Medical Center

For further information regarding utilization, see “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE—Historical Performance.”

## MEDICAL STAFF

### Contracted Physician Organizations

The Corporation holds long-term contracts with HealthCare Partners (HCP – South Bay IPA and HCP-South Bay) (“HCP”) and Torrance Hospital Independent Physician Association (“THIPA”). Both of these entities and the Corporation have entered into risk bearing contracts with various health plans (collectively, the “Health Plans”) to manage collectively over 85,000 Commercial (Non Medicare) and 22,000 Medicare HMO member lives. Contracts with the Health Plans and HCP comprise approximately 68% of those members and the remaining 32% are with THIPA.

The Corporation has held these physician group and similar health plan relationships since 1986. Current contracts with HCP and THIPA extend through 2020 and 2019, respectively. The contracts with the individual Health Plans are usually two-to-three years in duration. Generally, during the initial term of the Health Plan contracts, they can only be terminated “for cause,” and thereafter without cause with notice of 90–120 days. Significant contracts with the Health Plans include Blue Cross, Blue Shield, CIGNA, United Health Plan, Secure Horizons, Scan and HealthNet.

Under the agreement between the Corporation and HCP, HCP provides physician hospitalists to oversee the inpatient services at the Medical Center provided to the members enrolled in Health Plans contracted with HCP. Historically, the seven days per week/24-hours per day staffed physician hospitalist coverage has resulted in favorable length of stay, utilization and cost management for both parties. The Medical Center draws a resource based fee-for-service payment from the capitation amounts received from the contracted Health Plans. See APPENDIX B—“TORRANCE MEMORIAL MEDICAL CENTER FINANCIAL STATEMENTS FOR DECEMBER 31, 2009 AND 2008—Notes to Financial Statements—(2)(n).” Management of the Medical Center believes the managed care model with HCP appropriately aligns the responsibilities for the provision of care and services. This has produced successful results for both parties over the many years the agreements have been in place and has resulted in successful renewals with the Health Plans. This model will remain in place through the 2020 term of the existing agreement with HCP.

Although the Corporation’s contract with THIPA is different from the contract with HCP, there are also similarities in the alignment of responsibilities for care and services. THIPA also provides physician hospitalists who care for their enrollees receiving inpatient services at the Medical Center and has incentives to reduce costs and length of stay. The Corporation also draws a resource based fee-for-service payment from capitation amounts received from the contracted Health Plans. See APPENDIX B—“TORRANCE MEMORIAL MEDICAL CENTER FINANCIAL STATEMENTS FOR DECEMBER 31, 2009 AND 2008—Notes to Financial Statements—(2)(n).” Because THIPA does not have the depth of coverage by physician hospitalist as does HCP, the Corporation is currently working with THIPA to provide expanded physician hospitalist coverage through another contracted medical group, discussed below.

In mid 2009, the Corporation started its own physician hospitalist program by contracting with a local medical group for physician hospitalists to care for unassigned patients admitted to the Medical Center through the Emergency Department. The program was then expanded to include patients assigned to these physician hospitalists by local physicians. Beginning in late spring 2010, THIPA and the Corporation jointly contracted with the Corporation's physician hospitalist program to provide inpatient services to THIPA enrollees. The Corporation's goal is for the physician hospitalists to provide excellent care, reduce length of stay when appropriate, manage resource consumption and reduce the costs of the care provided. Management of the Corporation also believes that its physician hospitalist program will assist in the implementation at the Medical Center of an Electronic Health Record (EHR) and Computerized Physician Order Entry (CPOE) system. The Corporation is on schedule with these implementations to qualify for the incentives for "Meaningful Use" as provided for in the HHRIT portion of the American Recovery and Reinvestment Act (ARRA).

Management of the Corporation expects its relationships with HCP, THIPA and its own physician hospitalists will provide an effective basis to respond to new forms of physician-hospital integration models that are arising in response to federal health care reform legislation.

### **Primary Care Network Development**

For over 20 years, the Medical Center has maintained a strategy to recruit primary care physicians to the South Bay Area. Under the terms of its management services contracts [with physicians], the Corporation provides management staffing, billing services and other non-physician services to approximately 59 physicians and 10 nurse practitioners in 18 offices. In addition, THA, the Corporation's parent company, owns four medical office buildings (in Manhattan Beach, San Pedro, Carson and Torrance), which provide office space for primary care physicians and specialists. Most of the primary care physicians who are under contract for management services also have contracted with THIPA and HCP.

### **Medical Staff**

As of June 30, 2010, the Medical Center had a total medical staff of 986 physicians, representing most specialties. There were 410 Active Staff and 576 associate, courtesy and provisional staff. A profile of the medical staff as of June 30, 2010 by specialty and average age is presented below. Approximately 86% of the medical staff is board certified.

**MEDICAL STAFF BY SPECIALTY****As of June 30, 2010**

<b>Primary Specialty Description</b>	<b>Active</b>	<b>Other</b>	<b>Total</b>	<b>Average Age</b>
Allergy	1	3	4	57
Anesthesiology	29	15	44	51
Cardiology	20	14	34	57
Cardiothoracic Surgery	3	6	9	57
Dermatology	0	21	21	59
Emergency Medicine	20	3	23	44
Family Practice	10	70	80	54
Gastroenterology	18	7	25	52
General Surgery	13	15	28	56
Hematology/Oncology	9	6	15	53
Internal Medicine	31	85	116	47
Neurology	6	6	12	57
OB/GYN	45	16	61	53
Ophthalmology	11	35	46	50
Orthopedic Surgery	20	26	46	52
Otolaryngology	12	10	22	56
Pediatrics	39	87	126	52
Pulmonology	13	3	16	52
Radiology	18	30	48	52
Urology	13	8	21	56
All Others	79	110	189	54
<b>Grand Total</b>	<b>410</b>	<b>576</b>	<b>986</b>	<b>53</b>

Source: Corporation records

## SUMMARY OF OPERATIONS and FINANCIAL POSITION

The following summary statement of operations and changes in net assets and summary of financial position of the Corporation for the three fiscal years ended December 31, 2007, 2008, and 2009 are derived from the audited financial statements of the Corporation for each individual fiscal year. The results for the six-month periods ended June 30, 2009 and 2010 are unaudited, but reflect, in the opinion of management of the Corporation, all adjustments (including normal recurring adjustments) necessary to summarize fairly the results for such periods in accordance with GAAP. However, the results for the six-month period ended June 30, 2010 should not be considered to be indicative of the results for the full fiscal year ending December 31, 2010.

In addition to the following summarized financial information, the audited financial statements for the Corporation as of and for the years ended December 31, 2009 and 2008, including the notes thereto, should be read in order to evaluate the Corporation's operating results and financial position. These financial statements, which were audited by KPMG, LLP, appear as Appendix B.

### Corporation Summary Statements of Operations and Changes in Net Assets (dollars in thousands)

	Fiscal year ended December 31 (audited)			Six Months ended June 30, unaudited	
	2007	2008	2009	2009	2010
<b>Revenues</b>					
Total operating revenues	\$370,941	\$399,708	\$429,296	\$211,366	\$229,546
<b>Operating Expenses</b>					
Salaries, wages, and employee benefits	200,662	213,659	226,780	113,496	117,584
Purchased services, supplies, and other costs	122,638	126,208	135,594	68,572	75,794
Depreciation	24,375	26,604	29,524	14,147	15,520
Provision for doubtful accounts	10,058	12,027	17,379	7,676	11,542
Interest	4,246	3,115	2,598	1,789	1,624
Total operating expenses	361,979	381,613	411,875	205,680	222,064
<b>Operating income</b>	8,962	18,095	17,421	5,686	7,482
Nonoperating income (loss):					
Investment income (loss)	14,186	(3,386)	(5,997)	(10,617)	9,853
Unrealized gain (loss) on trading portfolio <sup>1</sup>	18,029	(35,592)	40,679	22,991	(9,480)
Other	(196)	(118)	(168)	113	(200)
<b>Excess (deficit) of revenues over expenses</b>	40,981	(21,001)	51,935	18,173	7,655
Other changes in unrestricted net assets <sup>2</sup>	(13,820)	(48,039)	34,035	2,587	991
<b>Increase in unrestricted net assets</b>	27,161	(69,040)	85,970	20,760	8,646
Changes in restricted net assets	(244)	(5,158)	3,241	1,475	4,255
<b>Total increase in net assets</b>	26,917	(74,198)	89,211	22,235	12,871

<sup>1</sup> Represents Unrealized Gains and Losses in the Investment Portfolio

<sup>2</sup> Changes to the Minimum Pension Liability and Foundation Transfers to the Corporation

The following summary balance sheet of the Corporation at December 31, 2007, 2008 and 2009 is derived from the audited financial statements of the Corporation for the fiscal years then ended. The results for the six-month period ended June 30, 2010 and 2009 are unaudited, but reflect, in the opinion of management of the Corporation, all adjustments (including normal recurring adjustments) necessary to summarize fairly the results for such period in accordance with GAAP. However, the results as of June 30, 2010 should not be considered to be indicative of the results as of December 31, 2010.

**Corporation**  
**Summary Statements of Financial Position**  
(dollars in thousands)

	December 31, (audited)			June 30, (unaudited)	
	2007	2008	2009	2009	2010
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$19,593	\$1,760	\$14,649	\$16,302	\$11,82
Patient accounts receivable, net	51,298	50,734	50,940	50,672	50,08
Assets limited as to use	29,578	41,824	42,682	39,918	78,707 <sup>(1)</sup>
Other current assets	7,199	13,301	14,248	18,072	15,90
Total current assets	<u>107,668</u>	<u>107,619</u>	<u>122,519</u>	<u>124,964</u>	<u>156,52</u>
Assets limited as to use	233,713	195,033	228,044	202,629	255,28
Property, plant and equipment, net	218,619	255,597	263,082	257,488	265,40
Interest in net assets of Foundation	27,369	22,724	29,068	24,215	24,17
Other assets	12,656	6,698	2,315	2,081	2,68
Total assets	<u>600,025</u>	<u>587,671</u>	<u>645,028</u>	<u>611,377</u>	<u>704,07</u>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Current portion of long-term debt	1,445	1,505	1,365	1,365	1,430
Accounts payable and accrued liabilities	22,968	27,990	24,145	23,373	25,921
Accrued salaries & other employee benefits	20,496	16,505	20,054	24,779	27,396
Risk pool liabilities	50,686	57,989	62,700	58,621	102,079 <sup>(1)</sup>
Self insurance liabilities	9,806	8,700	8,813	8,620	8,555
Estimated third-party payor settlements	1,843	4,500	9,279	5,135	10,109
Total current liabilities	<u>107,244</u>	<u>117,189</u>	<u>126,356</u>	<u>121,893</u>	<u>175,490</u>
Liabilities for pension benefits	8,074	61,992	29,289	61,092	27,489
Self insured liabilities	16,440	15,926	8,973	14,958	9,243
Long-term debt, less current portion	92,305	90,800	89,435	89,435	88,005
Total liabilities	<u>224,063</u>	<u>285,907</u>	<u>254,053</u>	<u>287,378</u>	<u>300,227</u>
Net Assets:					
Unrestricted	344,661	275,621	361,591	296,381	370,237
Temporarily restricted	27,719	22,754	25,967	24,229	30,192
Permanently restricted	3,582	3,389	3,417	3,389	3,417
Total net assets	<u>375,962</u>	<u>301,764</u>	<u>390,975</u>	<u>323,999</u>	<u>403,846</u>
Total liabilities and net assets	<u>600,025</u>	<u>587,671</u>	<u>645,028</u>	<u>611,377</u>	<u>704,073</u>

(1) For a discussion of this change, which management anticipates will return to historic levels by mid 2011, see "Management's Discussion and Analysis of Financial Performance—Historic Performance – First six months ending June of 2010 and 2009 Unaudited Financial Results" below.

## Sources of Revenue

The Corporation derives its patient service revenues from Medicare, Medi-Cal, managed care payors, commercial insurers, self-paying patients and other sources. The following table sets forth the mix of gross patient service revenues by payor type for the fiscal years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and 2010.

	Payor Mix			Payor Mix	
	Fiscal Year ended December 31,			6 months Ended June 30,	
	2007	2008	2009	2009	2010
HCP / THIPA—Full and Shared Risk <sup>(1)</sup>	40.8%	41.3%	39.5%	39.7%	39.6%
Medicare	28.9	29.1	29.3	29.3	29.3
Managed Care (non Medicare))	22.2	22.7	23.5	23.5	23.3
Medi-Cal	4.6	3.9	4.0	4.0	3.8
Self Pay	1.6	1.4	1.6	1.6	2.0
Other	1.3	1.1	1.5	1.2	1.4
Workers' Compensation	0.6	.5	0.6	0.7	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0

Source: Corporation.

<sup>(1)</sup> Represents total gross revenues from HCP and THIPA group members. The gross revenues represent patient charges to their members enrolled in full risk (capitated) agreements with the Corporation and shared risk agreements with Health Plans whereby the Corporation is paid by the Health Plans on a fee-for-service basis.

The Corporation negotiates and manages all third-party payor contracts on a centralized basis. The Corporation has contracts with more than 40 HMOs and preferred provider organizations (“PPOs”). Overall, HMO, PPO and managed care full risk revenues comprised approximately 63.0% of the Corporation’s gross patient revenues for the fiscal year ended December 31, 2009. See “BONDHOLDERS’ RISKS—Patient Service Revenues” in the forepart of this Official Statement. See “MEDICAL STAFF—Contracted Physician Organizations” above.

## Capitalization

The following table sets forth the actual capitalization of the Corporation as of December 31, 2009, and as of June 30, 2010, as adjusted to reflect the issuance of the Series 2010 Bonds, on the assumption that they were issued on December 31, 2009.

**Corporation  
Capitalization**  
(dollars in thousands)

	<u>December 31,</u>	<u>December 31</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Long-Term Debt, including current portion			
1992 and 2001A Bond	\$93,750	\$92,305	\$90,800
Series 2010 Bonds	-	-	-
Total Long-Term Debt	93,750	92,305	90,800
Unrestricted Net Assets <sup>(1)</sup>	344,661	275,621	361,591
Total Capitalization	438,411	367,926	452,391
Long-Term Debt to Capitalization Ratio	21.4%	25.1%	20.1%

	<u>December 31</u>
	<u>2009</u>
	<u>As Adjusted</u>
Long-Term Debt, including current portion	\$ 56,000
Series 2010 Bonds	235,000
Total Long-Term Debt	291,000
Unrestricted Net Assets	361,591
Total Capitalization	652,591
Long-Term Debt to Capitalization Ratio	44.6%

<sup>(1)</sup> Unrestricted Net Assets of the Corporation does not include Torrance Memorial Medical Center Health Care Foundation temporarily restricted assets or permanently restricted assets of \$25,967 and \$3,417, respectively, for 2009.

### Maximum Annual Debt Service Coverage

The table below sets forth: (i) the maximum annual debt service requirement on Long-Term Indebtedness (as defined in the Master Indenture) and the maximum annual debt service coverage ratio for fiscal years ended December 31, 2007, 2008 and 2009; and (ii) the maximum annual debt service on such Long-Term Indebtedness and the maximum annual debt service coverage ratio for the fiscal year ended December 31, 2009, as adjusted to give effect to the issuance of the Series 2010 Bonds, as if such Series 2010 Bonds had been issued on December 31, 2009 in the estimated aggregate principal amount of \$235,000,000, without reflecting any expenses to be incurred or revenues realized in connection with such issuance. For purposes of the following table, maximum annual debt service is assumed to be the maximum debt service payable in any fiscal year based upon actual principal and interest payments scheduled for fixed rate bonds and an assumed interest rate for variable rate bonds, as detailed in the footnotes to the following table.

**Corporation**  
**Maximum Annual Debt Service Coverage**  
(dollars in thousands)

	<b>Fiscal Year Ended December 31</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Historical:</b>			
Excess of revenues over expenses	\$40,981	\$(21,001)	\$51,935
Plus: Depreciation and amortization	24,375	26,604	29,524
Plus: Interest	4,246	3,115	2,598
Plus: Holding loss (gain) on trading portfolio <sup>1</sup>	(18,029)	35,592	(40,679)
Plus: Loss (gain) on disposal of property	135	314	(275)
	<hr/>	<hr/>	<hr/>
Income Available for Debt Service	51,708	44,624	43,103
Maximum annual debt service requirement <sup>2</sup>	7,251	7,251	7,180
Maximum annual debt service coverage ratio	7.13	6.15	6.00
<b>As adjusted:</b>			
Maximum annual debt service requirement <sup>2</sup>			19,387
Maximum annual debt service coverage ratio			2.22

<sup>1</sup> Represents Unrealized Gains and Losses in the Investment Portfolio

<sup>2</sup> Maximum annual debt service is assumed to be the maximum debt service payable in any fiscal year based upon actual principal and interest payments scheduled for fixed rate bonds and an assumed 25 year amortization with 5.5% interest rate for variable rate bonds.

### Liquidity and Capital Resources

The unrestricted liquidity position (consisting of cash and cash equivalents, short-term fixed income investments and long-term investments, less investments restricted as to use) of the Corporation as of December 31, 2009 was \$239.7 million, including \$14.7 million in operating cash and \$225.1 million in unrestricted investments stated at fair market value. The available liquidity of \$239.7 million represents a 23.7% increase over the \$193.8 million in available liquidity as of December 31, 2008, and equaled 264% of total outstanding debt as of December 31, 2009 (as compared to available liquidity representing 209.9% of total outstanding debt as of December 31, 2008).

The Board establishes guidelines for all investment decisions. The Board has adopted an investment policy (Long-Term Investment Portfolio Statement of Investment Policy and Objectives) to guide the management of the investments, and the policy may be reviewed from time to time. Within those guidelines, the Investment Committee of the Board provides direct oversight of the policy. Implementation of the policy is provided through an investment program overseen by Corporation management. Pursuant to this policy, a strategic asset allocation model provides structure to achieve the investment objectives set out by the Board. The asset allocation model provides a range whereby certain percentages of the invested assets are allocated to equity, debt securities and alternative investments with the target allocation of 45% to equities; 45% to fixed income securities, and 10% to alternative investments comprised of private equity, venture capital and certain hedge fund strategies. At December 31, 2009, the investment portfolio conformed to the investment policy. Professional outside investment managers have been retained to manage specific asset classes in accordance with the policy.

The following table sets forth the liquidity position and corresponding days cash on hand for the Corporation at December 31, 2007, 2008 and 2009.

**Corporation Liquidity Position<sup>(1)</sup>**  
(dollars in thousands)

	December 31,			June 30,	As Adjusted June 30
	2007	2008	2009	2010	2010 <sup>(6)</sup>
Cash and cash equivalents <sup>(2)</sup>	\$34,938	\$8,968	\$20,587	\$26,916	53,827
Short-term fixed income investments <sup>(3)</sup>	1,584	3,744	4,001	2,633	2,633
Long-term investments <sup>(4)</sup>	246,362	225,905	260,787	316,266	486,355
Total cash and investments	282,884	238,617	285,375	345,815	542,815
Less: Investments restricted as to use	39,310	49,551	51,315	87,191	257,280
Total unrestricted cash and investments	243,574	189,066	234,060	258,624	285,535
Days cash on hand <sup>(5)</sup>	263	195	223	227	250

Source: Corporation

<sup>(1)</sup> The Corporation's Cash and Investment Portfolio assets for the years ended December 31, 2007, 2008 and 2009, respectively. Does not include Foundation investments.

<sup>(2)</sup> Includes debt securities with maturities less than three months. Excludes investments restricted to use.

<sup>(3)</sup> Includes fixed income investments with maturities less than one year. Excludes investments restricted to use.

<sup>(4)</sup> Includes all fixed income investments with maturities greater than one year, mutual funds, and equities.

<sup>(5)</sup> Total unrestricted cash and investments, divided by the calculation of total operating expenses, minus depreciation and amortization (on a rolling twelve-month basis), divided by 365 (in 2008, divided by 366).

<sup>(6)</sup> Assumes \$197 million in net Series 2010 Bond proceeds, with \$26,911,000 reimbursed to the Corporation for previously incurred project costs.

See "BONDHOLDERS' RISKS – Investments" in the forepart of this Official Statement.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

### Critical Accounting Policies and Estimates

**Use of Estimates.** The preparation of consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include: the carrying amounts for goodwill, and property, plant and equipment; valuation of deferred gifts; valuation allowances for receivables; and liabilities for claims incurred, but not reported under capitation agreements and self-insured programs. Actual results could differ from those estimates.

**Investments.** Alternative investments represent ownership interests in limited partnerships and limited liability companies that the Corporation does not have the ability to exercise significant influence or control over. Alternative investments are recorded using the equity method of accounting with the related changes in value in earnings reported as investment income in the accompanying consolidated statements of operations.

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based on quoted market prices in the consolidated statements of financial position. Investment income or loss on trading securities (including realized and unrealized gains and losses, interest and dividends) is included as nonoperating gains (losses), within the excess of revenues over expenses, unless the income or loss is restricted by donor or law, in which case the investment income or loss is recorded directly to temporarily or permanently restricted net assets.

**Contributions and Restricted Net Assets.** Contributions are recorded at estimated fair value as of the date the contribution is received. Unconditional promises (pledges) to contribute assets are recorded at fair value at the date the promise is received. Pledges and other deferred gifts are discounted to their net present value. In addition, gifts received as irrevocable trusts, which usually provide for payments to the donor until the donor's death, are reduced by the present value of estimated payments to the donor. Contributions that are not restricted as to use are reported as unrestricted revenue in the consolidated statements of operations. If the donor restricts the use of the gift, contributions are reported as increases in temporarily or permanently restricted net assets in the consolidated statements of changes in net assets.

Temporarily restricted contributions are generally limited by a time or a specific purpose restriction. When restrictions are met, temporarily restricted net assets are transferred to unrestricted net assets and recorded as net assets released from restrictions in the consolidated statements of operations. Permanently restricted contributions have been restricted by donors to be maintained in perpetuity. Income from such gifts is recorded as temporarily restricted net assets and transferred to unrestricted net assets when restrictions are met.

**Healthcare Delivery Revenue and Accounts Receivable.** Healthcare delivery revenue consists primarily of: (1) patient service revenue provided under contracts with various government-sponsored healthcare programs (Medicare and Medi-Cal), insurance companies and other third parties; and (2) capitation premium revenue received under contracts with managed care payors.

Patient service revenue is recognized as services are delivered. Contracts usually involve discounts from established rates. Payment arrangements consist of prospectively determined rates per discharge, discounted charges, per diem payments and reimbursed costs. The Corporation is reimbursed by Medicare for cost reimbursable items at a tentative rate with final settlement determined after submission of annual Medicare cost reports by the Corporation and audits thereof by the fiscal intermediary. Revenue and related receivables are recorded net of contractual discounts. Provisions for uncollectible receivables are recorded as operating expenses. Provisions for contractual discounts and uncollectible accounts are estimated based upon an evaluation of historical collection experience. Adjustments and changes in estimates are recorded in the period in which they are determined.

The Medical Center provides healthcare services at no cost or at amounts less than its established rates to unfunded self-pay patients that meet criteria under the Medical Center's financial assistance policy (charity care). Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

### **Historical Performance**

***Six Months Ended June 30, 2010 and 2009 Unaudited Financial Results.*** Excess of revenues over expenses decreased by \$10.5 million, based on unaudited operating results for the six months ended June 30, 2010 compared to the operating results for the first six months of fiscal year 2009. This was due to the performance of the investment portfolio which gained \$12 million more during the first six months of 2009 than the corresponding six months of 2010. During the first two quarters of 2009, the investment portfolio experienced a holding gain of \$23 million while the corresponding period in 2010 had a holding loss of \$9.5 million. There were realized investment losses for 2009 of \$10.4 million while 2010 posted \$9.8 million of realized gains.

Operating Income was \$5.6 million and \$7.4 million for 2009 and 2010, respectively. This was due to operating revenues increasing 8.4% for the period, as explained below, and to the control of expenses, as described below.

Net revenues derived from patient services (patient service revenue and premium revenue) increased 8.4% from 2009 to 2010. The change in net revenues is represented by several factors:

- Growth in acute inpatient admissions of 6.3%, including a 7.2% increase in inpatient surgical admissions.
- Maintenance of outpatient surgical levels in spite of moderate decline in overall outpatient services.

Total Expenses (excluding provision for doubtful accounts) increased 8.0% from 2009 to 2010. Components of this increase include the following:

- A minor increase of 2.0% in salaries as the Corporation kept overall FTEs in line with the previous year while reducing expense for registry and travelers staffing.
- An increase of 7.9% in employee benefits which resulted from an increase of approximately 27% in the Corporation's group health insurance; primarily caused by adverse claims experience in the self funded plan.

An increase of 10.5% in purchased services, supplies and other costs as further explained:

- The growth in supply costs related to increased patient volumes, especially surgical cases.
- Start up costs for the Corporation's Physician Hospitalist program and Cardiovascular 1206(d) clinic were incurred. The Physician Hospitalist program is described under MEDICAL STAFF, Contracted Physician Organizations. The start up of the Cardiovascular 1206(d) clinic was necessitated by the successful recruitment of new heart and vascular surgeons to the Corporation to enhance and expand open heart and other vascular procedures.
- Increased maintenance costs related to new equipment in Radiology and Cath Labs.

Depreciation expense increased 10% with new equipment and facilities that were placed in service pursuant to the EMP.

Provision for doubtful accounts increased 50% year over year as health plans increased their deductibles and co-pays while total self pay revenue increased by 36% from 2009 to 2010. As a percentage of gross patient revenues, self pay was 1.6% and 2.0%, respectively.

Operating cash and trading portfolio investments increased \$48.1 million primarily due to continued portfolio improvement throughout the remainder of 2009 and positive cash flow from operations. Days cash on hand at June 30, 2009 grew from 199 to 227 at June 30, 2010, reflecting the rebound in the market that occurred in the latter half of 2009.

Accounts receivable consist primarily of patient receivables recorded net of contractual discounts and allowances for doubtful accounts. Accounts receivable declined slightly from 2009 to 2010 by approximately \$589 thousand.

Current portion of assets limited as to use consists of reserves held in connection to certain pass through payments related to the risk pool liabilities. Risk pool liabilities consists of liabilities related to members assigned under capitated arrangements to the Corporation (full and shared risk/non conduit) and to capitated payments received by the Corporation for enrolled members not in the Medical Center's primary or secondary service areas (conduit). As described in footnote 12(a) of the Corporation's audited financial statements (APPENDIX B hereto), these conduit payments are passed through (less a withholding reserve) to another entity. The amount of risk pool liabilities related to these conduit payments were \$77.2 million and \$38.2 million at June 30, 2010 and June 30, 2009, respectively. The increase in total risk pool liabilities is primarily due to the expansion of covered lives under the relationship with HCP over the past year. The Corporation has entered into an agreement with HCP to reduce the number of lives under this conduit arrangement to levels approximating 2009 amounts. It is anticipated that this reduction will be accomplished within the next year.

Liability for pension benefits decreased approximately \$34 million as investment performance reduced the benefit obligation, and the accrual rate for participants' benefits was reduced.

***Fiscal Year 2009 Compared to Fiscal Year 2008.*** Excess of revenues over expenses increased by \$73 million. This was due to the performance of the trading portfolio where 2008 had a holding loss of \$35.6 million and 2009 had a holding gain of \$40.7 million. Realized investment losses for 2009 and 2008 were \$6.0 million and \$3.4 million respectively. Operating income was very stable during the two-year period at \$17.4 million in 2009 and \$18.1 in 2008.

Total operating revenues increased 7.4% for the period as explained below.

Net revenues derived from patient services (patient service revenue and premium revenue) increased 7.6% from 2008 to 2009. The change in net revenues is represented by several factors:

- Growth in acute inpatient admissions of 2.1%, including a 3% increase in inpatient surgical admissions.
- Moderate growth in overall outpatient services, in particular outpatient surgeries of 9.7%. The surgical growth increase coincides with the opening of additional operating room suites in the latter half of 2008.
- Favorable renewals of PPO agreements with payers while Medicare reimbursement increases have been reduced.

Net assets released from restrictions for operations (Foundation operational support) decreased by approximately \$1 million from 2008 to 2009 as the Foundation focused fund raising efforts towards the New Main Tower Project.

Total expenses (excluding provision for doubtful accounts) increased 6.7% from 2008 to 2009. Components of this increase include the following:

- A minor increase of 2.1% in salaries as the Corporation kept overall FTEs at the same level as the previous year while converting registry and travelers staffing to employed positions.
- An increase of 18.5% in employee benefits which resulted from an increase of approximately 56% in the Corporation's defined benefit pension expense due to investment performance in 2008 and higher than expected costs of the employee group health benefits.

An increase of 7.4% in purchased services, supplies and other costs as further explained:

- The growth in surgery cases drove up supply costs for those procedures.
- New equipment in radiology and cath lab increased maintenance costs.
- Start up costs for the Corporation's physician hospitalist program and cardiovascular 1206(d) clinic were incurred.

Depreciation expense increased 11% with new equipment and facilities that were placed in service pursuant to the EMP.

Provision for doubtful accounts increased 45% year over year as health plans increased their deductibles and co-pays while total self pay revenue increased by 30% from 2008 to 2009. As a percentage of gross patient revenues, self pay was 1.4% and 1.6% respectively.

Operating cash and trading portfolio investments increased \$45.9 million primarily due to holding gains of \$40.7 million in 2009, positive cash flow from operations of \$54 million offset by investments in capital expenditures of \$37 million.

Accounts receivable consist primarily of patient receivables recorded net of contractual discounts and allowances for doubtful accounts. Accounts receivable were essentially unchanged from 2008 to 2009 at approximately \$51 million.

Liability for pension benefits decreased approximately \$33 million as investment performance reduced the benefit obligation, and changes to the accrual rate for participant's benefits was reduced.

***Fiscal Year 2008 Compared to Fiscal Year 2007.*** Excess of revenues over expenses decreased by \$62 million. This was due to the performance of the trading portfolio where 2008 had a holding loss of \$35.6 million and 2007 had a holding gain of \$18 million. Realized investment losses for 2008 were \$3.4 million while 2007 had realized gains of \$14.2 million. Operating Income doubled from \$9 million in 2007 to \$18.1 million in 2008.

Total operating revenues increased 7.8% for the period as explained below.

Net revenues derived from patient services (patient service revenue and premium revenue) increased 7.9% from 2007 to 2008. The change in net revenues is represented by several factors:

- Growth in acute inpatient admissions of 7.2%, including a 5% increase in inpatient surgical admissions. The surgical growth increase coincides with the opening of additional operating room suites in the latter half of 2008. Acute inpatient days increased 6%.
- Moderate growth in overall outpatient services of 3%.
- Favorable renewals of PPO agreements with payers while Medicare reimbursement increases were marginal.

Total expenses (excluding provision for doubtful accounts) increased 5.0% from 2007 to 2008. Components of this increase include the following:

- An increase of 7.8% in salaries as overall staffing was adjusted to the growth in inpatient and outpatient volume.
- A minor increase of 2.7% in employee benefits which resulted from a decrease in the Corporation's defined benefit pension expense due to investment performance in 2007 and favorable costs of the employee group health benefits.

An increase of 2.9% in purchased devices, supplies and other costs as further explained:

- The Corporation implemented new financial applications in 2007 and 2008, including materials management software to better control supply acquisition, distribution, and inventories. The implementation of the software resulted in a one time benefit of approximately \$4 million from recording the inventory in the surgery department.
- The growth in surgery cases drove up supply costs for those procedures.
- Growth in inpatient admissions, patient days, and outpatient visits.

Depreciation expense increased 9.1% with new equipment and facilities that were placed in service pursuant to the EMP.

Provision for doubtful accounts increased 19.6% year over year as health plans increased their deductibles and co-pays. Self pay revenue was stable during the two year period.

Operating cash and trading portfolio investments decreased \$56.5 million due to holding losses of \$35.6 million in 2008, while generating positive cash flow from operations of \$56 million offset by investments in capital expenditures of \$59 million.

Accounts receivable were essentially unchanged from 2007 to 2008 at approximately \$51 million.

Liability for pension benefits increased approximately \$54 million due to investment performance and implementation of SFAS 158 on the financial statements of the Corporation. SFAS 158 required companies to recognize the funded status of defined benefit pension plans as a net asset or liability on its balance sheet.

### **Retirement Plans**

Beginning January 1, 2010, the Corporation implemented a defined contribution retirement plan for full-time and part-time employees who have completed the equivalent of six months of eligible service during the Plan Year. The defined contribution plan will replace the Defined Benefit Plan discussed in Footnote 9 to the Audited Financial Statements contained in Appendix B. Beginning January 1, 2010, the Defined Benefit Plan ceased enrolling new employees. In addition, beginning with January 1, 2010, the Defined Benefit Plan was modified to reduce earned benefits for current participants. As of December 31, 2009, the Defined Benefit Plan was 83% funded. The unfunded portion of \$29 million is recorded as a liability on the Corporation's balance sheet.

The Corporation's employees participate in a 403(b) plan sponsored by THA. The Corporation matches employee voluntary contributions at rates between 20% to 100% with an annual maximum match of \$800.

The Corporation also provides a nonqualified 457(b) deferred compensation plan to a defined group of management employees whereby those participants make voluntary salary contributions to the Plan. The Corporation has not contributed or matched participants' contributions to this plan.

## **OTHER INFORMATION**

### **Licensure, Certification and Accreditation**

All Medical Center facilities are appropriately licensed for the level of care they deliver. The Medical Center is currently accredited by The Joint Commission and is certified to participate in the Medicare and Medi-Cal Programs. All specialty and ancillary services are accredited as required by law and regulation.

Accrediting organizations accrediting the Medical Center include:

- The Joint Commission three-year accreditation (March 2009)—next survey to occur between August 2010 and March 2012
- American College of Radiology for mammography services and stereotactic biopsy program
- American College of Surgeons as a Comprehensive Cancer Center
- Joint Commission accreditation as a Primary Stroke Center
- Los Angeles County Department of Health Services designation as an Emergency Department Approved for Pediatric Patients (EDAP)
- Los Angeles County Department of Health Services designation as a STEMI Receiving Center (SRC) and Primary Stroke Center
- College of American Pathologists, CLIA and American Association of Blood Banks for the clinical laboratory and blood bank
- Committee on Trauma of the American College of Surgeons and the American Burn Association conferred verification

- American Society for Metabolic and Bariatric Surgery certification as a Bariatric Surgery Center of Excellence

## **Employees**

The Corporation's goal is to create the best environment possible for retention and to support staff so they can provide the best patient care, clinical research and graduate medical education.

As of July 31, 2010, the Corporation employed 2,991 employees, consisting of approximately 2,050 full-time employees and 941 part-time employees. Of those, approximately 919 are registered nurses.

## **Nurse Staffing**

The Medical Center's nursing staff is non-union and includes approximately 990 registered nurses (RNs) and nurse practitioners, as well as approximately 150 certified nursing assistants (CNAs). The State of California regulates nurse-to-patient ratios. The Medical Center is substantially compliant with those ratios. The Medical Center uses temporary contract nursing staff to fill vacancies and to cover for peak census periods, extended leaves of absence and vacations.

The markets in which the Medical Center operates are experiencing nursing shortages. In 2006, the Medical Center launched an RN Residency program to directly address concerns over the Medical Center's ability to identify, employ, train and retain highly qualified nurses in the face of a severe local and national nursing shortage. The RN Residency program transitions new graduate nurses from novice student to professional clinician and healthcare service provider through an 18-week, intensive, integrated and empirically tested residency program. The program was designed to bridge the learning gap between traditional nursing education and the real world clinical settings. The Corporation is collaborating with local colleges to expand the supply of nurses.

The Corporation has several other efforts to meet the staffing needs, including training hospital employees in effective recruiting strategies and methods, marketing initiatives with key nursing publications for print and web-based recruitment, employee referral program for nursing and other allied healthcare professions, tuition reimbursement programs and collaborative nursing and allied health educational program opportunities. In the event of high demand due to any unplanned emergent situations, the Corporation also relies on use of registry (temporary agencies primarily for nurses, with the remainder consisting of certified nurse assistants and respiratory therapists). During the fiscal years ended December 31, 2008 and 2009, the Corporation spent approximately \$6,391,000 and \$3,958,000, respectively, on registry and traveler use.

## **Risk Management**

The Corporation has a comprehensive insurance program designed to safeguard its assets and properties. The Corporation takes a large retention for those risks that it can mitigate to offset risk transfer costs. In addition, the Corporation purchases excess liability coverage for losses that exceed its self-insurance program.

The Corporation is self-insured for hospital professional and hospital general liability risks for the first \$500,000 of loss per occurrence and no self-insurance retention aggregate. Losses in excess of this amount are insured through claims-made professional liability policy. Total limits purchased for Hospital Professional Liability is \$25,000,000 per occurrence subject to a \$25,000,000 annual aggregate. The provision for estimated self-insured professional liability claims includes estimates of the ultimate liability and defense costs for both reported claims and incurred but not reported claims.

The Corporation is self-insured for workers' compensation risks for the first \$1,000,000 of loss per occurrence. Losses in excess of this amount are insured through policies of insurance which provide coverage up to statutory amounts. The Part B coverage for workers' compensation, employer's liability, is covered with a primary excess occurrence policies totaling \$1,000,000 limits per occurrence and in the aggregate and additional excess policies (directors and officers) in the amount \$5,000,000 per occurrence and aggregate.

The Corporation has its accrued liability reserves on the Balance Sheet for hospital professional liability and workers' compensation reviewed by a licensed actuary on an annual basis. The accrued liabilities are adjusted as needed.

The Corporation has a comprehensive blanket Property Insurance policy with a \$275 million aggregate limit and a \$10,000 deductible per claim. The policy provides a limited earthquake benefit of \$10 million after a 5% deductible.

In addition, the Corporation carries Fiduciary Liability for the Pension Plans with a limit of \$10 million, Directors and Officers liability coverage with a \$5 million limit, and various other policies including coverage for Crime and Auto.

The Corporation sponsors a PPO health benefits plan for which it is self-insured, and records an accrual for claims incurred, but not reported, for that plan.

# Fixed Rate Bond Purchase Agreement

**§[135,000,000]**  
**City of Torrance**  
**Revenue Bonds**  
**(Torrance Memorial Medical Center)**  
**Series 2010A**

**BOND PURCHASE AGREEMENT**

September [9], 2010

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503

Torrance Memorial Medical Center  
3330 West Lomita Boulevard  
Torrance, California 90505

Ladies and Gentlemen:

The undersigned, Citigroup Global Markets Inc. (the “Representative”), on behalf of itself and J.P. Morgan Securities Inc. (together, the “Underwriters”), offers to enter into this bond purchase agreement (this bond purchase agreement, together with the letter of representations attached hereto as Exhibit B (the “Letter of Representations”), is hereinafter referred to as the “Purchase Agreement”) with the City of Torrance (the “City”) on the condition that Torrance Memorial Medical Center, a California nonprofit public benefit corporation (“Corporation”) also approves this Purchase Agreement. Upon acceptance and agreement hereof by the City and approval by the Corporation, this offer will become binding upon the City, the Corporation and the Underwriters. This offer is made subject to acceptance by delivery of an executed counterpart hereof at or prior to 5:00 p.m., Pacific time, on this date or on such later date as shall have been consented to by the parties hereto with the approval of the Corporation.

Capitalized terms used in this Purchase Agreement and not otherwise defined herein shall have the meaning ascribed to such terms in the Bond Indenture, dated as of September 1, 2010 (the “Bond Indenture”) by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Bond Trustee”).

**1. Purchase, Sale and Delivery of the Bonds.**

(a) Upon the basis of the representations, warranties and agreements herein set forth and subject to the terms and conditions contained herein and in the Letter of Representations, the Underwriters hereby jointly and severally agree to purchase from the City, and the City hereby agrees to sell to the Underwriters, all (but not less than all) of the City’s §[135,000,000] aggregate principal amount of Revenue Bonds (Torrance Memorial Medical Center), Series 2010A (the “Bonds”). The Bonds shall be subject to redemption, shall bear interest at the rates and shall mature on the dates in the principal amounts all as set forth on Exhibit A hereto, which is incorporated herein by this reference. The Underwriters shall purchase the Bonds at an aggregate price of \$[\_\_\_\_\_] (being the principal amount of the Bonds (§[135,000,000]), [plus/minus] [net] original issue [premium/discount] of \$[\_\_\_\_\_] and less an Underwriter’s discount of \$[\_\_\_\_\_] (the “Purchase Price”).

The Bonds shall be dated the date of their delivery and shall be issued and secured under and pursuant to the provisions of and shall be payable as provided in the Bond Indenture. The Bonds will be payable from Loan Repayments made by the Corporation under a Loan Agreement, dated as of September 1, 2010 (the "Loan Agreement"), between the City and the Corporation, and from certain funds held under the Bond Indenture. To provide assurance that interest received by the Holders of the Bonds will be excluded from gross income for federal income tax purposes, the City and the Corporation will enter into a Tax Agreement, dated as of the issuance of the Bonds (the "Tax Agreement"). The Corporation's obligations under the Loan Agreement will be secured by Obligation No. 2 ("Obligation No. 2") issued under and pursuant to the Master Indenture of Trust, dated as of June 1, 2001 (the "Original Master Indenture"), between The Bank of New York Mellon Trust Company, N.A., as successor master trustee (in such capacity, the "Master Trustee") and the Corporation, as amended and restated by the Amended and Restated Master Indenture of Trust, dated as of September 1, 2010, between the Master Trustee and the Corporation and as supplemented by the Supplemental Master Indenture for Obligation No. 2, dated as of September 1, 2010 ("Supplement No. 2"), between the Corporation and the Master Trustee. The Original Master Indenture, as amended and restated by the Amended and Restated Master Indenture, as supplemented by Supplement No. 2 and as heretofore supplemented is collectively referred to as the "Master Indenture." The Corporation is the sole member of an Obligated Group (the "Obligated Group") created pursuant to the Master Indenture. The Corporation and any future member(s) of the Obligated Group are referred to herein as "Members" and each as a "Member." Each Member of the Obligated Group is jointly and severally obligated to make payments on Obligation No. 2.

The City is issuing the Bonds pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California (the "State") and Article II, Section 6 of the City's Charter, and the City's adoption of the of the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (collectively, the "Bond Law"), and a resolution adopted by the City Council of the City on [\_\_\_\_], 2010 (the "City Resolution"), authorizing the execution and delivery of the City Documents (as defined herein) and the issuance and delivery of the Bonds. The City shall not be obligated to pay the principal of, premium, if any, or interest on the Bonds, except from payments received under the Loan Agreement, under Obligation No. 2 and other Revenues. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to the payment of the principal of, premium or interest on the Bonds and the issuance of the Bonds shall not, directly, indirectly, or contingently, obligate the City, the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment.

Simultaneously with the issuance of the Series 2010A Bonds, the Corporation has asked the City to issue its \$[64,610,000] Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B (the "Series 2010B Bonds") and its \$[35,390,000] Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010C (the "Series 2010C Bonds"). The Series 2010B Bonds and the Series 2010C Bonds will each be sold pursuant to a separate bond purchase agreement. The sale and issuance of the Bonds is not conditioned upon the sale and issuance of the Series 2010B Bonds or the Series 2010C Bonds, and the sale and issuance of the Series 2010B Bonds and the Series 2010C Bonds is not conditioned upon the sale and issuance of the Bonds.

(b) The City will cooperate in the preparation and delivery to the Underwriters of, and approve the distribution of the Official Statement, dated the date hereof, substantially in the form of the Preliminary Official Statement with respect to the Bonds, dated August [\_\_\_], 2010 (including the cover page and all supplements, appendices and exhibits, the "Preliminary Official Statement"), with only such changes therein as have been accepted by the Underwriters (the Preliminary Official Statement with such changes, and including the cover page and all supplements, appendices, exhibits, reports and statements included therein or attached thereto being herein called the "Official Statement"), approved by the Corporation by an authorized representative of the Corporation, in such quantities as the Underwriters

shall request. The City confirms that the information contained in the Preliminary Official Statement under the captions “THE CITY OF TORRANCE” and “ABSENCE OF MATERIAL LITIGATION—The City” was deemed to be final as of the date thereof for purposes of Rule 15c2-12 (“Rule 15c2-12”) promulgated by the Securities and Exchange Commission (the “SEC”) pursuant to the Securities Exchange Act of 1934, as amended, except for any information permitted to be omitted therefrom by Rule 15c2-12, and represents and warrants that information contained in the Official Statement under the caption “THE CITY OF TORRANCE” and “ABSENCE OF MATERIAL LITIGATION—The City” is deemed final as of the date hereof for purposes of Rule 15c2-12.

(c) Prior to the execution of this Purchase Agreement, the Corporation caused KPMG LLP to deliver to the Underwriters: (i) an Agreed Upon Procedures Letter, dated one business day prior to the date of the Preliminary Official Statement, in form and substance acceptable to the Underwriters, addressed to the Corporation and the Underwriters and including a statement to the effect that they are independent certified public accountants as defined in Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants with respect to the Corporation and (ii) a letter, dated the date of the Preliminary Official Statement, stating they agree to the inclusion of their report dated April 29, 2010 on the financial statements of the Corporation in the Preliminary Official Statement.

(d) At 8:00 a.m., Pacific time, on September [ ], 2010 or at such other time or on such earlier or later date as we may mutually agree upon (the “Closing Date”), the City will deliver or cause to be delivered (i) the Bonds in definitive form to The Depository Trust Company (“DTC”) for the account of the Underwriters, bearing proper CUSIP numbers, duly executed and delivered, such Bonds to be delivered to the Bond Trustee as agent of DTC under the FAST Automated Securities Transfer System, and (ii) at the offices of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”) in San Francisco, California the other documents hereinafter mentioned. Subject to the conditions of this Purchase Agreement, the Underwriters will accept such delivery and pay the purchase price thereof as set forth in paragraph (a) of this Section by wire transfer (which payment in any event shall be in immediately available funds) payable to the order of the Bond Trustee (such delivery and payment being herein referred to as the “Closing”). Upon initial issuance and delivery, the ownership of the Bonds will be registered in the name of Cede & Co., as nominee of DTC, and will be in the form of a separate single fully-registered Bond for each maturity.

(e) The Underwriters have entered into this Purchase Agreement in reliance upon the representations and warranties of the City contained herein, the representations and warranties of the Corporation contained in the Letter of Representations and to be contained in the Loan Agreement and Master Indenture, the certificates of the City, the Corporation, the Bond Trustee, the Master Trustee and others to be delivered pursuant hereto and the Loan Agreement and Master Indenture, and the opinions of Bond Counsel, counsel to the City, counsel to the Bond Trustee, Master Trustee and Dissemination Agent (as defined herein) and special counsel to the Corporation required to be delivered hereby.

**2. Representations, Warranties and Agreements of the City.** The City represents and warrants to and agrees with the Underwriters and the Corporation that:

(a) The City is, and will be at the Closing Date, a municipal corporation and charter city duly organized and existing under a freeholders’ charter pursuant to which the City has the right and power to make and enforce all laws and regulations in respect to municipal affairs and certain other matters in accordance with and as more particularly provided in the Bond Law, had full power and authority to adopt the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the “Ordinance”), the adopt the City Resolution, to authorize the issuance and delivery of the Bonds, to execute and deliver the Bond Indenture, the Loan Agreement, the Tax Agreement, and this Purchase Agreement (collectively, the “City Documents”) and to perform its obligations under the City Documents,

and when executed and delivered by the respective parties thereto, each of the City Documents will constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights generally, by the application of equitable principles if equitable remedies are sought, judicial discretion in appropriate cases, and limitations on legal remedies against charter cities in t;

(b) When delivered to and paid for by the Underwriters at the Closing in accordance with the provisions of this Purchase Agreement, the City Documents will constitute valid and binding limited obligations of the City, enforceable in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally, by the application of equitable principles if equitable remedies are sought, judicial discretion in appropriate cases, and limitations on legal remedies against charter cities in California;

(c) The City hereby authorizes the Underwriters to use, in connection with the offer and sale of the Bonds, copies of the City Documents and all information contained herein and therein and all of the documents, certificates and statements furnished by the City to the Underwriters in connection with the transactions contemplated by this Purchase Agreement (except as such other documents otherwise provide);

(d) By official action of the City prior to or concurrently with the acceptance hereof, the City has authorized and approved the distribution of the Preliminary Official Statement, authorized and approved the distribution of the Official Statement, and authorized and approved (i) the issuance and delivery of the Bonds, (ii) the execution and delivery of and the performance by the City of the obligations on its part contained in the City Documents and (iii) the consummation by the City of all other transactions contemplated by the Official Statement and this Purchase Agreement;

(e) To the knowledge of the City, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or known to the City to be threatened against the City seeking to restrain or enjoin the execution, sale or delivery of the Bonds, or in any way contesting or affecting any proceedings of the City taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Bonds, or any of the City Documents or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, as amended or supplemented, or the existence or powers of the City relating to the delivery of the Bonds;

(f) Both at the time of acceptance hereof by the City and at the Closing Date, the statements and information contained in the Official Statement under the captions "THE CITY OF TORRANCE" and "ABSENCE OF MATERIAL LITIGATION—The City" are and will be true and correct in all material respects, and the information contained in the Official Statement under the captions "THE CITY OF TORRANCE" and "ABSENCE OF MATERIAL LITIGATION—The City" does not and will not contain an untrue statement of a material fact or omit to state a material fact concerning the City necessary to make such statements and information therein, in the light of the circumstances under which they were made, not misleading in any material respect;

(g) The execution and delivery of this Purchase Agreement by the City shall constitute a representation by the City to the Underwriters that the representations and agreements contained in this Section are true as of the date hereof; provided, however, that as to information furnished by the Corporation pursuant to this Purchase Agreement, the City is relying solely on such information in making the City's representations and agreements, and as to all matters of law the City is relying on the

advice of Bond Counsel or other counsel to the City; and provided further, that no officer, agent or employee of the City shall be individually liable for the breach of any representation, warranty or agreement contained herein;

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in endeavoring (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and subject to the provisions of Section 5, will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds; provided, however, that in no event shall the City be required to take any action which would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject;

(i) The issuance and delivery of the Bonds and the execution and delivery by the City of the City Documents, and compliance with the provisions on the City's part contained therein, to the best knowledge of the City, will not conflict with or constitute a material breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the City Documents;

(j) The City, to the extent within its control, has obtained all consents, permissions and authorizations necessary in connection with the execution and delivery by the City of this Purchase Agreement, the execution and delivery by the City of the other City Documents at the Closing and the consummation of the transactions herein and therein contemplated by the City;

(k) If between the date of this Purchase Agreement and up to and including the 25th day following the end of the underwriting period (as such term is defined in Rule 15c2-12, provided that the City may assume that the Closing Date is the end of the underwriting period unless otherwise notified by the Underwriters at the closing) (i) an event occurs, of which the City has actual knowledge, which might or would cause the information under the caption "THE CITY OF TORRANCE" and "ABSENCE OF MATERIAL LITIGATION—The City" contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, or (ii) if the City is notified by the Corporation pursuant to the provisions of the Letter of Representations or is otherwise requested to amend, supplement or otherwise change the Official Statement, the City will notify the Underwriters and the Corporation, and if in the reasonable opinion of the Underwriters or Underwriters' counsel such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will amend or supplement the Official Statement in a form and in a manner approved by the Underwriters, provided all expenses thereby incurred will be paid by the Corporation pursuant to agreement between the City and the Corporation;

(l) For 25 days from the date of the end of the underwriting period (as such term is defined in Rule 15c2-12, provided that the City may assume that the Closing Date is the end of the underwriting period unless otherwise notified by the Underwriters at the Closing), (i) the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Corporation or the Underwriters shall reasonably object in writing or

which shall be disapproved by any of their respective counsel and (ii) if any event relating to or affecting the City shall occur as a result of which it is necessary, in the opinion of counsel for the Underwriters, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the City will cooperate with the Corporation and the Underwriters to prepare and furnish to the Underwriters and the Corporation (at the expense of the Corporation) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriters) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. For purposes of this subsection, the City will furnish such information with respect to itself for inclusion under the heading “THE CITY OF TORRANCE” and “ABSENCE OF MATERIAL LITIGATION—The City” as the Underwriters may from time to time reasonably request; and

(m) The City acknowledges and agrees (i) that the Underwriters are acting as principals and not as agents or fiduciaries to the City, (ii) that the Underwriters’ engagement is as independent contractors and that the Underwriters are not serving in any other capacity; and (iii) that the City is solely responsible for making its own judgments in connection with the offering of the Bonds, regardless of whether the Underwriters have or are currently advising the City on related or other matters.

**3. Conditions to the Obligations of the Underwriters.** The obligation of the Underwriters to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriters, to the accuracy in all material respects of the representations, warranties and agreements on the part of the City contained herein and on the part of the Corporation contained in the Letter of Representations, in each case, as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the City and of the officers and other representatives of the Corporation made in any certificates or other documents furnished pursuant to the provisions hereof, and to the performance by the City and the Corporation of their respective obligations to be performed hereunder and under the Letter of Representations at or prior to the Closing Date and to the following additional conditions:

(a) At the time of Closing, each of the City Documents and the Continuing Disclosure Agreement, dated as of the Closing Date (the “Continuing Disclosure Agreement”), between The Bank of New York Mellon Trust Company, N.A., as trustee and dissemination agent (in such capacity, the “Dissemination Agent”) and the Corporation, Obligation No. 2, the Master Indenture and the Bonds shall be in full force and effect as valid, binding and enforceable agreements between or among the various parties thereto, and the City Documents, the Continuing Disclosure Agreement, Obligation No. 2, the Master Indenture and the Official Statement shall not have been amended, modified or supplemented from the forms thereof furnished to the Underwriters prior to the date of this Purchase Agreement, except as may otherwise have been agreed to in writing by the Underwriters, and there shall have been taken in connection with the issuance and delivery of the Bonds and with the transactions contemplated thereby and by this Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

(b) The Underwriters shall have the right to terminate this Purchase Agreement by notification to the City and the Corporation from the Underwriters of the election of the Underwriters to do so if, after the execution hereof and prior to the Closing Date:

(1) an event shall occur which makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Official Statement or which is not reflected in the Official Statement but should be reflected therein in order to make the statements

contained therein not misleading in any material respect and requires an amendment of or supplement to the Official Statement and the effect of which, in the judgment of the Underwriters, would materially adversely affect the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriters of the Bonds; or

(2) legislation shall be introduced in, enacted by, reported out of committee, or recommended for passage by the State of California, either House of the Congress, or recommended to the Congress or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is proposed for consideration by either such committee by any member thereof or presented as an option for consideration by either such committee by the staff or such committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Code (which, if enacted, would be effective as of a date prior to the Closing) shall be filed in either House, or a decision by a court of competent jurisdiction shall be rendered, or a regulation or filing shall be issued or proposed by or on behalf of the Department of the Treasury or the Internal Revenue Service of the United States, or other agency of the federal government, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States, in any such case with respect to or affecting (directly or indirectly) the taxation of interest received on obligations of the general character of the Bonds which, in the opinion of the Underwriters, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriters of the Bonds; or

(3) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering, sale or distribution of obligations of the general character of the Bonds is in violation or would be in violation of any provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended or the Trust Indenture Act of 1939, as amended; or

(4) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended (the "Securities Act"), or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect;

(5) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the reasonable judgment of the Underwriters, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

(6) there shall have occurred a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges or prices for

securities shall have been required on the New York Stock Exchange or other national stock exchange whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other governmental agency having jurisdiction or any national securities exchange shall have: (i) imposed additional material restrictions not in force as of the date hereof with respect to trading in securities generally, or to the Bonds or similar obligations; or (ii) materially increased restrictions now in force with respect to the extension of credit by or the charge to the net capital requirements of underwriters or broker-dealers such as to make it, in the judgment of the Underwriters, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

(7) a general banking moratorium shall have been declared by federal or New York or Massachusetts state authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred such as to make it, in the judgment of the Underwriters, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

(8) a downgrading or suspension of any rating by a national rating service of any debt obligations of the Corporation (without regard to credit enhancement), or (ii) there shall have been any official statement as to a possible downgrading (such as being placed on "credit watch" or "negative outlook" or any similar qualification) of any rating by a national rating service of debt obligations of the Corporation, including the Bonds, the Series 2010B Bonds or the Series 2010C Bonds; or

(9) there occurs any other event which, in the reasonable opinion of the Underwriters, materially adversely affects the marketability of the Bonds at the rates set forth in Exhibit A hereto.

(c) At or prior to the Closing Date, the Underwriters shall have received the following documents, in each case satisfactory in form and substance to the Underwriters:

(1) The City Documents, and the Continuing Disclosure Agreement, each duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriters;

(2) A certified copy of the Master Indenture duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriters;

(3) Supplement No. 2, duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriters;

(4) A specimen Obligation No. 2 (the original of which shall have been duly executed and delivered to the Bond Trustee by the respective parties thereto), with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriters;

(5) The Official Statement, duly executed on behalf of the Corporation;

(6) An approving opinion of Bond Counsel, dated the Closing Date and addressed to the City, substantially in the form attached to the Official Statement as Appendix D, and a supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriters in form

and substance reasonably satisfactory to the Underwriters to the effect that the Underwriters may rely on the approving opinion of Bond Counsel, and also to the effect that:

(A) the statements contained in the Official Statement with respect to the Bonds in the sections thereof entitled “THE BONDS,” “SECURITY FOR THE BONDS” and “TAX MATTERS,” and the statements contained in Appendix C — “SUMMARY OF PRINCIPAL DOCUMENTS” thereof, excluding any material that may be treated as included under such captions by cross reference, insofar as such statements expressly summarize certain provisions of the Bonds, the Master Indenture, Obligation No. 2, the Bond Indenture, and the Purchase Agreement and the form and content of the opinion of Bond Counsel attached to the Official Statement as Appendix D, are accurate in all material respects;

(B) the Bonds are not subject to the registration requirements of the Securities Act, and the Bond Indenture is exempt from qualification pursuant to the Trust Indenture Act;

(C) the Purchase Agreement has been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by and validity against the Underwriters and approval by the Corporation, is valid and binding upon the City, subject to the laws relating to bankruptcy, insolvency, reorganization or creditors’ rights generally, to the application of equitable principles if equitable remedies are sought, to judicial discretion in appropriate cases and to the limitations on legal remedies against charter cities in California;

(7) An opinion of [\_\_\_\_\_], special counsel to the City, dated the Closing Date and addressed to the City and the Underwriters, in form and substance reasonably satisfactory to the City and the Underwriters and substantially in the form attached hereto as Exhibit C;

(8) An opinion of McDermott Will & Emery LLP, special counsel to the Corporation, dated the Closing Date and addressed to the City and the Underwriters, in form and substance reasonably satisfactory to the City and the Underwriters and substantially in the form attached hereto as Exhibit D;

(9) An opinion of counsel to the Bond Trustee, the Master Trustee and the Dissemination Agent, dated the Closing Date and addressed to the City and the Underwriters, in form and substance reasonably satisfactory to the Underwriters;

(10) An opinion and negative assurance letter of Squire, Sanders & Dempsey L.L.P., counsel to the Underwriters, dated the Closing Date and addressed to the Underwriters, in form and substance satisfactory to the Underwriters;

(11) A certificate of an authorized official of the City in such form as is acceptable to the Underwriters, dated the Closing Date, to the effect that:

(A) to the best of such official’s actual knowledge after due inquiry, no litigation is pending or threatened (1) to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues pledged under the Bond Indenture; (2) in any way contesting or affecting the authority for the delivery of the Bonds or the validity or enforceability of the Bonds or the City Documents; or (3) in any way contesting the existence or powers of the City;

(B) no event affecting the City has occurred since the date of the Official Statement that would cause as of the Closing Date any statement or information concerning the City made under the captions “THE CITY OF TORRANCE” or “ABSENCE OF MATERIAL

LITIGATION—The City” in the Official Statement to contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements concerning the City made under the captions “THE CITY OF TORRANCE” or “ABSENCE OF MATERIAL LITIGATION—The City” in the light of the circumstances under which they were made, not misleading;

(C) the City has fulfilled or performed each of its obligations contained in the City Documents required to be fulfilled or performed by it as of the Closing Date; and

(D) to the best of such official’s knowledge, the representations and warranties made by the City in the City Documents are true and correct in all material respects on the Closing Date, with the same effect as if made on and with respect to the facts as of the Closing Date;

(12) A certificate of the Chief Financial Officer of the Corporation, or such other officer of the Corporation as is acceptable to the Underwriters, dated the Closing Date, to the effect that:

(A) the representations and warranties made by the Corporation in the Letter of Representations and the Financing Documents (as defined in the Letter of Representations) are true and correct as of the Closing Date;

(B) the Corporation has not since December 31, 2009 offered or issued any bonds, notes or other obligations for borrowed money or incurred any material liabilities, direct or contingent, other than in the ordinary course of business, that are not described in or contemplated by the Official Statement;

(C) since December 31, 2009, no material and adverse change has occurred in the financial position or results of operation of the Corporation that is not described in or contemplated by the Official Statement;

(D) the Corporation has reviewed the Official Statement and certifies that the Official Statement, excluding the Excepted Portions (as defined in the Letter of Representations), does not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;

(E) no event has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement thereto, but should be disclosed in order to make the statements in the Official Statement, in light of the circumstances in which they were made, not misleading;

(F) each of the Financing Documents (as defined in the Letter of Representations) and the Official Statement have been duly executed and delivered by a representative of the Corporation authorized to execute each such document;

(G) the Corporation has complied with all applicable terms of the Financing Documents, which are necessary to be complied with prior to or before the Closing Date, and the Financing Documents are in full force and effect;

(H) the Bonds being delivered on the Closing Date to the Underwriters under this Purchase Agreement substantially conform to the descriptions thereof contained in the Bond Indenture and Official Statement;

(I) as of the Closing Date, the Corporation has taken all actions necessary under California law to create under the Master Indenture a first priority perfected security interest in Gross Receivables;

(J) within the past ten years, no warnings have been given and no administrative actions or proceedings have been undertaken by the California Department of Health Services (“CDHS”) to rescind acute care licenses of the Medical Center (as defined in Appendix A to the Official Statement) or by The Joint Commission to rescind accreditations of the Medical Center;

(13) Evidence that the Corporation has satisfied the legal requirements of the Master Indenture for the incurrence of debt represented by Obligation No. 2;

(14) A certificate of the City delivered pursuant to Rule 15c2-12 relating to the Preliminary Official Statement, in form and substance satisfactory to the Underwriters;

(15) A certificate of the Corporation delivered pursuant to Rule 15c2-12 relating to the Preliminary Official Statement, in form and substance satisfactory to the Underwriters;

(16) The Articles of Incorporation of the Corporation certified by the Secretary of State of the State, a Certificate of Status of the Corporation issued by the Secretary of State of the State and a Certificate of Status of the Corporation issued by the Franchise Tax Board of the State, each of recent date to the Closing;

(17) Certified copies of the Ordinance and of the City Resolution;

(18) A copy of the Corporation’s bylaws and the resolution(s) adopted by the Corporation’s Board of Trustees, authorizing the execution and delivery of the Financing Documents, the issuance of the Bonds, approving the Official Statement and authorizing the execution and distribution of the Official Statement;

(19) Evidence that the Corporation is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law and is exempt from taxation under California law;

(20) Evidence that the Corporation is exempt from state income and franchise taxes;

(21) The Tax Agreement, duly executed by the parties thereto, and an Internal Revenue Service Form 8038 executed by the City, in forms satisfactory to Bond Counsel;

(22) A certificate of the Bond Trustee, the Master Trustee and the Dissemination Agent, in such form as is acceptable to the Underwriters, dated the Closing Date, to the effect that:

(A) The Bank of New York Mellon Trust Company, N.A. (the “Bank”) is a national banking corporation duly organized and existing under the laws of the United States with the full power and authority: (i) to enter into and perform its duties under the Bond Indenture, the Master Indenture, including Supplement No. 2 and the Continuing Disclosure Agreement (collectively, the “Bank Documents”); (ii) to authenticate the Bonds; (iii) to authenticate Obligation No. 2; and (iv) to carry out and consummate the transactions contemplated by the Bank Documents;

(B) the authentication of the Bonds and Obligation No. 2, and the execution and delivery of the Bank Documents have been duly authorized by all necessary action of the Bank;

(C) the Bank has duly accepted the trusts created pursuant to the Bond Indenture and the Master Indenture and each of the Bank Documents have been duly executed and delivered on behalf of the Bank, and the Bonds and Obligation No. 2 have been duly authenticated on behalf of the Bank;

(D) acceptance and performance by the Bank of its obligations in accordance with the Bank Documents will not contravene the Articles of Association or Bylaws of the Bank or, to the best knowledge of the Bank, conflict with or constitute a breach of or a default under any law, administrative or governmental regulation, consent, decree, order, indenture, contract or other agreement or instrument to which the Bank is subject or bound or by which any of its assets is bound;

(E) to the best knowledge of the Bank, all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter, receipt of which would constitute a condition precedent to the performance by the Bank of its obligations under the Bank Documents have been obtained and are in full force and effect; and

(F) to the best knowledge of the Bank, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened in any way contesting or affecting the existence or trust powers of the Bank or the ability of the Bank to fulfill its obligations under the Bank Documents or seeking to prohibit, restrain or enjoin the issuance and delivery of the Bonds or the collection of Revenues or Gross Receivables, as applicable, pledged or to be pledged to pay the principal of, prepayment premium, if any, and interest represented by the Bonds or Obligation No. 2, or the pledge thereof or the pledge of Gross Receivables (as such term is defined in the Master Indenture), or in any way contesting or affecting the validity or enforceability of the Bonds, Obligation No. 2 or the Bank Documents or contesting the powers of the Bank or its authority to enter into and perform its obligations under any of the foregoing, wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Bonds, Obligation No. 2 or the Bank Documents;

(23) Evidence that Standard & Poor's, a division of The McGraw-Hill Companies, Inc. has assigned a rating of "[ ]" to the Bonds and that Moody's Investors Service has assigned a rating of "[ ]" to the Bonds .

(24) A letter of KPMG LLP, dated the Closing Date, to the effect that they agree to the inclusion of their report dated April 29, 2010, on the consolidated audited financial statements of the Corporation in the final Official Statement; and a bring down of the letter described in Section 1(c)(i) herein, dated the Closing Date;

(25) All filings required under State law with the California Debt and Investment Advisory Commission;

(26) A specimen Bond;

(27) The Blanket Issuer Letter of Representation of the City;

(28) UCC searches with respect to the Property and Gross Receivables of the Members of the Obligated Group and an opinion of special counsel to the Obligated Group, addressed to

the Underwriters in form and substance reasonably satisfactory to the Underwriters, to the effect that all liens and encumbrances shown in such UCC searches constitute Permitted Encumbrances pursuant to the Master Indenture.

(29) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriters, its counsel or Bond Counsel may reasonably request to evidence compliance by the City and the Corporation with legal requirements, the truth and accuracy, as of the Closing Date, of the representations of the City contained herein and of the Corporation contained in the Letter of Representations and the Financing Documents, and the due performance or satisfaction by the City and the Corporation at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City and the Corporation.

**4. Conditions to the Obligations of the City.** The obligations of the City shall be subject to the performance by the Underwriters of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) The City Documents and the Financing Documents shall have been executed by the other parties thereto;

(b) No order, decree, injunction, ruling or regulation of any court, regulatory agency, public board or body shall have been issued, nor shall any legislation have been enacted, with the purpose or effect, directly or indirectly, of prohibiting the offering, sale, execution or delivery of the Bonds as contemplated hereby or by the Official Statement;

(c) The documents and opinions contemplated by Section 3(c), the forms of which are set forth herein, shall have been delivered substantially in the forms set forth herein, and the other documents and opinions contemplated by Section 3(c) shall have been delivered to the City in form and substance satisfactory to Bond Counsel, the City and the Underwriters; and

(d) The City Issuance Fee shall have been paid by wire or in other immediately available funds or arrangements reasonably satisfactory to the City shall have been made to pay such City Issuance Fee from the proceeds delivered from the sale of the Bonds.

**5. Expenses.**

(a) The Corporation shall pay all expenses of the Corporation and the City incident to the performance of their obligations in connection with the authorization, sale, issuance and delivery of the Bonds to the Underwriters, including without limitation: fees and expenses of the Corporation's financial advisor, auditors and any other consultants retained by the Corporation or by the City; fees and expenses of the Bond Trustee, the Master Trustee, and the Dissemination Agent; fees of DTC; fees and expenses of rating agencies; and fees and expenses of [ ] special counsel to the City, of Bond Counsel, of McDermott Will & Emery LLP, special counsel to the Corporation, and of Squire, Sanders & Dempsey L.L.P., counsel to the Underwriters. All fees and expenses to be paid by the Corporation pursuant to this Purchase Agreement may be paid from Bond proceeds to the extent permitted by the Bond Indenture and the Tax Agreement.

(b) All expenses of selling the Bonds, all out-of-pocket expenses of the Underwriters, including travel and other expenses, CUSIP Service Bureau charges, California Debt and Investment Advisory Commission fees, any fees charged by the MSRB and fees and expenses of printing, publishing and electronic distribution costs related to the preparation and distribution of the Official Statement shall be paid by the Underwriters.

(c) The Corporation shall also pay for expenses (included in the expense component of the spread) incurred on behalf of the Corporation's employees that are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees, and the Corporation shall reimburse the Underwriters if the Underwriters pay for any such expenses on behalf of the Corporation.

(d) The obligations under this Section 5 shall survive any termination of this Purchase Agreement.

**6. Termination.** This Purchase Agreement may be terminated by the Underwriters upon written notice of such termination to the City and the Corporation, if any of the conditions specified in Section 3 herein shall not have been fulfilled by the Closing or waived in writing by the Underwriters. This Purchase Agreement may be terminated by the City, with written concurrence of the Corporation, upon written notice of such termination to the Underwriters if any of the conditions specified in Section 4 herein shall not have been fulfilled by the Closing or waived in writing by the City. Any notice of termination pursuant to this Section 6 shall be given in the manner provided in Section 7 hereof. If this Purchase Agreement shall be terminated as provided in this Section 6, none of the Underwriters, the City or the Corporation shall have any further obligation or liability hereunder, except as provided in Section 5 hereof.

**7. Notices.** Any notice or other communication to be given under this Purchase Agreement may be given by delivering the same in writing at the following notice addresses or facsimile numbers or such other addresses or facsimile numbers as any of the following may designate in writing to the others:

If to the City:

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503  
Attention: [ ]  
Fax: [ ]

If to the Underwriters:

Citigroup Global Markets Inc.  
One Sansome Street, 28<sup>th</sup> Floor  
San Francisco, California 94014  
Attention: Andrew Pines, Managing Director  
Fax: (415) 951-1747

If to the Corporation:

Torrance Memorial Medical Center  
3330 West Lomita Boulevard  
Torrance, California 90505  
Attention: Chief Financial Officer  
Fax: (310) 784-4801

8. **Miscellaneous.** This Purchase Agreement is made solely for the benefit of the City, the Corporation and the Underwriters, and no other person shall acquire or have any right hereunder or by virtue hereof except as expressly provided herein. All representations, warranties and agreements of the City and the Corporation in this Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriters and shall survive the delivery of and payment for the Bonds. This Purchase Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same agreement. If any provision of this Purchase Agreement is, or is held to be invalid or unenforceable as applied in any particular case in any jurisdiction because it conflicts with any provision(s) of any constitution, rule of public policy, statute or any other reason, such circumstances shall not make the provision in question invalid or unenforceable in any other case or circumstance, or make any other provision(s) or this Purchase Agreement invalid or unenforceable. This Purchase Agreement shall be governed by and interpreted under the laws of the State of New York without regard to conflict of laws and principles. Notwithstanding anything to the contrary contained in this Purchase Agreement or any document referred to herein, the City shall have no liability to the Underwriters or any other party except to the extent payable from moneys received therefor from proceeds of the sale of the Bonds or from the Corporation.

[Remainder of Page Intentionally Left Blank]

If the foregoing is in accordance with your understanding of our agreement under this Purchase Agreement, please sign and return to the Underwriters the enclosed counterparts hereof whereupon it will become a binding agreement among the City, the Corporation and the Underwriters.

**CITIGROUP GLOBAL MARKETS INC.**  
as Representative of the Underwriters

By: \_\_\_\_\_  
Managing Director

**Accepted and Agreed:**

**CITY OF TORRANCE**

By: \_\_\_\_\_  
City Administrator

**Approved:**

**TORRANCE MEMORIAL MEDICAL CENTER**

By: \_\_\_\_\_  
Senior Vice President of Finance and  
Chief Financial Officer

**EXHIBIT A****INTEREST RATES, MATURITIES AND REDEMPTION PROVISIONS**

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity Dates (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
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\$ \_\_\_\_\_ % Term Bonds due September, \_\_\_\_\_ – Yield \_\_\_\_\_ % CUSIP

\$ \_\_\_\_\_ % Term Bonds due September, \_\_\_\_\_ – Yield \_\_\_\_\_ % CUSIP

**REDEMPTION**

The Bonds are subject to redemption prior to their respective stated maturities, at the option of the City (which shall be exercised upon the written request of the Corporation, which written request shall be delivered to the Bond Trustee no later than forty-five (45) days prior to the date fixed for redemption), as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturities, and by lot within each maturity) from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Special Redemption Account, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Bonds maturing on or after September 1, \_\_\_\_\_, are also subject to redemption prior to their respective stated maturities, at the option of the City (which shall be exercised upon the written request of the Corporation, which written request shall be delivered to the Bond Trustee no later than thirty (30) days prior to the date fixed for redemption, or such shorter period as agreed to in writing by the Bond Trustee) in whole or in part (in such amounts as may be specified by the Corporation), from any source of available funds, as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturities, and by lot within each maturity) on or after September 1, \_\_\_\_\_, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

The Bonds maturing on September 1, \_\_\_\_\_ and September 1, \_\_\_\_\_, are also subject to redemption prior to their respective stated maturities in part (by lot) from Mandatory Sinking Account Payments set forth below on each September 1 on or after September 1, \_\_\_\_\_ and

September 1, \_\_\_\_\_, respectively, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Bonds maturing on September 1, 20\_\_ shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Sinking Account Payments
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\* Maturity

The Bonds maturing on September 1, 20\_\_ shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Sinking Account Payments
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\* Maturity

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*Capitalized terms used in this Exhibit A not otherwise defined in the Purchase Agreement to which this Exhibit A is attached shall have the meanings ascribed to such terms in the Bond Indenture.*

**EXHIBIT B****LETTER OF REPRESENTATIONS**

August [ ], 2010

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503

Citigroup Global Markets Inc.  
One Sansome Street, 28<sup>th</sup> Floor  
San Francisco, California 94104

**[\$135,000,000]**  
**City of Torrance**  
**Revenue Bonds**  
**(Torrance Memorial Medical Center)**  
**Series 2010A**

Ladies and Gentlemen:

Torrance Memorial Medical Center (the “Corporation”) makes the following representations to and offers to make the following warranties and agreements with you, in order to induce you to enter into the Purchase Agreement defined below.

The Corporation intends to enter into a Loan Agreement, dated as of September 1, 2010 (the “Loan Agreement”), between the City of Torrance, California (the “City”) and the Corporation. The Corporation’s obligations under the Loan Agreement will be secured by Obligation No. 2 (“Obligation No. 2”) issued under and pursuant to the Master Indenture of Trust, dated as of June 1, 2001 (the “Original Master Indenture”), between The Bank of New York Mellon Trust Company, N.A., as successor master trustee (in such capacity, the “Master Trustee”) and the Corporation, as amended and restated by the Amended and Restated Master Indenture of Trust, dated as of September 1, 2010, between the Master Trustee and the Corporation and as supplemented by the Supplemental Master Indenture for Obligation No. 2, dated as of September 1, 2010 (“Supplement No. 2”), between the Corporation and the Master Trustee. The Original Master Indenture, as so amended and restated, as so supplemented and as heretofore supplemented is collectively referred to as the “Master Indenture.” The Corporation is the sole member of an Obligated Group (the “Obligated Group”) created pursuant to the Master Indenture. The Corporation and any future member(s) of the Obligated Group are referred to herein as “Members” and each as a “Member.” Each Member of the Obligated Group is jointly and severally obligated to make payments on Obligation No. 2.

Pursuant to the Bond Purchase Agreement, dated the date hereof (the "Purchase Agreement"), executed and delivered by Citigroup Global Markets Inc. (the "Underwriters"), accepted and agreed to by the City, and approved by the Corporation, the City proposes to sell \$[135,000,000] aggregate principal amount of the above-referenced bonds (the "Bonds"). The offering of the Bonds is described in a Preliminary Official Statement with respect to the Bonds, dated August [ ], 2010 (including the cover page and all supplements, appendices and exhibits, the "Preliminary Official Statement"), and an Official Statement, dated the date hereof (including the cover page and all supplements, appendices and exhibits included therein or attached thereto being herein called the "Official Statement").

Capitalized terms used herein and not defined herein shall have the respective meanings set forth in the Purchase Agreement.

In order to induce you to enter into the Purchase Agreement and to make the sale and purchase and reoffering of the Bonds therein contemplated, the Corporation hereby represents, warrants and agrees with each of you as of the date hereof as follows:

1. The Corporation is a nonprofit public benefit corporations duly organized, validly existing and in good standing under the laws of the State of California (the "State"). The Corporation has, and at the Closing Date will have, the requisite legal right, power and authority to enter and deliver, as applicable, into this Letter of Representations (this "Letter of Representations"), the Loan Agreement, the Continuing Disclosure Agreement, the Amended and Restated Master Indenture, Supplement No. 2, Obligation No. 2 and the Tax Agreement (collectively, the "Financing Documents"), to approve, execute and deliver, as applicable, the Purchase Agreement, the Preliminary Official Statement and the Official Statement and to carry out and consummate, as applicable, all transactions contemplated by the Financing Documents, the Master Indenture, the Purchase Agreement and the Official Statement to be carried out and consummated by it and by proper corporate action has duly authorized, as applicable, the execution and delivery of the Financing Documents, the Purchase Agreement and the Official Statement and the distribution of the Preliminary Official Statement and the Official Statement.

2. The Corporation does not restrict entry to any of its facilities on racial or religious grounds. No portion of the proceeds of the Bonds will be used to finance any facility used or to be used for sectarian instruction or as a place for religious worship or any facility used or to be used primarily in connection with any part of the program of a school or department of divinity.

3. The Corporation hereby approves, ratifies and authorizes the Underwriters to use, in connection with the offer and sale of the Bonds, copies of the Financing Documents and all information contained herein and therein and all the documents, certificates and statements furnished by the Corporation or the City to the Underwriters in connection with the transactions contemplated by the Purchase Agreement except as such other documents otherwise provide.

4. The representative of the Corporation (an "Authorized Representative") executing the Financing Documents, the Purchase Agreement and the Official Statement is duly, properly and fully authorized to execute and approve the same on behalf of the Corporation.

5. (i) The Purchase Agreement and this Letter of Representations have been duly authorized, executed and delivered by an Authorized Representative as of the date hereof, on behalf of the Corporation; the other Financing Documents and the Official Statement have been duly authorized by the Corporation and at the Closing will be, or will have been, as applicable, duly executed and delivered by an Authorized Representative, on behalf of the Corporation; and (ii) Obligation No. 2, when assigned to the Bond Trustee pursuant to the Bond Indenture will constitute the legal, valid and binding obligations of the Corporation to the Bond Trustee enforceable against the Corporation in accordance with its terms for

the benefit of the holders of the Bonds; and (iii) this Letter of Representations and any rights of the City and the Underwriters and obligations of the Corporation under the Financing Documents, as applicable, will constitute, and the Master Indenture constitutes, the legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their respective terms; except in the case of both (ii) and (iii) above as enforcement of each of the above-named documents in this Section 5 may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles.

6. The Corporation is not (i) in violation of any applicable law or administrative regulation of the State or the United States or any applicable judgment or decree, which violation would materially adversely affect the financial condition, assets, properties or operations of the Corporation or (ii) in breach of or default under the Financing Documents or any other any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instruments, which breach or default would materially adversely affect the financial condition, assets, properties or operations of the Corporation.

7. The execution and delivery of the Financing Documents by the Corporation, the Corporation's approval of the Purchase Agreement and the Official Statement, the consummation by the Corporation of the transactions herein, therein and in the Official Statement contemplated, and the Members' fulfillment of or compliance with the terms and conditions hereof and thereof do not or will not, as applicable, (a) conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under (i) the Articles of Incorporation of the Corporation, (ii) the bylaws of the Corporation, (iii) any indenture, mortgage, deed of trust, loan agreement, contract, lease or other agreement or instrument to which the Corporation is a party or by which the Corporation or its properties are otherwise subject or bound, or (iv) any law or administrative rule or regulation or any court or administrative decree or order applicable to the Corporation, or (b) result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Financing Documents, the Purchase Agreement or the Official Statement, or the financial condition, assets, properties or operations of the Corporation.

8. The Corporation will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters if and as the Underwriters may reasonably request in order to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and jurisdictions as the Underwriters shall request, provided, however that the Corporation shall not be required to consent to service of process in any jurisdiction in which it is not so subject as of the date hereof.

9. No consent or approval of any trustee or holder of any indebtedness of the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except in connection with Blue Sky proceedings and except for such licenses, certificates, approvals, variances and permits as may be necessary and required subsequent to the Closing Date for the development and operation of the Project, as such term is defined in the Loan Agreement) is necessary in connection with the execution and delivery of this Letter of Representations, the execution and delivery of the other Financing Documents at the Closing, the approval of the Purchase Agreement or the Official Statement, or the consummation of any transaction herein or therein contemplated, except in all such cases as have been obtained or made and as are in full force and effect (or, in the case of the Financing Documents to be executed on the Closing Date, will be obtained or made and will be in full force and effect at the Closing).

10. There are no actions, suits or proceedings which have been served on the Corporation, or, to the knowledge of the Corporation after due inquiry, are otherwise pending or threatened against the Corporation:

(a) to restrain or enjoin the sale, execution or delivery of any of the Bonds or the collection of Loan Repayments (as such term is defined in the Loan Agreement) pledged under the Bond Indenture or any payments to be made by the Corporation pursuant to the Sale Agreement, the Purchase Agreement or Obligation No. 2;

(b) in any way contesting or affecting the authority for the sale, execution or delivery of the Bonds, the validity when executed and delivered of the Bonds, Supplement No. 2, Obligation No. 2, the Purchase Agreement, the Amended and Restated Master Indenture, or the Financing Documents or the validity of the Original Master Indenture or any supplements or amendments thereto heretofore executed and delivered;

(c) in any way contesting the corporate existence or powers of the Corporation;

(d) which, if determined adversely to the Corporation, might materially adversely affect the consummation of the transactions contemplated by the Financing Documents, the Project or the financial condition, assets, properties or operations of any Corporation;

(e) contesting or affecting the status of the Corporation as an organization described in Section 501(c)(3) of the Code or which would subject any income of the Corporation to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under Section 103 of the Code; or

(f) to withdraw, suspend, or terminate any license, permit or accreditation required to operate the Corporation.

11. The Corporation is an organization described in Section 501(c)(3) of the Code; and the Corporation is exempt from federal income tax under Section 501(a) of the Code, except with respect to any unrelated business income of the Corporation, which income is not expected to result from the consummation of any transaction contemplated by the Financing Documents. Such status is based on the original determination letter from the Internal Revenue Service for the Corporation, and on letter confirming such determination from the Internal Revenue Service to Corporation dated March 30, 1982; such determination letter has not been modified, limited or revoked; and there is no action, suit, proceeding, inquiry or investigation before or by any court or other governmental authority or agency pending or, to the knowledge of the Corporation, threatened, which could affect the Corporations' status as an organization described in Section 501(c)(3) of the Code. The Corporation is not a private foundation within the meaning of Section 509(a) of the Code; and the Corporation at all times will maintain its status as an organization described in Section 501(c)(3) of the Code and its exemption from federal income tax under Section 501(a) of the Code or corresponding provisions of future federal income tax laws. The Corporation is in compliance with the terms, conditions and limitations set forth in the above-referenced determination letter, and the facts and circumstances which formed the basis of the Corporation's status as an organization described in Section 501(c)(3) of the Code as represented to the Internal Revenue Service continue substantially to exist.

12. The financial statements of Torrance Memorial Medical Center as of December 31, 2009 and 2008, and for the years then ended (copies of which, signed by KPMG LLP, have been furnished to the City and the Underwriters), present fairly, in all material respects, the financial position, activities and cash flows of the Corporation at December 31, 2009 and 2008 in conformity with generally accepted

accounting principles, and since December 31, 2009, there has been no material adverse change in the assets, operations or financial condition of the Corporation other than any such change which the Corporation has disclosed in writing to the City and the Underwriters and is described in the Official Statement. Since December 31, 2009, the Corporation has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations, or conditions, financial or otherwise, of the Corporation that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business.

13. To the best knowledge of the Corporation after due investigation, no event affecting the Corporation has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the date hereof and as of the Closing Date any statement or information contained in the Official Statement concerning the Corporation or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein concerning the Corporation not misleading in any material respect.

14. Prior to the Closing Date, the Corporation will not, without the prior written consent of the Underwriters, except as described in or contemplated by the Official Statement, incur any material liabilities, direct or contingent, other than in the ordinary course of business.

15. The Corporation will deliver, or cause to be delivered, to the Underwriters, within seven business days after acceptance hereof, copies of the Official Statement, dated the date hereof, substantially in the form of the Preliminary Official Statement, with only such changes therein as have been accepted by the Underwriters, signed on behalf of the Corporation by the Authorized Representative, in such quantities as the Underwriters shall request. The Corporation confirms that they deemed the information contained in the Preliminary Official Statement (excluding in each case the information under the caption "THE CITY OF TORRANCE" and "ABSENCE OF MATERIAL LITIGATION—The City" and Appendix E—"BOOK-ENTRY ONLY SYSTEM," which are collectively referred to as the "Excepted Portions") to be final as of the date thereof for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for any information permitted to be omitted therefrom by Rule 15c2-12, and represents and warrants that information contained in the Official Statement (excluding the Excepted Portions), is deemed final as of the date hereof for purposes of Rule 15c2-12. The Corporation has reviewed the Official Statement and certifies that (except for the Excepted Portions, as to which the Corporation makes no representation), as it may be amended or supplemented pursuant to the Purchase Agreement or this Letter of Representations, if applicable, does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to be stated therein to make the statements therein, in the light of the circumstances under which they were made, not misleading.

16. The Corporation:

(a) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and that are material to its properties, operations, finances or status as an organization described in Section 501(c)(3) of the Code;

(b) has obtained all licenses, permits, franchises or other governmental authorizations necessary and material to the ownership of its property or to the conduct of its activities, and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for its operations in all cases where failure to obtain such licenses, permits, franchises or other governmental authorizations could reasonably be expected to materially and adversely affect the condition (financial or otherwise) of the Corporation or its ability to perform its obligations under the Financing Documents; and

(c) has obtained, or in a timely manner will obtain, all licenses, permits, franchises or other governmental authorizations necessary for the construction and operation of the Project; and

(d) has fee title leasehold interest in all its Property, which is free and clear of all Liens except for Permitted Encumbrances (as such terms are defined in the Master Indenture.

17. The ERISA Plan of the Corporation has been established and heretofore maintained by the Corporation in compliance in all material respects with the applicable provisions of ERISA and the Code. To the knowledge of the Corporation, no ERISA Plan has engaged in a prohibited transaction, and compliance by the Corporation with the provisions of the Financing Documents will not involve any prohibited transaction that would subject the Corporation to a tax or penalty on prohibited transactions. No ERISA Plan that is subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code has had an accumulated funding deficiency, whether or not waived as of the last day of the most recent plan year of such ERISA Plan ended prior to the date hereof. No liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Corporation to be, incurred by the Corporation with respect to any ERISA Plan subject to Title IV of ERISA, other than for premium payments. There has been no material Reportable Event with respect to any ERISA Plan subject to Section 4043 of ERISA since the effective date of said Section 4043, and since such date no event or condition has occurred that presents a material risk of termination of any such ERISA Plan by the Pension Benefit Guaranty Corporation. As of the most recent valuation date, the present value of all vested accrued benefits under each ERISA Plan subject to Title IV of ERISA as determined by each ERISA Plan's enrolled actuary within the meaning of Section 103 of ERISA under actuarial assumptions used in connection with the actuarial valuation of each such ERISA Plan did not exceed the value of such ERISA Plan's assets (less all liabilities other than those attributable to accrued benefits), as determined by each such enrolled actuary, allocable to such vested accrued benefits by more than \$1,000,000. Neither the Corporation nor any Common Control Entity has incurred any withdrawal liability in connection with a Multi-employer Plan. As used in this Section 17, the terms "Common Control Entity" and "Multi-employer Plan" shall have the respective meanings ascribed thereto in ERISA.

18. The Medical Center is accredited by The Joint Commission and is licensed as an acute care hospital by the California Department of Health Services.

19. The Corporation has not received a Notice of Program Reimbursement under the Medicare payment program or any similar notice under any other third party reimbursement or payment program, where the claim associated therewith, if proven, would have a material adverse impact on the Corporation's financial position or results of operation.

20. The Corporation will not, while any Bonds are unpaid, take or permit to be taken any action which would result in the interest component represented by any of the Bonds being included in gross income for federal income tax purposes.

21. The Corporation is eligible to receive payments, and currently participates as a hospital provider or skilled nursing facility, as applicable, for purposes of receiving payments, under Medicare and Medi-Cal and other health care programs described in Appendix A to the Official Statement.

22. If between the date hereof and up to and including the 25th day following the "end of the underwriting period" (as such term is defined in Rule 15c2-12), any event shall occur or information shall become known which might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Corporation shall promptly notify the City and the Underwriters and if in

the opinion of the Corporation, the City or the Underwriters such event or information requires the preparation and publication of a supplement or amendment to the Official Statement, the Corporation will request the City to cause the Official Statement to be amended or supplemented in a form and in a manner approved by the Underwriters, provided all expenses thereby incurred will be paid by the Corporation pursuant to agreement between the City and the Corporation. If the information contained in the Official Statement is amended or supplemented pursuant to this Section 22, at the time of each supplement or amendment thereto (unless subsequently again supplemented or amended pursuant to such paragraph) at all time subsequent thereto, up to and including the 25<sup>th</sup> day following the “end of the underwriting period,” the Official Statement as so supplemented and amended, excluding the Excepted Portions, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in light of the circumstances under which it was presented, not misleading.

23. For 25 days from the date of the end of the underwriting period (as defined in Rule 15c2-12), (a) the Corporation will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, either the Underwriters or the City shall reasonably object in writing or which shall be disapproved by your respective counsel and (b) if any event relating to or affecting the City or the Corporation or its present or proposed facilities shall occur as a result of which it is necessary, in the opinion of counsel for the Underwriters or the City, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Corporation will forthwith prepare and furnish to the Underwriters and the City (at the expense of the Corporation) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriters and counsel to the City) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. For the purposes of this subsection, the Corporation will furnish such information with respect to themselves, and the present and proposed facilities of the Corporation as the Underwriters or the City may from time to time reasonably request.

24. (a) The Corporation hereby agrees to indemnify and hold harmless the City, the City’s officers, employees, attorneys and agents, the Underwriters and each person, if any, who is an officer or employee of the Underwriters or who controls the Underwriters within the meaning of the Securities Act of 1933 (the “1933 Act”) or the Securities and Exchange Act of 1934 (the “1934 Act”) (collectively, the “Indemnified Parties”) against any and all losses, claims, damages, liabilities and expenses (or actions in respect thereof) that arise out of or are based upon any untrue statement or alleged untrue statement of any material fact set forth in the Official Statement or the Preliminary Official Statement (or in any supplement or amendment thereto), or arise out of or are based upon the omission or alleged omission therefrom of any statement or information set forth in the Official Statement (or in any supplement or amendment thereto) necessary to make the statements therein, in light of the circumstances under which they were given, not misleading in any material respect and, to the extent of the aggregate amount paid in settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or alleged untrue statement or omission or alleged omission, if such settlement is effected with the written consent of the Corporation Representative, and further agrees to reimburse any legal or other expenses reasonably incurred by any such Indemnified Party in connection with investigating or defending any such loss, claim, damage, liability or action.

(b) The Corporation further agrees to indemnify and hold harmless the City its officers, attorneys and agents and each person, if any, who controls the City within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any and all losses, claims, damages, liabilities or expenses whatsoever caused by or in any way related to (1) the use of the proceeds of the

Bonds, and (2) the execution and performance of the Purchase Agreement and this Letter of Representations, the issuance and delivery of the Bonds, the sale by the City of the Bonds, actions taken under the Bond Indenture or any other cause whatsoever pertaining to the use of the Bond proceeds and approval thereof under the Act.

(c) The Corporation will assume the defense of any action against any Indemnified Party based upon allegations of any such loss, claim, damage, liability or action, including the retaining of counsel reasonably satisfactory to the Indemnified Party and the payment of counsel fees and all other expenses relating to such defense; provided, however, that any Indemnified Party may retain separate counsel in any such action and may participate in the defense thereof at the expense of such Indemnified Party unless such retaining of separate counsel has been specifically authorized by Corporation; provided further, that if any Indemnified Party shall have been advised by counsel experienced in such matters that there may be legal defenses available to such Indemnified Party which are inconsistent with those available to Corporation, then Corporation shall not have the right to assume the defense of such action on behalf of such Indemnified Party, and in such event the reasonable fees and expenses of the Indemnified Party in defending such action shall be borne by Corporation; provided, further, that the Corporation will not be liable in any such case to the extent that any such loss, claim, damage, liability and expense arise out of or are based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any such documents in reliance upon and in conformity with written information furnished by any Indemnified Party specifically for use therein. The indemnity agreement contained in this Section 24 will be in addition to any liability which Corporation may otherwise have and shall survive any termination of the Purchase Agreement or this Letter of Representations, the offering and sale of the Bonds and the payment or provision for payment of the Bonds.

(d) Promptly after receipt by an Indemnified Party of notice of the commencement of any action, such Indemnified Party will, if a claim in respect thereof is to be made against the Corporation under this Section 24, notify Corporation of the commencement thereof, and thereupon Corporation, for and on behalf of all Corporation, (i) will assume the defense thereof if and as required under this Section 24 or (ii) if not required to assume such defense, will be entitled to participate in, and to the extent that it may wish, to assume the defense thereof, with counsel satisfactory to such Indemnified Party, except as otherwise provided in the preceding subsection (c). After notice from Corporation to such Indemnified Party of its assumption of the defense thereof, the Corporation will not be liable to such Indemnified Party under this Section 24 for any legal or other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof other than reasonable costs of investigation and except as otherwise provided in the preceding subsection (c).

25. As between the Corporation and the Underwriters, in order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 24 hereof is applicable but for any reason is held to be unavailable from the Corporation, the Corporation and the Underwriters shall contribute to the aggregate losses, claims, damages and liabilities (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting any contribution received by the Corporation from persons who control the Corporation within the meaning of the 1933 Act, as amended, or otherwise) to which the Corporation and the Underwriters may be subject in such proportions that the Underwriters is responsible for that portion represented by the percentage that the underwriting discount set forth in the Official Statement bears to the offering price of the Bonds appearing therein and the Corporation is responsible for the balance; provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act, as amended) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 25, each person, if any, who controls an underwriter within the meaning of the 1933 Act or the 1934 Act shall have the same rights to contribution as the Underwriters, each person, if any, who

controls the Corporation within the meaning of such securities acts and each officer of the Corporation who shall have signed the Official Statement shall have the same rights to contribution as the Corporation, subject in each case to the other provisions of this Section 25. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section 25, notify such party or parties from whom contribution may be sought, but the omission to so notify such party from whom contribution may be sought shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this Section 25. No party shall be liable for contribution with respect to any action or claim settled without its content. Notwithstanding anything in this paragraph to the contrary, in no case shall the Underwriters be responsible under this paragraph for any amount in excess of the underwriting discount earned by the Underwriters in connection with the sale of the Bonds.

The representations, warranties, agreements and indemnities of this Letter of Representations shall survive the Closing and any investigation made by or on behalf of any of you, or any Person who controls any of you, of any matters described in or related to the transactions contemplated hereby and by the Purchase Agreement or the Financing Documents.

26. The Corporation hereby agrees to pay the expenses described as payable by it in the Purchase Agreement and any expenses incurred by the City or the Underwriters in amending or supplementing the Official Statement pursuant to the Purchase Agreement or this Letter of Representations.

27. The Corporation has provided or made available to each of Squire, Sanders & Dempsey L.L.P., Orrick, Herrington & Sutcliffe LLP and McDermott Will & Emery LLP copies of all material documents requested in the diligence request from Squire, Sanders & Dempsey L.L.P. dated May 31, 2010.

28. The Corporation acknowledges and agrees (i) that the Underwriters are acting as principals and not as agents or fiduciaries to the Corporation, (ii) that the Underwriters' engagement is as an independent contractor and that the Underwriters are not serving in any other capacity; and (iii) that the Corporation is solely responsible for making its own judgments in connection with the offering of the Bonds, regardless of whether the Underwriters have or are currently advising the Corporation on related or other matters.

29. The Corporation has not failed to fulfill any continuing disclosure undertakings pursuant to Rule 15c2-12

The representations, warranties, agreements and indemnities herein shall survive the Closing under the Purchase Agreement and any investigation made by or on behalf of any of you, or by any Person who controls any of you, into any matters described in or related to the transactions contemplated hereby and by the Purchase Agreement, the Official Statement and the Financing Documents.

This Letter of Representations shall be binding upon and inure solely to the benefit of each of you and the Corporation and, to the extent set forth herein, persons controlling any of you, and their respective officers, employees, agents and personal representatives, successors and assigns, and no other person or firm shall acquire or have any right under or by virtue of this Letter of Representations except as provided in Section 24 or Section 25 hereof. No recourse under or upon any obligation, covenant or agreement contained in this Letter of Representations shall, under any circumstances, exist or be had against any officer, agent, employee or director of any of the Corporation as individuals.

This Letter of Representations may be executed in any number of counterparts and all such counterparts shall together constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

If the foregoing is in accordance with your understanding of the agreement among us, kindly sign and return the duplicates of this Letter of Representations whereupon this will constitute a binding agreement among us in accordance with the terms hereof.

**Approved:**

**TORRANCE MEMORIAL MEDICAL  
CENTER**

By: \_\_\_\_\_  
Senior Vice President of Finance and  
Chief Financial Officer

Accepted and Agreed:

**CITY OF TORRANCE**

By: \_\_\_\_\_  
City Administrator

**CITIGROUP GLOBAL MARKETS INC.,**  
as Representative of the Underwriters

By: \_\_\_\_\_  
Managing Director

**EXHIBIT C**

**FORM OF OPINION OF SPECIAL COUNSEL TO THE CITY**

[TO COME]

**EXHIBIT D**

*[Form of opinion to be provided by McDermott Will & Emery LLP to cover substantially the opinions listed herein]*

1. The Corporation is a nonprofit public benefit corporation duly incorporated, validly existing and in good standing under the laws of the State of California, with full legal right, power and authority to enter into the Financing Documents (as defined in the Letter of Representations), approve the Purchase Agreement and the Official Statement, deem final and approve the Preliminary Official Statement, and carry out and consummate all transactions contemplated by the foregoing and otherwise carry on its activities and own its property.

2. The execution, delivery and performance of the Financing Documents; the approval of the Purchase Agreement; the approval, execution and distribution of the Official Statement; and the deeming final, approval and distribution of the Preliminary Official Statement have been duly authorized by all necessary corporate action of the Corporation, and the Financing Documents and the Official Statement have been duly executed and delivered by the Corporation.

3. Each of the Financing Documents constitutes a legally valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms.

4. The Master Indenture creates a valid security interest in the Gross Receivables to secure the payment of the Required Payments (as defined in the Master Indenture) and the performance of the other obligations of the Obligated Group under the Master Indenture, subject to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Indenture.

5. The Corporation has duly approved the Purchase Contract and the Official Statement and has authorized the distribution of the Preliminary Official Statement and the Official Statement.

6. The approval, execution and distribution of the Official Statement, the approval of the Purchase Agreement, the execution and delivery of the Financing Documents by the Obligated Group and the consummation of the transactions and the performance of the obligations under each of the foregoing documents do not (i) to the best of our knowledge after a reasonable inquiry, violate any federal or California statute, rule or regulation applicable to the Corporation, (ii) violate the provisions of the governing documents of the Corporation, (iii) result in a breach of or a default (with due notice or the passage of time or both) under any bond, debenture, note or other evidence of indebtedness, or any material contract, agreement or lease to which the Corporation is a party or by which it or its properties are otherwise subject or bound and identified to us by an officer for the Corporation as material or of which we are otherwise aware after reasonable investigation or (iv) to the best of our knowledge after reasonable inquiry require any consents, approvals, authorizations, registrations, declarations or filings by the Corporation under any federal or California statute, rule or regulation applicable to the Corporation other than those that have been obtained or made, or (v) violate any existing obligation of or restriction on the Corporation under any order, judgment or decree of any California or federal court or governmental authority binding on the Corporation or (vi) violate, breach, or result in a default under, any existing obligation of or restriction on the Corporation under any other agreement.

7. No order, consent, permit or approval of any California or federal governmental authority that we have, in exercise of customary professional diligence, recognized as applicable to the Corporation

or to the transactions contemplated by the Financing Documents, the Purchase Agreement and the Official Statement is required on the part of any Member for the execution and delivery of and performance of its obligations under the Financing Documents or for the approval of the Purchase Agreement or the Official Statement, except for such as have been obtained or made and as are in full force and effect.

8 Other than as disclosed in the Official Statement, to the best of our knowledge after reasonable investigation (a) there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, threatened against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Bonds, the Purchase Agreement, the Financing Documents, or the Official Statement or upon the financial condition, assets, properties or operations of the Corporation and (b) the Corporation is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Purchase Agreement, the Official Statement or the Financing Documents, or the financial condition, assets, properties or operations of the Corporation.

9 To the best of our knowledge, the Corporation is not in any way in breach of or in default of any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any material loan agreement, indenture, bond, note, resolution, agreement, or other instrument to which the Corporation is a party or is otherwise subject, and we are aware of no event which has occurred or is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instrument which breach or default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Financing Documents, the Purchase Agreement, the Official Statement or the financial condition, assets, or operations of the Corporation or its properties.

10. The Corporation is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is exempt from federal income taxes under Section 501(a) of the Code, except for unrelated business income subject to taxation under Section 511 of the Code. No Member is a "private foundation" as defined in Section 509(a) of the Code.

11. The Corporation is a corporation organized and operated exclusively for charitable purposes (within the meaning of Section 3(a)(4) of the Securities Act of 1933, as amended), not for pecuniary profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual, all within the meaning of subsection 3(a)(4) of the Securities Act of 1933, as amended, and of subsection 12(g)(2)(D) of the Securities Exchange Act of 1934, as amended.

12. The Corporation is an organization described in Section 23701(d) of the California Revenue and Taxation Code (the "California Code") and is exempt from all California income and franchise taxes to the extent provided in Section 23701 of the California Code, except for unrelated business income subject to taxation under Section 23701 of the California Code.

13. The Corporation has all licenses and permits necessary to operate and maintain its healthcare facilities and has all corporate power and authority to conduct its business as described in the Official Statement.

14. To the best of our knowledge after reasonable investigation, the Corporation has taken all steps legally required as of the date hereof to permit the commencement of the Project, has made all

submissions to governmental authorities and has obtained, and there are currently in full force and effect, all consents, approvals, authorizations, accreditations, licenses, permits and orders of any governmental or regulatory authority that are required to be obtained and are presently obtainable by the corporation to enable commencement in accordance with the plans and specifications therefor. Based upon inquiry of appropriate officers of the Corporation, we have no reason to believe that any approvals and permits hereafter required will not be granted.

15. Based upon the information made available to us in the course of our participation in the preparation of the Official Statement as special counsel to the Corporation, and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to our attention which would lead us to believe that the statements and information contained in the Official Statement as of the date thereof or hereof (except for the financial and statistical data included in the Official Statement as to which we express no opinion), contained or contain any untrue statement of a material fact or omitted or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

16. It is not necessary in connection with the primary offering and sale of the Bonds to the public to register Obligation No. 2 under the Securities Act or to qualify the Master Indenture under the Trust Indenture Act.

17. There has been a valid assignment to the Bond Trustee of the right, title and interest of the City in the Loan Agreement (as and to the extent set forth in the Bond Indenture).

18. The UCC-1 Financing Statements have been filed with the Office of the Secretary of State of the State of California and all notices have been given in the manner required by law to create, perfect or maintain, as applicable, the security interests granted by the Obligated Group to the Master Trustee under the Master Indenture. It will not be necessary to re-record any such financing statements except that (a) continuation statements must be filed within the six-month period ending on the fifth anniversary of the date the financing statements were filed as required by the California Uniform Commercial Code, and (b) amended financing statements must be filed within 120 days from the date that any Member changes its name, identity or corporate structure such that the financing statement naming such Member as debtor becomes seriously misleading.

19. Neither the Property nor Gross Receivables (as defined in the Master Indenture) is subject to any Liens or other encumbrances, other than Permitted Encumbrances (as defined in the Master Indenture).

## Variable Rate Indenture

CITY OF TORRANCE

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
as Bond Trustee

BOND INDENTURE

Dated as of September 1, 2010

relating to

[\$[principal amount]

CITY OF TORRANCE  
VARIABLE RATE REVENUE BONDS  
(TORRANCE MEMORIAL MEDICAL CENTER)  
SERIES 2010B

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EXHIBIT A - FORM OF BOND		
EXHIBIT B – FORM OF AMENDED AND RESTATED MASTER INDENTURE		

This BOND INDENTURE, made and entered into as of September 1, 2010, by and between CITY OF TORRANCE, a municipal corporation and charter city of the State of California (the "City"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, being qualified to accept and administer the trusts hereby created (the "Bond Trustee");

W I T N E S S E T H:

WHEREAS, the City is a municipal corporation and charter city duly organized and existing under a freeholders' charter pursuant to which the City has the right and power to make and enforce all laws and regulations with respect to municipal affairs and certain other matters in accordance with and as more particularly provided in sections 3, 5 and 7 of Article XI of the Constitution of the State of California and the charter of the City (the "Charter");

WHEREAS, the City Council of the City, acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Article II, Section 6 of the Charter, has adopted the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the "Law") and has therein authorized the provision of financial assistance to health facilities for the purposes and subject to the conditions described therein;

WHEREAS, Torrance Memorial Medical Center, a California nonprofit public benefit corporation (the "Corporation"), has requested financial assistance from the City to refund on a current basis the City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center), Series 1992 (the "Prior Bonds") and to finance a portion of the costs of constructing and equipping certain additions and improvements to its health care facilities located within the geographic boundaries of the City (as further defined herein, the "Project");

WHEREAS, the City has authorized the issuance of its Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B (the "Bonds"), in an aggregate principal amount of [principal amount in words] dollars (\$[principal amount]) to refund the Prior Bonds and to finance a portion of the costs of the Project;

WHEREAS, the City has duly entered into a loan agreement, dated as of September 1, 2010, with the Corporation, specifying the terms and conditions of a loan by the City to the Corporation of the proceeds of the Bonds to provide for the refunding of the Prior Bonds and the financing of a portion of the costs of the Project and of the payment to the City of amounts sufficient for the payment of the principal of and premium, if any, and interest on the Bonds and certain related expenses;

WHEREAS, pursuant to a master indenture of trust, dated as of June 1, 2001, and amended and restated as of September 1, 2010 (the "Master Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the "Master Trustee"), and a supplemental master indenture of trust, dated as of September 1, 2010, between the Corporation and the Master Trustee, the Corporation has issued

its Obligation No. [x] to evidence the obligation of the Members to make payments sufficient to pay the principal of and interest on the Bonds;

WHEREAS, in order to further support payments of principal of and interest on the Bonds, the Corporation has obtained an irrevocable direct-pay letter of credit from Citibank, N.A. as the initial Credit Facility, which will also serve as the initial Liquidity Facility with respect to the Bonds;

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and interest thereon, the City has authorized the execution and delivery of this Bond Indenture; and

WHEREAS, the City has determined that all acts and proceedings required by law necessary to make the Bonds, when executed by the City, authenticated and delivered by the Bond Trustee and duly issued, the valid, binding and legal limited obligations of the City, and to constitute this Bond Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Bond Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS BOND INDENTURE WITNESSETH, that in order to secure, in the following order of priority, *first*, the payment of the principal of, and the interest and premium, if any, on, all Bonds Outstanding under this Bond Indenture, according to their tenor, and the performance and observance of all the covenants and conditions therein and herein set forth, and, *second*, the payment of all Reimbursement Obligations (as defined herein) and the performance and observance of the reimbursement and other obligations of the Corporation and its affiliates under the Reimbursement Agreement, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the holders thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the City does hereby covenant and agree with the Bond Trustee, for the respective benefit of the holders from time to time of the Bonds, as follows:

## ARTICLE I

### DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

SECTION 1.01 Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Bond Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Unless otherwise defined in this Bond Indenture, all terms used herein shall have the meanings assigned to such terms in the Law.

#### Additional Payments

“Additional Payments” means the payments so designated and required to be made by the Corporation pursuant to Section 3.2 of the Loan Agreement.

### Administrative Fees and Expenses

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged or reimbursement for administrative or other expenses incurred by the City or the Bond Trustee, including Additional Payments.

### Alternate Credit Facility

“Alternate Credit Facility” means a replacement irrevocable direct-pay letter of credit containing administrative provisions reasonably satisfactory to the Bond Trustee, issued and delivered to, and accepted by, the Bond Trustee in accordance with Section 5.9 of the Loan Agreement; provided, however, that any amendment, extension, renewal or substitution of the Credit Facility then in effect for the purpose of extending the Expiration Date of such Credit Facility or modifying such Credit Facility pursuant to its terms shall not be deemed to be an Alternate Credit Facility for purposes of this Bond Indenture.

### Alternate Liquidity Facility

“Alternate Liquidity Facility” means a replacement line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or financial institution delivered or made available to, and accepted by, the Tender Agent in accordance with Section 5.7 of the Loan Agreement; provided, however, that any amendment, extension, renewal or substitution of the Liquidity Facility then in effect for the purpose of extending the Expiration Date of such Liquidity Facility or modifying such Liquidity Facility pursuant to its terms shall not be deemed to be an Alternate Liquidity Facility for purposes of this Bond Indenture.

### Authorized Representative

“Authorized Representative” means with respect to any Member, the chairman or president of its Governing Board, its chief executive officer, its chief operating officer or its chief financial officer, or any other person designated as an Authorized Representative by a Certificate signed by one of the above parties and filed with the Bond Trustee.

### Available Moneys

“Available Moneys” means (i) moneys drawn under the Credit Facility which at all times since their receipt by the Bond Trustee were held in a separate segregated account or accounts or subaccount or subaccounts in which no moneys (other than those drawn under the Credit Facility) were at any time held, (ii) moneys which have been paid to the Bond Trustee and have been on deposit with the Bond Trustee for at least 124 days (or, if paid to the Bond Trustee by an “affiliate,” as defined in Bankruptcy Code §101(2), of the Corporation or any Member, 366 days) during and prior to which no Event of Bankruptcy shall have occurred, (iii) any other moneys, if, in the opinion of nationally recognized counsel experienced in bankruptcy matters (which opinion shall be acceptable to each Rating Agency then rating the Bonds), the application of such moneys will not constitute a voidable preference in the event of the occurrence of an Event of Bankruptcy, and (iv) investment earnings on any of the moneys described in clauses (i), (ii) and (iii) of this definition.

Bank

“Bank” means Citibank, N.A., a banking association organized and existing under the laws of the United States of America, as issuer of the Letter of Credit, or its successors and assigns.

Bankruptcy Code

“Bankruptcy Code” means Title 11 of the United States Code, as amended, and any successor statute.

Beneficial Owner

“Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

Bond Counsel

“Bond Counsel” means Orrick, Herrington & Sutcliffe LLP or another attorney-at-law, or firm of such attorneys, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations issued by states and their political subdivisions and acceptable to the City, the Bond Trustee, the Credit Facility Provider and the Liquidity Facility Provider.

Bond Indenture

“Bond Indenture” means this Bond Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Bond Indenture.

Bond Interest Term

“Bond Interest Term” means, with respect to any Bond, each period established in accordance with Section 2.07 during which such Bond shall bear interest at a Bond Interest Term Rate.

Bond Interest Term Rate

“Bond Interest Term Rate” means, with respect to any Bond, an interest rate on such Bond established periodically in accordance with Section 2.07.

Bond Purchase Fund

“Bond Purchase Fund” means the fund by that name established pursuant to Section 4.11.

Bond Trustee

“Bond Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under and by virtue of the laws of the United States, or its successor, as Bond Trustee hereunder as provided in Section 8.01.

Bonds

“Bonds” means the City of Torrance Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B authorized by, and at any time Outstanding pursuant to, this Bond Indenture.

Business Day

“Business Day” means any day other than a Saturday, Sunday or a day on which banks located in (a) the State of California or the State of New York, (b) the city or cities in which the Principal Office of the Bond Trustee and the Tender Agent is located, (c) the city or cities in which the office of the Credit Facility Provider and/or Liquidity Facility Provider at which drawings under the Credit Facility and/or Liquidity Facility are to be presented is located, or (d) the city in which the principal office of the Remarketing Agent is located, are required or authorized by law to remain closed or a day on which The New York Stock Exchange is closed.

Certificate, Statement, Request or Requisition of the City or the Corporation

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the City or any Member mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its Mayor, City Manager, Assistant City Manager, City Clerk or such other person as may be designated and authorized to sign for the City, or in the name of any Member by an Authorized Representative thereof. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

City

“City” means the City of Torrance, a charter city and municipal corporation validly organized and existing under the Constitution and laws of the State of California.

Code

“Code” means the Internal Revenue Code of 1986, or any successor statute thereto and any regulations promulgated thereunder.

Conversion

“Conversion” means a conversion of Bonds from one Interest Rate Period to another Interest Rate Period (including the establishment of a new interest period within the Long-Term Interest Rate Period).

Conversion Date

“Conversion Date” means the effective date of a Conversion of Bonds.

Corporate Bonds

“Corporate Bonds” means Bonds (other than Pledged Bonds) owned by the Corporation or any Member or any affiliate of the Corporation or any Member.

Corporation

“Corporation” means Torrance Memorial Medical Center, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

Corporation Purchase Account

“Corporation Purchase Account” means the account by that name in the Bond Purchase Fund established pursuant to Section 4.11.

Costs of Issuance

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges and first year administration fee of the Bond Trustee, Letter of Credit fees, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

Costs of Issuance Fund

“Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Credit Facility

“Credit Facility” means initially the Letter of Credit or, in the event of the delivery or availability of any Alternate Credit Facility, such Alternate Credit Facility.

Credit Facility Fund

“Credit Facility Fund” means the fund by that name established pursuant to Section 5.08(C).

Credit Facility Provider

“Credit Facility Provider” means initially the Bank, and, upon the effectiveness of any Alternate Credit Facility with respect to the Bonds, shall mean the bank or banks or other financial institution or financial institutions or other entity that is then a party to such Alternate

Credit Facility. The initial Credit Facility Provider is also the initial Liquidity Facility Provider hereunder.

Credit Facility Provider Failure

“Credit Facility Provider Failure” means the wrongful dishonor by a Credit Facility Provider of a properly presented and conforming draw or request for advance under the related Credit Facility.

Custodian

“Custodian” means the Tender Agent, as appointed pursuant to and on and subject to the terms and conditions of the Pledge Agreement.

Daily Interest Rate

“Daily Interest Rate” means a variable interest rate for the Bonds established in accordance with Section 2.04.

Daily Interest Rate Period

“Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the Bonds.

Date of Issuance

“Date of Issuance” means \_\_\_\_\_, 2010.

Electronic Means

“Electronic Means” means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

Eligible Account

“Eligible Account” means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has a Standard & Poor’s short-term debt rating of at least ‘A-2’ (or, if no short-term debt rating, a long-term debt rating of ‘BBB+’); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity. If a fund or account required to be an “Eligible Account” no longer complies with the requirements listed above, the Bond Trustee shall promptly (and, in any case, within not more than 30 calendar days) move such fund or account to another financial institution such that the Eligible Account requirements stated above will again be satisfied.

### Eligible Bonds

“Eligible Bonds” means any Bonds other than Liquidity Facility Bonds, Corporate Bonds, Pledged Bonds or Bonds owned by, for the account of, or on behalf of, the City, the Corporation or any other Member, or any Person who controls, is controlled by, or is under common control with the City, the Corporation or any other Member or a Person who is otherwise a guarantor of the Loan Repayments.

### Event of Bankruptcy

“Event of Bankruptcy” means any of the following events:

(i) the Corporation (or any Member or other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture or Obligation No. [x], or an “affiliate” of the Corporation as defined in Bankruptcy Code § 101(2)) or the City shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation (or such other Member or Person) or the City or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) a proceeding or case shall be commenced, without the application or consent of the Corporation (or any Member or other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture or Obligation No. [x], or an “affiliate” of the Corporation as defined in Bankruptcy Code § 101(2)) or the City in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or adjustment of debts, of the Corporation (or any such other Member or Person) or the City, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation (or any such other Member or Person) or the City or of all or any substantial part of their respective property, or (c) similar relief in respect of the Corporation (or any such other Member or Person) or the City under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

### Event of Default

“Event of Default” means any of the events specified in Section 7.01.

### Expiration Date

“Expiration Date” means (i) the date upon which a Credit Facility or a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Credit Facility or a particular Liquidity Facility, from time to time) in accordance with its terms, including without limitation termination upon the effective date of an Alternate Credit Facility or an Alternate Liquidity Facility delivered in accordance with Section 5.7 or Section 5.9 of the Loan Agreement, as applicable and (ii) the date upon which a Credit Facility or a Liquidity Facility terminates following voluntary termination by the

Corporation pursuant to Section 5.8 of the Loan Agreement in connection with the commencement of a Self-Liquidity Arrangement.

#### Favorable Opinion of Bond Counsel

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel, addressed to the City, the Remarketing Agent (if any), the Corporation, the Credit Facility Provider and the Bond Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of California and this Bond Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

#### Fitch

“Fitch” means Fitch, Inc., dba Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City, the Bond Trustee, the Credit Facility Provider and the Liquidity Facility Provider.

#### Fixed Rate Conversion Date

“Fixed Rate Conversion Date” means the date on which the Bonds begin to bear interest for a Long-Term Interest Rate Period which extends to the Maturity Date.

#### Funding Amount

“Funding Amount” means an amount equal to the difference between (1) the aggregate Purchase Price of Bonds with respect to which a notice was received pursuant to Section 4.06 hereof and to be purchased pursuant to Sections 4.07, 4.08, 4.09 or 4.10 hereof, and (2) the Purchase Price of Bonds to be purchased pursuant to Sections 4.06, 4.07, 4.08, 4.09 or 4.10 hereof that are remarketed by the Remarketing Agent and for which funds have been transferred by the Remarketing Agent to the Tender Agent.

#### Hazardous Materials

“Hazardous Materials” means dangerous, toxic or hazardous pollutants, contaminants, chemicals, waste, materials or substances (as defined in Environmental Laws), and also any urea formaldehyde, polychlorinated biphenyls, asbestos, asbestos containing materials, nuclear fuel or waste, radioactive materials, explosives, carcinogens and petroleum products, or any other waste, material, substance, pollutant or contaminant the improper storage, disposal or release of which would subject the person so storing, disposing or releasing (or the owner of the property on which such action occurs) to any damages, penalties or liabilities under any applicable law, regulation, requirement or rule.

Holder or Bondholder

“Holder” or “Bondholder,” whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

Immediate Termination Date

“Immediate Termination Date” means the date (if any) on which the Liquidity Facility Provider’s obligation to advance funds or purchase Bonds under a Liquidity Facility terminates or is suspended immediately in accordance with its terms.

Interest Account

“Interest Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

Interest Accrual Date

“Interest Accrual Date” means

- (a) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each month;
- (b) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period (whether or not a Business Day);
- (c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date, during that Long-Term Interest Rate Period; and
- (d) for each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

Interest Payment Date

“Interest Payment Date” means, with respect to the Bonds:

- (i) for any Daily Interest Rate Period, the fifth Business Day of the next succeeding calendar month;
- (ii) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day;
- (iii) for any Long-Term Interest Rate Period, each March 1 and September 1;
- (iv) for any Bond Interest Term, the day next succeeding the last day of that Bond Interest Term;

(v) for each Interest Rate Period, the day immediately succeeding the last day thereof; and

(vi) for Liquidity Facility Bonds or Pledged Bonds, each date specified in the Liquidity Facility relating to such Liquidity Facility Bonds or Pledged Bonds, respectively.

#### Interest Rate Period

“Interest Rate Period” means a Daily Interest Rate Period, a Weekly Interest Rate Period, a Short-Term Interest Rate Period or a Long-Term Interest Rate Period.

#### Investment Securities

“Investment Securities” means any of the following:

- (a) United States Government Obligations;
- (b) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or any other like governmental or government-sponsored agencies that are hereafter created: Federal Farm Credit Bank; Federal Intermediate Credit Banks; Federal Financings Bank; Federal Home Loan Bank System; Federal Home Loan Mortgage Corporation; Federal National Mortgage Association; Tennessee Valley Authority; Student Loan Marketing Association; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; and Government National Mortgage Association;
- (c) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are rated in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);
- (d) commercial paper rated at the time of purchase in the highest Rating Category by each Rating Agency then rating both the Bonds and such commercial paper (but in all cases by at least one Rating Agency then rating the Bonds);
- (e) negotiable or non-negotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any bank (including the Bond Trustee and its affiliates) or trust company or any savings and loan association, and either (i) the long-term obligations of such bank or trust company are rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such obligations (but in all events by at least one Rating Agency then rating the Bonds), or (ii) the deposits or other arrangements are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation or similar corporation chartered by the United States of America, (1) by depositing with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above in an aggregate principal amount equal to a least 105% of the amount so deposited or, with the approval of the Bond Trustee, other marketable securities eligible as securities for the deposit of

trust funds under applicable regulations of the Comptroller of the Currency of the United States or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds;

(f) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a bank, a trust company or a broker or dealer (as defined by the Securities Exchange Act of 1934) that is a dealer in government bonds, that reports to, trades with and is recognized as a primary dealer by a Federal Reserve Bank, if such obligations that are the subject of such repurchase agreement are delivered to the Bond Trustee or are supported by a safekeeping receipt issued by a depository (other than the Bond Trustee) satisfactory to the Bond Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the repurchase price;

(g) shares or certificates in any short-term investment fund that is maintained or utilized by the Bond Trustee and which fund invests solely in other Investment Securities or any money market fund including those for which the Bond Trustee or its affiliates provide investment advisory or other management services;

(h) investment agreements with any financial institution that at the time of investment has long-term obligations rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(i) shares or certificates in any mutual fund invested solely in Investment Securities described in clauses (a)-(h) of this definition; and

(j) obligations (including asset-backed and mortgaged-backed obligations) of any corporation, partnership, trust or other entity which are rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

### Law

“Law” means the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972, as now in effect and as it may from time to time hereafter be amended or supplemented.

### Letter of Credit

“Letter of Credit” means that certain irrevocable direct-pay letter of credit issued by the Bank pursuant to the initial Reimbursement Agreement, including such amendments, modifications or supplements permitted pursuant to its terms and the terms of the Reimbursement Agreement. The Letter of Credit shall constitute both the initial Liquidity Facility and the initial Credit Facility for the Bonds.

Liquidity Facility

“Liquidity Facility” means initially the Letter of Credit or, in the event of the delivery or availability of any Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Account

“Liquidity Facility Account” means the account by that name in the Bond Purchase Fund established pursuant to Section 4.11.

Liquidity Facility Bond Rate

“Liquidity Facility Bond Rate” means the rate per annum, if any, specified in a Reimbursement Agreement or Liquidity Facility as applicable to Liquidity Facility Bonds, but in no event shall such Liquidity Facility Bond Rate exceed the Maximum Lawful Rate.

Liquidity Facility Bonds

“Liquidity Facility Bonds” means, if a Liquidity Facility or a related Reimbursement Agreement provides that Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) such Liquidity Facility shall be registered in the name of the Liquidity Facility Provider, any Bonds so purchased, but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of such Liquidity Facility or Reimbursement Agreement.

Liquidity Facility Provider

“Liquidity Facility Provider” means initially the Bank, and, upon the effectiveness of any Alternate Liquidity Facility with respect to the Bonds, shall mean the bank or banks or other financial institution or financial institutions or other entity that is then a party to such Alternate Liquidity Facility. The initial Liquidity Facility Provider is also the initial Credit Facility Provider hereunder.

Liquidity Facility Provider Failure

“Liquidity Facility Provider Failure” means the wrongful dishonor by a Liquidity Facility Provider of a properly presented and conforming draw or request for advance under the related Liquidity Facility.

Loan Agreement

“Loan Agreement” means that certain loan agreement by and between the City and the Corporation, dated as of September 1, 2010, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Bond Indenture.

Loan Default Event

“Loan Default Event” means any of the events specified in Section 6.1 of the Loan Agreement.

Loan Repayments

“Loan Repayments” means the payments so designated and required to be made by the Corporation pursuant to Section 3.1 of the Loan Agreement.

Long-Term Bond Conversion Date

“Long-Term Bond Conversion Date” means the date on which the Bonds begin to bear interest at a Long-Term Interest Rate pursuant to the provisions of Section 2.06 and such term shall include the Fixed Rate Conversion Date for such Bonds.

Long-Term Interest Rate

“Long-Term Interest Rate” means, with respect to the Bonds, an interest rate on such Bonds established in accordance with Section 2.06.

Long-Term Interest Rate Period

“Long-Term Interest Rate Period” means each period during which such a Long-Term Interest Rate is in effect for the Bonds.

Mandatory Credit/Liquidity Tender

“Mandatory Credit/Liquidity Tender” means the mandatory tender of the Bonds pursuant to Section 4.09 upon receipt by the Bond Trustee of written notice from the Credit Facility Provider or the Liquidity Facility Provider, as the case may be, that an event with respect to the applicable Reimbursement Agreement, the Credit Facility or the Liquidity Facility has occurred which requires or gives the Credit Facility Provider or Liquidity Facility Provider the option to terminate the Credit Facility or Liquidity Facility or cause a mandatory tender of Bonds upon the designated notice. Mandatory Credit/Liquidity Tender shall not include circumstances, if any, where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

Master Indenture

“Master Indenture” means that certain master indenture of trust, dated as of June 1, 2001, and amended and restated as of September 1, 2010, between the Corporation and the Master Trustee, as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Master Trustee

“Master Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor, as successor master trustee under the Master Indenture.

Maturity Date

“Maturity Date” means \_\_\_\_\_.

Maximum Interest Rate

“Maximum Interest Rate” means (a) with respect to Bonds other than Liquidity Facility Bonds or Pledged Bonds, the lesser of 12% per annum and the Maximum Lawful Rate, and (b) with respect to Liquidity Facility Bonds and Pledged Bonds, the Maximum Lawful Rate, in each case calculated in the same manner as interest is calculated for the particular interest rate on the Bonds.

Maximum Lawful Rate

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

Member

“Member” means each Person that is then obligated as a Member under and as defined in the Master Indenture.

Minimum Authorized Denominations

“Minimum Authorized Denominations” means with respect to any (i) Long-Term Interest Rate Period, \$5,000 and any integral multiple thereof; and (ii) Daily Interest Rate Period, Short-Term Interest Rate Period or Weekly Interest Rate Period, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

Moody’s

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City, the Bond Trustee, the Credit Facility Provider and the Liquidity Facility Provider.

Obligated Group

“Obligated Group” shall have the meaning set forth in the Master Indenture and on the Closing Date consists solely of the Corporation.

Obligation No. [x]

“Obligation No. [x]” means the obligation issued under the Master Indenture and Supplement No. [x].

Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the City, the Bond Trustee or the Corporation), selected by the Corporation and not objected to by the Bond Trustee, the City or the Credit Facility Provider. If and to the extent required by the provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

Outstanding

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under this Bond Indenture except (1) Bonds theretofore canceled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) referred to in Section 11.10; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to this Bond Indenture.

Participant

“Participant” means a member of or participant in the Securities Depository.

Person

“Person” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Pledged Bonds

“Pledged Bonds” means, if a Liquidity Facility or a related Reimbursement Agreement provides that Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) such Liquidity Facility shall be registered in the name of the Corporation or, upon request of the Corporation any affiliate thereof, or the Custodian (as specified in such Liquidity Facility or Reimbursement Agreement) and pledged to the Liquidity Facility Provider pursuant to the Pledge Agreement, any Bonds so purchased, but excluding Bonds no longer considered to be Pledged Bonds in accordance with the terms of such Liquidity Facility or Reimbursement Agreement.

Pledged Bond Rate

“Pledged Bond Rate” means the rate per annum, if any, specified in a Reimbursement Agreement or Liquidity Facility as applicable to Pledged Bonds, but in no event shall such Pledged Bond Rate exceed the Maximum Lawful Rate.

Principal Account

“Principal Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

Principal Office

“Principal Office” means the designated corporate trust office of the Bond Trustee, which as of the date hereof, is located at \_\_\_\_\_ except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Bond Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

Prior Bonds

“Prior Bonds” means the City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center), Series 1992, issued in the original principal amount of \$34,800,000, all of which is currently outstanding.

Project

“Project” means the construction, acquisition, improvement and equipping of health facilities located on and adjacent to the campus of Torrance Memorial Medical Center located generally at 3330 Lomita Boulevard, Torrance, California.

Project Fund

“Project Fund” means the fund by that name established pursuant to Section 3.04.

Purchase Date

“Purchase Date” means the date on which Bonds are to be purchased pursuant to Sections 4.06, 4.07, 4.08, 4.09 or 4.10 of this Bond Indenture.

Purchase Price

“Purchase Price” with respect to any Purchased Bond means the principal amount thereof plus accrued interest to, but not including, the Purchase Date; provided, however, that (1) if the Purchase Date for any Purchased Bond is an Interest Payment Date, the Purchase Price thereof shall be the principal amount thereof, and interest on such Bond shall be paid to the Holder of such Bond pursuant to this Bond Indenture and (2) in the case of a purchase on the first day of an Interest Rate Period which is preceded by a Long-Term Interest Rate Period and which

commences prior to the day originally established as the last day of such preceding Long-Term Interest Rate Period, "Purchase Price" of any Purchased Bonds means the optional redemption price set forth in Section 4.01(C) which would have been applicable to such Bond if the preceding Long-Term Interest Rate Period had continued to the day originally established as its last day, plus accrued interest, if any.

#### Purchased Bonds

"Purchased Bonds" means the Bonds to be purchased pursuant to Sections 4.06, 4.07, 4.08, 4.09 or 4.10 of this Bond Indenture.

#### Rating Agency

"Rating Agency" means S&P, Moody's, Fitch or any successor or additional rating agency that rates the bonds at the written request of the Corporation with the written consent of the Bank.

#### Rating Category

"Rating Category" means a generic securities rating category of a Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

#### Rebate Fund

"Rebate Fund" means the fund by that name established pursuant to Section 5.06.

#### Record Date

"Record Date" means (i) with respect to any Interest Payment Date in respect to any Daily Interest Rate Period, the last Business Day of each calendar month and in the case of the last Interest Payment Date in respect to a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (ii) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period or any Short-Term Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, and (iii) with respect to any Interest Payment Date in respect to any Long-Term Interest Rate Period, the 15th day of the calendar month immediately preceding the calendar month in which such Interest Payment Date falls or, if an Interest Payment Date shall occur less than 15 days after the first day of a Long-Term Interest Rate Period, that first day.

#### Redemption Fund

"Redemption Fund" means the fund by that name established pursuant to Section 5.05.

Redemption Price

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and this Bond Indenture.

Reimbursement Agreement

“Reimbursement Agreement” means (i) that certain Letter of Credit Reimbursement Agreement, dated as of September 1, 2010, between the Corporation and the Bank, and (ii) if an Alternate Credit Facility and/or an Alternate Liquidity Facility is issued with respect to the Bonds, any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement relating to such Alternate Credit Facility and/or Alternate Liquidity Facility.

Reimbursement Obligations

“Reimbursement Obligations” means (i) all obligations owed to any Credit Facility Provider and/or any Liquidity Facility Provider with respect to draws under the related Credit Facility and/or Liquidity Facility for the payment of principal or Purchase Price of and interest on the Bonds, including interest thereon as set forth in the applicable Reimbursement Agreement, (ii) all required payments of any fees imposed by the Credit Facility Provider or the Liquidity Facility Provider as set forth in the applicable Reimbursement Agreement, (iii) the payment of interest on Pledged Bonds or Liquidity Facility Bonds as set forth in the applicable Reimbursement Agreement; and (iv) all other amounts, charges, costs and fees (including reasonable attorney fees as set forth in the applicable Reimbursement Agreement) payable to any Credit Facility Provider and/or Liquidity Facility Provider, whether in the form of direct, reimbursement or indemnity payment obligations, under the applicable Reimbursement Agreement.

Remarketing Agent

“Remarketing Agent” means, with respect to any Bonds, any Remarketing Agent or successor or additional Remarketing Agent appointed in accordance with this Bond Indenture with respect to such Bonds. “Principal Office” of the Remarketing Agent means the address for the Remarketing Agent designated in writing to the Bond Trustee, the Tender Agent and the Corporation.

Remarketing Agreement

“Remarketing Agreement” means each such agreement between the Corporation and a Remarketing Agent with respect to any Bonds, including the agreement dated as of September 1, 2010, between the Corporation and Citigroup Global Markets Inc., as the initial Remarketing Agent for the Bonds, and any similar agreement with a successor Remarketing Agent, in each case as from time to time in effect.

Remarketing Proceeds Account

“Remarketing Proceeds Account” means the account by that name within the Bond Purchase Fund established pursuant to Section 4.11.

Required Stated Amount

“Required Stated Amount” means with respect to a Credit Facility or a Liquidity Facility, at any time of calculation, an amount equal to the aggregate principal amount of all Bonds then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Interest Rate) for the period specified in a Certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating the Bonds as necessary to obtain (or maintain) a specified long-term and/or short-term rating of the Bonds. As of the Date of Issuance of the Bonds, the minimum period specified by the Rating Agencies is 46 days.

Revenue Fund

“Revenue Fund” means the fund by that name established pursuant to Section 5.02.

Revenues

“Revenues” means all amounts received by the City or the Bond Trustee for the account of the City pursuant or with respect to the Loan Agreement or Obligation No. [x], including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Bond Indenture, but not including any Administrative Fees and Expenses or any moneys required to be deposited in the Rebate Fund.

S&P

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the City, the Bond Trustee, the Credit Facility Provider and the Liquidity Facility Provider.

Securities Depository

“Securities Depository” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in Section 2.15.

Self-Liquidity Arrangement

“Self-Liquidity Arrangement” means termination of a Liquidity Facility upon the undertaking by the Corporation of the obligation to purchase Bonds tendered for purchase

pursuant to Section 4.06 or subject to mandatory tender for purchase pursuant to Sections 4.07, 4.08, 4.09 or 4.10 in accordance with Section 5.8 of the Loan Agreement.

#### Short-Term Interest Rate Period

“Short-Term Interest Rate Period” means each period with respect to the Bonds, comprised of Bond Interest Terms, during which Bond Interest Term Rates are in effect.

#### SIFMA Index

“SIFMA Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) (“SIFMA”) or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Bond Trustee and effective from such date, or if such index is no longer available “SIFMA Index” shall refer to an index recommended by the Remarketing Agent and acceptable to the Corporation and the Bond Trustee.

#### Sinking Fund Installment

“Sinking Fund Installment” means the amount required by Section 5.04 to be paid by the City on any single date for the retirement of Bonds.

#### Sinking Fund Installment Date

“Sinking Fund Installment Date” means the dates specified in Section 5.04(C).

#### Special Record Date

“Special Record Date” means the date established by the Bond Trustee pursuant to Section 2.02 as the record date for the payment of defaulted interest on the Bonds.

#### Supplemental Bond Indenture

“Supplemental Bond Indenture” means any indenture hereafter duly authorized and entered into between the City and the Bond Trustee, supplementing, modifying or amending this Bond Indenture; but only if and to the extent that such Supplemental Bond Indenture is specifically authorized hereunder.

#### Supplement No. [x]

“Supplement No. [x]” means that certain supplemental master indenture of trust, dated as of September 1, 2010, between the Corporation and the Master Trustee pursuant to which Obligation No. [x] is issued, as originally executed and as amended or supplemented from time to time in accordance with the terms of the Master Indenture.

Tax Agreement

“Tax Agreement” means the Tax Certificate and Agreement delivered by the City and the Corporation at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

Tender Agent

“Tender Agent” means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States, or its successor, as Tender Agent as provided in Sections 4.18 through 4.20.

Undelivered Bonds

“Undelivered Bonds” means any Bond which constitutes an Undelivered Bond under the provisions of Section 4.13.

United States Government Obligations

“United States Government Obligations” means (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America) and obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, and (2) certificates or other instruments that evidence ownership of the right to the payment of the principal of and interest on obligations described in clause (1) provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian or (3) municipal obligations the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2).

Weekly Interest Rate

“Weekly Interest Rate” means a variable interest rate borne by the Bonds and established in accordance with Section 2.05.

Weekly Interest Rate Period

“Weekly Interest Rate Period” means each period with respect to the Bonds during which a Weekly Interest Rate is in effect.

SECTION 1.02 Content of Certificates and Opinions. Every certificate or opinion provided for herein with respect to compliance with any provision hereof shall include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such Person, he has made or caused to be made such examination or investigation as is necessary to enable such Person to express an informed opinion with respect to the subject matter referred to in the instrument to which such Person’s signature is affixed; and

(4) a statement as to whether, in the opinion of such Person, such provision has been complied with (5) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable.

Any such certificate or opinion made or given by an officer of the City or the Corporation may be based, insofar as it relates to legal, accounting or health care matters, upon a certificate or opinion of or representation by counsel, an accountant or a management consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or a management consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City or the Corporation, as the case may be) upon a certificate or opinion of or representation by an officer of the City or the Corporation, unless such counsel, accountant or management consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the City or the Corporation, or the same counsel or accountant or management consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Bond Indenture, but different officers, counsel, accountants or management consultants may certify to different matters, respectively.

### SECTION 1.03 Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Bond Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Bond Indenture as a whole and not to any particular Article, Section or subdivision hereof.

## ARTICLE II

### THE BONDS

SECTION 2.01 Authorization of Bonds. An issue of Bonds to be issued hereunder, for the benefit of the Corporation, is hereby created. The Bonds are to be designated as "City of Torrance Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B." The aggregate principal amount of Bonds that may be issued and Outstanding under this Bond Indenture shall not exceed [principal amount in words] dollars (\$[principal amount]).

This Bond Indenture constitutes a continuing agreement with the Holders from time to time of the Bonds to secure the full payment of the principal and Purchase Price of and premium, if any, and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

SECTION 2.02 Terms of the Bonds; Registration; Denominations; Payment of Principal and Interest.

(A) The Bonds shall be in substantially the form attached hereto as Exhibit A. The Bonds shall be issued as fully registered Bonds without coupons in Minimum Authorized Denominations. The Bonds shall be registered in the name of "Cede & Co.," as initial nominee of the Securities Depository, and shall be evidenced by one Bond certificate in the total aggregate principal amount of the Bonds. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.15.

The Bonds shall be dated the Date of Issuance. The Bonds shall be numbered in consecutive numerical order from R-1 upwards.

(B) (1) The Bonds shall bear interest, payable in lawful money of the United States of America, at the rates determined pursuant to this Article II from the date thereof.

(2) For any Daily Interest Rate Period, interest on the Bonds shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date immediately preceding the prior Interest Payment Date (or, in the case of the first Interest Payment Date during any Daily Interest Rate Period, the Interest Accrual Date preceding such Interest Payment Date) and ending on the last day of the month in which such Interest Accrual Date occurs (or, if sooner, the last day of the Daily Interest Rate Period). For any Weekly Interest Rate Period, interest shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on the Tuesday (whether or not a Business Day) immediately preceding the Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period). For any Short-Term Interest Rate Period or Long-Term Interest Rate Period, interest shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date.

(3) Interest on the Bonds shall be payable for the final Interest Rate Period to the date on which the Bonds shall have been paid in full. Interest shall be computed, in the case of a Long-Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months, and in the case of any other Interest Rate Period, on the basis of a 365 or 366-day year, as appropriate, and the actual number of days elapsed.

(4) The initial interest rate and the determination of the Daily Interest Rate, Weekly Interest Rate and Long-Term Interest Rate and each Bond Interest Term and Bond Interest Term Rate by the Remarketing Agent, shall be conclusive and binding

absent manifest error upon the Corporation, the Obligated Group Members, the Bond Trustee, the Remarketing Agent and the Holders of such Bonds.

(5) Interest on the Bonds shall be payable on each Interest Payment Date by the Bond Trustee during any Daily Interest Rate Period, Weekly Interest Rate Period or Long-Term Interest Rate Period by check mailed by first-class mail on the date on which due to the Holders of Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of Holders as shall appear on the registration books of the Bond Trustee. In the case of (i) Bonds bearing interest at a Bond Interest Term Rate or (ii) any Holder of Bonds bearing interest at other than a Bond Interest Term Rate in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books of the Bond Trustee who, at least one (1) Business Day prior to the Record Date next preceding any Interest Payment Date, shall have provided the Bond Trustee with written wire transfer instructions, interest payable on such Bonds shall be paid in accordance with the wire transfer instructions provided by the Holder of such Bond in immediately available funds to an account within the United States; provided, however, that during any Short-Term Interest Rate Period for any Bonds, except for Bonds registered in the name of the Securities Depository (or its nominee), interest on any Bond shall be payable only upon presentation of such Bond to the Bond Trustee at its Principal Office.

(6) If available funds are insufficient on any Interest Payment Date to pay the interest then due on the Bonds, interest shall continue to accrue thereon but shall cease to be payable to the Holders as of the related Record Date. If sufficient funds for the payment of such overdue interest thereafter become available, the Bond Trustee shall (A) establish a "special interest payment date" for the payment of the overdue interest and a Special Record Date (which shall be a Business Day) for determining the Bondholders entitled to such payment and (B) mail notices by first class mail of such dates as soon as practicable. Notice of each such date so established shall be mailed to each Bondholder at least ten (10) days prior to the Special Record Date but not more than thirty (30) days prior to the special interest payment date. The overdue interest shall be paid on the special interest payment date to the Holders, as shown on the registration books of the Bond Trustee as of the close of business on the Special Record Date. The form of such notice shall be provided to the Bond Trustee by the Corporation.

(7) Notwithstanding the foregoing provisions of this Section 2.02(B), Liquidity Facility Bonds shall bear interest at the Liquidity Facility Bond Rate and the payment terms of Liquidity Facility Bonds shall be governed by the Reimbursement Agreement or the Liquidity Facility, as appropriate.

(8) Notwithstanding the foregoing provisions of this Section 2.02(B), Pledged Bonds shall bear interest at the Pledged Bond Rate and the payment terms of Pledged Bonds shall be governed by the Reimbursement Agreement or the Liquidity Facility, as appropriate.

(9) Notwithstanding anything in this Bond Indenture to the contrary, if the Bonds are bearing interest at a Daily Interest Rate, a Weekly Interest Rate or Bond

Interest Term Rates and the Remarketing Agent resigns and no successor has been appointed as of the effective date of such resignation, then the Bonds shall bear interest at the Maximum Interest Rate until a successor Remarketing Agent has been appointed and begins determining the Daily Interest Rate, the Weekly Interest Rate or Bond Interest Term Rates. Notwithstanding anything in this Bond Indenture to the contrary, if a Liquidity Facility is required to be maintained pursuant to Section 5.7 of the Loan Agreement and no Liquidity Facility or Self Liquidity Arrangement is in effect, then the Bonds shall bear interest at the Maximum Interest Rate until an Alternate Liquidity Facility is delivered to the Tender Agent and accepted pursuant to Section 5.7 of the Loan Agreement or a Self Liquidity Arrangement becomes effective pursuant to Section 5.8 of the Loan Agreement.

(C) (1) The Bonds shall mature on the Maturity Date.

(2) The Sinking Fund Installments established for the Bonds pursuant to Section 5.04 shall be redesignated as maturity dates and Sinking Fund Installments for the Bonds on the Fixed Rate Conversion Date for Bonds as follows:

(i) If the Fixed Rate Conversion Date is prior to September 1, \_\_\_\_\_, principal of such Bonds shall mature (a) in ten serial maturities in amounts equal to the Sinking Fund Installments established for such dates pursuant to Section 5.04, commencing on the September 1 immediately succeeding the Fixed Rate Conversion Date, and on September 1 of each of the succeeding years, and (b) in a term maturity on the Maturity Date for such Bonds.

(ii) If the Fixed Rate Conversion Date for the Bonds is on or after September 1, \_\_\_\_, principal of such Bonds shall mature in serial maturities in principal amounts equal to the Sinking Fund Installments established for such dates pursuant to Section 5.04 commencing on the September 1 immediately succeeding the Fixed Rate Conversion Date and on September 1 of each of the succeeding years.

(iii) Sinking Fund Installments for each term maturity of the Bonds established pursuant to subparagraph (i) above shall be in principal amounts equal to the Sinking Fund Installments established for such dates pursuant to Section 5.04 and be payable on September 1 of each year, commencing on September 1 of the year immediately following the next preceding maturity date of Bonds and ending on the Maturity Date.

(iv) Notwithstanding anything above to the contrary, if, due to the serialization of the Bonds pursuant to this subsection (C)(2), a Favorable Opinion of Bond Counsel cannot be delivered, then no such serialization shall occur.

(v) In accordance with this Section 2.02, the Bond Trustee shall select the Bonds of each maturity date by lot.

(3) Subject to the provisions of Section 2.15, the principal or Redemption Price of the Bonds shall be payable in lawful money of the United States of America at the Principal Office of the Bond Trustee upon surrender of the Bonds to the Bond Trustee for cancellation; provided that the Bond Trustee may agree with the Holder of any Bond

that such Holder may, in lieu of surrendering the same for a new Bond, endorse on such Bond a record of partial payment of the principal of such Bond in the form set forth below (which shall be typed or printed on such Bond):

PAYMENTS ON ACCOUNT OF PRINCIPAL

<u>Payment Date</u>	<u>Principal Amount Paid</u>	<u>Balance of Principal Amount Unpaid</u>	<u>Signature of Holder</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The Bond Trustee shall maintain a record of each such partial payment made in accordance with the foregoing agreement and such record of the Bond Trustee shall be conclusive. Such partial payment shall be valid upon payment of the amount thereof to the Holder of such Bond, and the City and the Bond Trustee shall be fully released and discharged from all liability to the extent of such payment regardless of whether such endorsement shall or shall not have been made upon such Bond by the Holder thereof and regardless of any error or omission in such endorsement.

(D) The Bonds shall be subject to redemption as provided in Article IV.

(E) The Bond Trustee shall identify all payments (whether made by check or by wire transfer) of interest, principal and premium by CUSIP number of the Bonds.

SECTION 2.03 Initial Interest Rate; Subsequent Interest Rates.

(A) The initial Interest Rate Period for the Bonds shall be a Weekly Interest Rate Period commencing on and including the Date of Issuance and ending on and including \_\_\_\_\_, 2010. The Bonds shall initially bear interest at \_\_\_\_% per annum.

The interest rate on the Bonds may thereafter be converted to a Daily Interest Rate, Bond Interest Term Rate or a Long-Term Interest Rate, as provided in this Article II.

(B) In the manner hereinafter provided, the term of the Bonds will be divided into consecutive Interest Rate Periods during each of which such Bonds shall bear interest at the Daily Interest Rate, the Weekly Interest Rate, Bond Interest Term Rates or a Long-Term Interest Rate; provided, however, that no Bond shall bear interest in excess of the Maximum Interest Rate.

SECTION 2.04 Daily Interest Rate Period.

(A) Determination of Daily Interest Rate. During each Daily Interest Rate Period, the Bonds shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an

examination of tax exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) on or before 9:30 a.m., New York City time, on a Business Day to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of such Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day which is not a Business Day shall be the same as the Daily Interest Rate for the immediately preceding Business Day. If for any reason a Daily Interest Rate for the Bonds is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate for such Business Day shall be the same as the Daily Interest Rate for the immediately preceding day and such rate shall continue until the earlier of (A) the date on which the Remarketing Agent determines a new Daily Interest Rate or (B) the seventh day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent. In the event that the Daily Interest Rate shall be held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of seven days as described in clause (B) of the immediately preceding sentence, the interest rate applicable to the Bonds, as determined by the Remarketing Agent, shall be the interest rate per annum equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* for each Business Day (and for the immediately preceding Business Day for each day which is not a Business Day) until such Daily Interest Rate is again validly determined by such Remarketing Agent.

(B) Conversion to Daily Interest Rate. Subject to Section 2.08, at any time, the Corporation, by written direction to the Bond Trustee, the Tender Agent (if any), the Liquidity Facility Provider (if any), the Credit Facility Provider (if any), and the Remarketing Agent (if any), may elect that the Bonds shall bear interest at a Daily Interest Rate. The direction of the Corporation shall specify (i) the proposed effective date of such conversion to a Daily Interest Rate, which shall be (1) a Business Day not earlier than the tenth (10th) day following the second Business Day after receipt by the Bond Trustee of such direction, (2) in the case of a conversion from a Long Term Interest Rate Period, the day immediately following the last day of the then-current Long Term Interest Rate Period with respect to the Bonds or a day on which the Bonds otherwise would be subject to optional redemption pursuant to Section 4.01(C) if such conversion did not occur, and (3) in the case of a conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period; and (ii) the Purchase Date for the Bonds, which shall be the proposed effective date of the Conversion to a Daily Interest Rate. In addition, such direction shall be accompanied by a form of the notice to be mailed by the Bond Trustee to the Holders of the Bonds as provided in Section 2.04(C). During each Daily Interest Rate Period for the Bonds commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the Bonds shall be a Daily Interest Rate.

(C) Notice of Conversion to Daily Interest Rate. The Bond Trustee shall give notice by first-class mail of a conversion to a Daily Interest Rate Period for the Bond to the Holders of the Bonds not less than ten (10) days prior to the proposed effective date of such Daily Interest Rate Period. Such notice shall state: (i) that the interest rate on the Bonds will be converted to a Daily Interest Rate unless (a) the Corporation rescinds its election to convert the interest rate to a

Daily Interest Rate as provided in Section 2.08(B) or (b) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, the Corporation and the Remarketing Agent as to such conversion on the effective date of such conversion in the Interest Rate Period or other conditions precedent to such conversion are not met; (ii) the proposed effective date of such Daily Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date, regardless of whether any or all conditions to the conversion are met and setting forth the applicable Purchase Price and the place of delivery for purchase of such Bonds; and (iv) the information set forth in Section 4.12(A).

SECTION 2.05      Weekly Interest Rate Period.

(A) Determination of Weekly Interest Rates. During each Weekly Interest Rate Period, the Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by no later than 5:00 p.m., New York City time, on Tuesday of each week during such Weekly Interest Rate Period, or if such day shall not be a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate shall apply to the period commencing on the first Wednesday on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period.

The initial interest rate and the Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell such Bonds on the effective date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof.

If the Remarketing Agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week shall be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. If the Weekly Interest Rate for the immediately preceding week was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Weekly Interest Rate would otherwise be determined as provided herein for such Weekly Interest Rate Period.

(B) Conversion to Weekly Interest Rate. Subject to Section 2.08, at any time, the Corporation, by written direction to the Bond Trustee, the Tender Agent (if any), the Credit

Facility Provider, the Liquidity Facility Provider, and the Remarketing Agent (if any) may elect that the Bonds shall bear interest at a Weekly Interest Rate. The direction of the Corporation shall specify (i) the proposed effective date of such conversion to a Weekly Interest Rate Period, which date shall be (1) a Business Day not earlier than the tenth (10th) day following the second Business Day after receipt by the Bond Trustee of such direction, (2) in the case of a conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period with respect to the Bonds or a day on which the Bonds otherwise would be subject to optional redemption pursuant to Section 4.01(C) if such conversion did not occur, and (3) in the case of a conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period with respect to the Bonds; and (ii) the Purchase Date for the Bonds, which shall be the proposed effective date of the Conversion to a Weekly Interest Rate. In addition, such direction shall be accompanied by a form of the notice to be mailed by the Bond Trustee to the Holders of the Bonds as provided in Section 2.05(C). During each Weekly Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate shall be a Weekly Interest Rate.

(C) Notice of Conversion to Weekly Interest Rate. The Bond Trustee shall give notice by first-class mail of a conversion to a Weekly Interest Rate Period for the Bonds to the Holders of the Bonds not less than ten (10) days prior to the proposed effective date of such Weekly Interest Rate Period. Such notice shall state: (i) that the interest rate on the Bonds will be converted to a Weekly Interest Rate unless (a) the Corporation rescinds its election to convert the interest rate to a Weekly Interest Rate as provided in Section 2.08(B) or (b) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, the Corporation and the Remarketing Agent as to such conversion on the effective date of such conversion in the Interest Rate Period or other conditions precedent to such conversion are not met; (ii) the proposed effective date of such Weekly Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date, regardless of whether any or all conditions to the conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of such Bonds; and (iv) the information set forth in Section 4.12(A).

#### SECTION 2.06 Long-Term Interest Rate Period.

(A) Determination of Long-Term Interest Rate. During the Long-Term Interest Rate Period, the Bonds shall bear interest at the Long-Term Interest Rate. The Long-Term Interest Rate shall be determined by the Remarketing Agent on a Business Day no later than the Long-Term Bond Conversion Date.

Subject to the provisions of Section 2.06(D), the Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell such Bonds on the date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof.

(B) Conversion to or Continuation of Long-Term Interest Rate.

(1) Subject to Section 2.08, at any time, the Corporation, by written direction to the Bond Trustee, the Tender Agent (if any), the Credit Facility Provider, the Liquidity Facility Provider, and the Remarketing Agent (if any), may elect that the Bonds shall bear interest at a Long-Term Interest Rate. Such direction of the Corporation (i) shall specify the duration of the Long-Term Interest Rate Period, (ii) shall specify the proposed effective date of the Long-Term Interest Rate Period, which date shall be (1) a Business Day not earlier than the tenth (10th) day following the second Business Day after receipt by the Bond Trustee of such direction, (2) in the case of a conversion from a Short-Term Interest Rate Period to a Long-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period, and (3) in the case of a conversion from one Long-Term Interest Rate Period to another Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds otherwise would be subject to optional redemption pursuant to Section 4.01(C) if such conversion did not occur; (iii) shall specify the last day of the Long Term Interest Rate Period (which last day shall be either the day immediately prior to the Maturity Date, or a day which both immediately precedes a Business Day and is at least 181 days after the effective date thereof); (iv) shall specify a Purchase Date on which Holders of the Bonds are required to deliver their Bonds to be purchased, and (v) may specify redemption prices and periods different than those set forth in this Bond Indenture, if approved by Bond Counsel as provided in Section 4.01(C).

(2) The direction of the Corporation described in Section 2.06(B)(1) shall be accompanied by a form of the notice to be mailed by the Bond Trustee to the Holders of the Bonds as provided in Section 2.06(C). During the Long-Term Interest Rate Period, the interest rate borne by the Bonds shall be a Long-Term Interest Rate.

(3) If, by the second Business Day preceding the ninth (9th) day prior to the last day of any Long-Term Interest Rate Period with respect to the Bonds which ends on a day other than the day immediately preceding the Maturity Date of such Bonds, the Bond Trustee shall not have received notice of the Corporation's election that, during the next succeeding Interest Rate Period, the Bonds shall bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate or at Bond Interest Term Rates, the next succeeding Interest Rate Period for such Bonds shall be a Weekly Interest Rate Period until such time as the interest rate on such Bonds shall be converted to a Daily Interest Rate, Long-Term Interest Rate or Bond Interest Term Rates as provided in this Article II and the Bonds shall be subject to mandatory purchase as provided in Section 4.08 hereof on the first day of such Weekly Interest Rate Period.

(4) After the Fixed Rate Conversion Date, the Bonds shall no longer be subject to or have the benefit of the provisions of Sections 4.06 through 4.21.

(C) Notice of Conversion to or Continuation of Long-Term Interest Rate. The Bond Trustee shall give notice by first-class mail of a conversion to a (or the establishment of another) Long-Term Interest Rate Period for the Bonds to the Holders of such Bonds not less than ten

(10) days prior to the proposed effective date of such Long-Term Interest Rate Period. Such notice shall state: (i) that the interest rate on the Bonds shall be converted to, or continue to be, a Long-Term Interest Rate unless (a) the Corporation rescinds its election to convert the interest rate to a Long-Term Interest Rate as provided in Section 2.08(B) or (b) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, the Corporation and the Remarketing Agent as to such conversion in the Interest Rate Period on the effective date of such conversion or other conditions precedent to such conversion are not met; (ii) the proposed effective date of such Long-Term Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date, regardless of whether any or all conditions to the conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of such Bonds; and (iv) the information set forth in Section 4.12(A).

(D) Sale at Premium or Discount. Notwithstanding the provisions of Section 2.06(A), the Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell such Bonds on the date and at the time of such determination at a price which will result in the lowest net interest cost for the Bonds, after taking into account any premium or discount at which such Bonds are sold by the Remarketing Agent, provided that:

(1) the Remarketing Agent certifies to the Bond Trustee, the Tender Agent and the Corporation that the sale of the Bonds at the interest rate and premium or discount specified by the Remarketing Agent is expected to result in the lowest net interest cost for such Bonds on the Long-Term Bond Conversion Date;

(2) the Corporation consents in writing to the sale of the Bonds by the Remarketing Agent at such premium or discount;

(3) in the case of Bonds to be sold at a discount, either (a) a Liquidity Facility is in effect with respect to the Bonds and provides for the purchase of such Bonds at such discount or (b) the Corporation agrees to transfer to the Tender Agent on the Long-Term Bond Conversion Date, in immediately available funds, for deposit in the Corporation Purchase Account, an amount equal to such discount;

(4) in the case of Bonds to be sold at a premium, the Remarketing Agent shall transfer to the Bond Trustee for deposit in the Revenue Fund an amount equal to such premium;

(5) on or before the date of the determination of the Long-Term Interest Rate, the Corporation delivers to the Bond Trustee and the Remarketing Agent a letter of Bond Counsel to the effect that Bond Counsel expects to be able to give a Favorable Opinion of Bond Counsel on the Long-Term Bond Conversion Date; and

(6) on or before the Long-Term Bond Conversion Date, a Favorable Opinion of Bond Counsel shall have been received by the Bond Trustee and confirmed to the Corporation and the Remarketing Agent.

SECTION 2.07 Short-Term Interest Rate Periods.

(A) Determination of Bond Interest Terms and Bond Interest Term Rates. During each Short-Term Interest Rate Period, each Bond shall bear interest during each Bond Interest Term for such Bond at the Bond Interest Term Rate for that Bond. The Bond Interest Term and the Bond Interest Term Rate for each Bond need not be the same for any two Bonds, even if determined on the same date. Each Bond Interest Term and Bond Interest Term Rate shall be determined by the Remarketing Agent no later than the first day of each Bond Interest Term. Except for any Bond purchased on behalf of the Corporation and remaining unsold by the Remarketing Agent at the close of business on the first day of the Bond Interest Term, each Bond Interest Term shall be for a period of days within the range or ranges announced by the Remarketing Agent as possible Bond Interest Terms no later than 9:00 a.m., New York City time, on the first day of each Bond Interest Term. Each Bond Interest Term for each Bond shall be a period of not more than one hundred eighty (180) days, determined by the Remarketing Agent to be the period which, together with all other Bond Interest Terms for all Bonds then Outstanding, will result in the lowest overall interest expense on the Bonds. Any Bond purchased on behalf of the Corporation and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Bond Interest Term for such Bond shall have a Bond Interest Term of one day or, if that Bond Interest Term would not end on a day immediately preceding a Business Day, a Bond Interest Term ending on the day immediately preceding the next Business Day. Each Bond Interest Term shall end on either a day which immediately precedes a Business Day or on the day immediately preceding the Maturity Date. If, for any reason, a Bond Interest Term for any Bond cannot be so determined by the Remarketing Agent, or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, then such Bond Interest Term shall be thirty (30) days, but if the last day so determined shall not be a day immediately preceding a Business Day, shall end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the Sinking Fund Installment Date or the Maturity Date for such Bond, the Bond Interest Term shall end on the day immediately preceding such Sinking Fund Installment Date or Maturity Date. In determining the number of days in each Bond Interest Term, the Remarketing Agent shall take into account the following factors: (1) existing short-term, tax-exempt market rates and indices of such short-term rates; (2) the existing market supply and demand for short-term tax-exempt securities; (3) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds; (4) general economic conditions; (5) industry economic and financial conditions that may affect or be relevant to the Bonds; and (6) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent, in its sole discretion, shall determine to be relevant provided, however, that the number of days in any Bond Interest Term shall not exceed the number of days of interest coverage provided under the Liquidity Facility (if any) or the Credit Facility (if any) then in effect for such Interest Rate Period less five days and no Bond Interest Term shall end after the date which is five Business Days prior to the Expiration Date of the Liquidity Facility (if any) or the Credit Facility (if any) then in effect.

The Bond Interest Term Rate for each Bond Interest Term for each Bond in a Short-Term Interest Rate Period shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax exempt obligations comparable, in the reasonable judgment of such Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been

priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by such Bond for such Bond Interest Term, would enable the Remarketing Agent to sell such Bond on the effective date of such Bond Interest Term at a price equal to the principal amount thereof.

If for any reason a Bond Interest Term Rate for any Bond in a Short-Term Interest Rate Period (other than a Liquidity Facility Bond) is not established by the Remarketing Agent for any Bond Interest Term, or the determination of such Bond Interest Term Rate is held by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate for such Bond Interest Term, as determined by the Remarketing Agent, shall be the rate per annum equal to 85% of the interest rate on high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the first day of such Bond Interest Term and which maturity most nearly equals the Bond Interest Term for which a Bond Interest Term Rate is being calculated.

(B) Conversion to Bond Interest Term Rates. Subject to Section 2.08, at any time, the Corporation, by written direction to the Bond Trustee, the Tender Agent (if any), the Credit Facility Provider, the Liquidity Facility Provider, and the Remarketing Agent (if any) may elect that the Bonds shall bear interest at Bond Interest Term Rates. Such direction of the Corporation shall specify (i) the proposed effective date of the Short-Term Interest Rate Period (during which the Bonds shall bear interest at Bond Interest Term Rates), which date shall be (1) a Business Day not earlier than the tenth (10th) day following the second Business Day after receipt by the Bond Trustee of such direction, and (2) in the case of a conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds otherwise would be subject to optional redemption pursuant to Section 4.01(C) if such conversion did not occur; and (ii) the Purchase Date for the Bonds, which shall be the proposed effective date of the Conversion to a Short-Term Interest Rate Period. In addition, the direction of the Corporation shall be accompanied by a form of the notice to be mailed by the Bond Trustee to the Holders of the Bonds as provided in Section 2.07(C). During each Short-Term Interest Rate Period commencing on the date so specified and ending, with respect to each Bond, on the day immediately preceding the effective date of the next succeeding Interest Rate Period with respect to such Bond, each such Bond shall bear interest at a Bond Interest Term Rate during each Bond Interest Term for such Bond.

(C) Notice of Conversion to Bond Interest Term Rates. The Bond Trustee shall give notice by first-class mail of a conversion to a Short-Term Interest Rate Period for the Bonds to the Holders of such Bonds not less than ten (10) days prior to the proposed effective date of such Short-Term Interest Rate Period. Such notice shall state: (i) that the Bonds shall bear interest at Bond Interest Term Rates unless (a) the Corporation rescinds its election to convert the interest rate to a Long-Term Interest Rate as provided in Section 2.08(B) or (b) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, the Corporation and the Remarketing Agent as to such conversion on the effective date of such conversion in the Interest Rate Period or other conditions precedent to such conversion are not met; (ii) the proposed effective date of such Short-Term Interest Rate Period; (iii) that such Bonds are subject to mandatory tender for purchase on such proposed effective date of such Short-Term Interest Rate Period and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds; and (iv) the information set forth in Section 4.12(A).

SECTION 2.08      Notice of Conversion; Conditions.

(A) If the Corporation shall elect to adjust the interest rate on the Bonds to a Daily Interest Rate, a Weekly Interest Rate, Long-Term Interest Rate or Bond Interest Term Rates, as provided in Sections 2.04(B), 2.05(B), 2.06(B) or 2.07(B) then the written direction furnished by the Corporation as required by such sections shall be made by registered or certified mail, or by Electronic Means, confirmed by registered or certified mail. The Bond Trustee shall also provide notice to each Rating Agency then rating the Bonds by Electronic Means of any Conversion hereunder.

(B) Notwithstanding anything in this Article II, in connection with any Conversion of the Interest Rate Period, the Corporation shall have the right to deliver to the Bond Trustee, the Remarketing Agent (if any), the Tender Agent (if any), the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the City, on or prior to 10:00 a.m., New York City time, on the Business Day preceding the effective date of any such Conversion a notice to the effect that the Corporation elects to rescind its election to make such Conversion. If the Corporation rescinds its election to make such Conversion, then the Interest Rate Period shall not be converted and the Bonds shall bear interest at a Weekly Interest Rate commencing on the date which would have been the effective date of the Conversion unless the Bonds were in a Daily Interest Rate Period immediately prior to such proposed Conversion. If the Bonds were in a Daily Interest Rate Period immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed Conversion. In any event, if notice of a Conversion has been mailed to the Holders of such Bonds as provided in Section 2.04(C), 2.05(C), 2.06(C) or 2.07(C) and the Corporation rescinds its election to make such Conversion, then the Bonds shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in Section 4.08.

(C) No Conversion from one Interest Rate Period to another shall take effect under this Bond Indenture unless each of the following conditions, to the extent applicable, shall have been satisfied.

(i) The Bond Trustee and the City shall have received a Favorable Opinion of Bond Counsel with respect to such Conversion.

(ii) The remarketing proceeds available on the Conversion Date shall not be less than the amount required to purchase all of the Bonds at the Purchase Price (unless (a) the Corporation elects to transfer to the Tender Agent the amount of such deficiency on or before the Conversion Date or (b) if a Liquidity Facility is in effect for the Bonds, the Liquidity Facility Provider has agreed that the Tender Agent may draw upon (or otherwise obtain funds pursuant to the terms of) such Liquidity Facility in the amount of such deficiency).

(iii) Any Conversion shall be with respect to all of the Bonds.

(D) If any condition to the Conversion shall not have been satisfied, then the Interest Rate Period shall not be converted and the Bonds shall bear interest at a Weekly Interest Rate

commencing on the date which would have been the effective date of the Conversion unless the Bonds were in a Daily Interest Rate Period immediately prior to such proposed Conversion. If the Bonds were in a Daily Interest Rate Period immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed Conversion. The Bonds shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in Section 4.08.

(E) Notwithstanding anything in this Article II to the contrary, in connection with the conversion from a Long-Term Interest Rate Period that would require the mandatory tender for purchase of Bonds at a Purchase Price greater than the principal amount thereof as provided in Section 4.08, the Corporation, as a condition to exercising its option to cause a conversion in the Interest Rate Period, shall deliver to the Bond Trustee prior to the mailing of notice of such conversion, Available Moneys in immediately available funds for the purpose of paying such premium, unless the Liquidity Facility, if any, then in effect with respect to such Bonds provides for the payment of such premium.

SECTION 2.09 Execution of Bonds. The Bonds shall be executed in the name and on behalf of the City with the manual or facsimile signature of its Mayor under its seal attested by the manual or facsimile signature of its City Clerk or Deputy City Clerk. Such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the Bonds. The Bonds shall then be delivered to the Bond Trustee for authentication by it. In case any of the officers who shall have signed any of the Bonds shall cease to be such officer or officers of the City before the Bonds so signed shall have been authenticated or delivered by the Bond Trustee or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the City as though those who signed the same had continued to be such officers of the City, and also any Bond may be signed on behalf of the City by such persons as at the actual date of execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form attached hereto as Exhibit A, manually executed by an authorized signatory of the Bond Trustee as authentication agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Bond Indenture, and such certificate of the Bond Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Bond Indenture.

SECTION 2.10 Transfer of Bonds. Subject to the provisions of Section 2.15, any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.12, by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer and the conditions set forth in the immediately preceding paragraph have been satisfied, the City shall execute and the

Bond Trustee shall authenticate and deliver a new Bond or Bonds, of the same maturity and for a like aggregate principal amount. The Bond Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The Bond Trustee shall not be required to transfer (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given or during the (15) days next preceding an Interest Payment Date or (ii) any Bond called for redemption.

SECTION 2.11 Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Bond Trustee for a like aggregate principal amount of Bonds of other Minimum Authorized Denominations of the same maturity. The Bond Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The Bond Trustee shall not be required to exchange (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given or during the (15) days next preceding an Interest Payment Date or (ii) any Bond called for redemption.

SECTION 2.12 Bond Register. The Bond Trustee will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times (during regular business hours at the location where such books are kept) be open to inspection by any Bondholder or such Bondholder's agent duly authorized in writing, the City, the Corporation, the Liquidity Facility Provider or the Credit Facility Provider, and, upon presentation for such purpose, the Bond Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

SECTION 2.13 Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the City, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Bond Indenture as may be appropriate. Every temporary Bond shall be executed by the City and be authenticated by the Bond Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange therefor at the Principal Office of the Bond Trustee, and the Bond Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of Minimum Authorized Denominations of the same maturity. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Bond Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.14 Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Holder of said Bond, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Bond Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Bond Trustee shall be canceled by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Bond Trustee and, if such evidence be satisfactory to both and

indemnity satisfactory to them shall be given, the City, at the expense of the Holder, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond, the Bond Trustee may pay the same without surrender thereof). The Bond Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the City and the Bond Trustee in complying with this Section. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall replace the Bond alleged to be lost, stolen or destroyed as an original contractual obligation on the part of the City, and shall be entitled to the benefits of this Bond Indenture with all other Bonds secured by this Bond Indenture.

SECTION 2.15 Use of Securities Depository. Notwithstanding any provision of this Bond Indenture to the contrary:

(A) The Bonds shall be initially issued as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(1) To any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this subsection (A) ("substitute depository"); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(2) To any substitute depository designated by the City upon (a) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (b) subject to the provisions of subsection (B) below, a determination by the City that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(3) To any Person as provided below, upon (a) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository can be obtained or (b) subject to the provisions of subsection (B) below, a determination by the City that it is in the best interests of the City to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(B) The City agrees that for so long as (i) the Credit Facility or Liquidity Facility is in effect or (ii) there are any Liquidity Facility Bonds or Pledged Bonds then Outstanding or any Reimbursement Obligations or other amounts owed to the Credit Facility Provider or Liquidity Facility Provider under the Reimbursement Agreement, it will at all times cause the Bonds to be eligible for, and to be registered with, the initial Securities Depository's book-entry system (or the book-entry system of such other Securities Depository acceptable to the Credit Facility Provider) and that such registration with the initial Securities Depository shall not be discontinued without the Credit Facility Provider's prior written consent.

(C) In the case of any transfer pursuant to clause (1) or clause (2) of subsection (A), upon receipt of the Outstanding Bonds by the Bond Trustee, together with a Certificate of the City to the Bond Trustee, a single new Bond shall be executed and delivered in the aggregate principal amount of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the City. In the case of any transfer pursuant to clause (3) of subsection (A), upon receipt of the Outstanding Bonds by the Bond Trustee together with a Certificate of the City to the Bond Trustee, new Bonds shall be executed and delivered in such Minimum Authorized Denominations and registered in the names of such Persons as are requested in such a Certificate of the City, subject to the limitations of Section 2.02, provided the Bond Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Certificate of the City.

(D) In the case of partial redemption or an advance refunding of any Bonds evidencing all or a portion of such principal amount Outstanding, the Securities Depository shall make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Bond Trustee.

(E) The City and the Bond Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Bond Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Bond Trustee or the City; and the City, and the Bond Trustee shall have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any beneficial owners of the Bonds. Neither the City nor the Bond Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including the Securities Depository or its successor (or substitute depository or its successor), except for the Holder of any Bond; provided that the Bond Trustee shall have such obligations as are undertaken by it in the Pledge Agreement and in Section 2.03 of the initial Reimbursement Agreement, respectively.

(F) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assign, the City and the Bond Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

### ARTICLE III

#### ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01 Issuance of Bonds. At any time after the execution of this Bond Indenture, the City may execute and the Bond Trustee shall authenticate and, upon Request of the City, deliver the Bonds in the aggregate principal amount of [principal amount in words] dollars (\$[principal amount]).

SECTION 3.02 Application of Proceeds of Bonds. The proceeds received from the sale of the Bonds in the amount of \$\_\_\_\_\_ (being the aggregate principal amount of the Bonds less an underwriting discount of \$\_\_\_\_\_) shall be applied as follows:

(1) The Bond Trustee shall deposit \$\_\_\_\_\_ of the proceeds of the Bonds in the Costs of Issuance Fund.

(2) The Bond Trustee shall transfer \$\_\_\_\_\_ of the proceeds of the Bonds to \_\_\_\_\_, as trustee for the Prior Bonds, to be applied to the redemption of the Prior Bonds on the Date of Issuance.

(3) The Bond Trustee shall deposit \$\_\_\_\_\_ of the proceeds of the Bonds in the Project Fund.

SECTION 3.03 Establishment and Application of Costs of Issuance Fund. The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Bond Trustee to pay the costs of issuance of the Bonds upon Requisition of the Corporation stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On March 1, 2011, or upon the earlier Request of the Corporation, amounts if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund.

SECTION 3.04 Establishment and Application of Project Fund.

(A) The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used and withdrawn by the Bond Trustee to pay the costs of the Project, including any item of cost which is chargeable to the capital account of the Corporation in accordance with generally accepted accounting principles. No moneys in the Project Fund shall be used to pay Costs of Issuance.

(B) Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Bond Trustee a Requisition of the Corporation stating (1) the item number of such payment; (2) the name of the Person to whom each such payment is due, which may be the Corporation in the case of reimbursement for Project costs theretofore paid by the Corporation; (3) the respective amounts to be paid; (4) the purpose by general classification for which each obligation to be paid was incurred; (5) that obligations in the stated amounts have been incurred by the Corporation and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid from the Project Fund; (6) that there has not been filed with or served upon the Corporation any notice of claim of lien, or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the Persons named in such Requisition, that has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law; and (7) that the balance remaining in the Project Fund after payments of such amounts, together with any investment income reasonably anticipated to be deposited in the Project Fund pursuant to this Bond Indenture and any other

funds reasonably anticipated to be available therefor, will be sufficient to pay costs of completing the Project.

Upon receipt of a Requisition, the Bond Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. Each such Requisition shall be sufficient evidence to the Bond Trustee of the facts stated therein and the Bond Trustee shall have no duty to confirm the accuracy of such facts. The Bond Trustee shall not make any such payment if it has received any written notice of claim of lien, attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, that has not been released or will not be released simultaneously with such payment.

(C) When the Project shall have been completed, there shall be delivered to the Bond Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Account is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Bond Trustee shall, as directed by said Certificate, transfer any remaining balance in such Project Fund, less the amount of any such retention, to the Revenue Fund.

SECTION 3.05 Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the City or the Bond Trustee with respect to or in connection with the Loan Agreement. The recital contained in the Bonds that the same are issued pursuant to the Law and the Constitution and laws of the State of California shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

#### ARTICLE IV

##### REDEMPTION AND TENDER OF BONDS

SECTION 4.01 Terms of Redemption; Purchase In Lieu of Redemption.

(A) The Bonds are subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised as directed by the Corporation, a copy of which direction shall be delivered to the Bond Trustee not less than thirty (30) days prior to the date fixed for such redemption, or such shorter period as agreed to in writing by the Bond Trustee) in whole or in part (in such amounts as may be specified by the Corporation) on any date, from certain hazard insurance or condemnation proceeds received with respect to the facilities of any Member and deposited in the Special Redemption Account in accordance with the Loan Agreement, at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, but in the case of Eligible Bonds only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

(B) While any Daily Interest Rate or Weekly Interest Rate is in effect with respect to Bonds, the Bonds are also subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon Request of the Corporation given to the Bond Trustee

(unless waived by the Bond Trustee) at least fifteen (15) days prior to the date fixed for redemption), in whole or in part (in such amounts as may be specified by the Corporation), on any date at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but in the case of Eligible Bonds only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds. As a condition precedent to any optional redemption (or purchase in lieu of redemption pursuant to subparagraph (F) of this Section) of Bonds while any Weekly Interest Rate is in effect, the Corporation shall deposit in the Optional Redemption Account an amount equal to the Redemption Price for such Bonds to be redeemed (or purchased in lieu of redemption) not less than one Business Day prior to the draw on the Credit Facility on the redemption date.

(C) While any Long-Term Interest Rate is in effect with respect to Bonds, the Bonds are also subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least twenty-five (25) days prior to the date fixed for redemption), in whole or in part, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds, (1) on any date such Bonds are subject to mandatory tender pursuant to Section 4.08 at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, and (2) during the periods specified below, in whole or in part on any date, at the Redemption Prices (expressed as a percentage of principal amount) hereinafter indicated or specified in the notice of the Corporation to the Bond Trustee, plus accrued interest thereon (if any) to the date fixed for redemption:

Length of Long-Term Interest Rate Period (expressed in years)	Redemption Price
greater than 10	after 10 years at par
less than or equal to 10	not subject to optional redemption

The foregoing notwithstanding, if the Corporation delivers to the Bond Trustee, the Remarketing Agent, and the City prior to any Conversion Date to the Long-Term Interest Rate a notice containing an alternative redemption schedule setting forth different dates on which, or different redemption prices at which, the Bonds may be redeemed while the Long-Term Interest Rate is in effect and a Favorable Opinion of Bond Counsel, then during such Long-Term Interest Rate Period such alternative redemption schedule shall apply to the redemption of the Bonds.

(D) While any Bond Interest Term Rate is in effect with respect to Bonds, the Bonds subject to such Bond Interest Term Rate are also subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least fifteen (15) days prior to the date fixed for redemption), in whole or in part (in such amounts as may be specified by the Corporation), on the day succeeding the last day of such Bond Interest Term at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued

interest thereon (if any) to the date fixed for redemption, without premium but in the case of Eligible Bonds only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

(E) The Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to Section 5.04 on any Sinking Fund Installment Date.

(F) Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described in Section 4.01(B), (C) or (D) as applicable, of this Bond Indenture. Such Bond is to be purchased at a purchase price equal to the then applicable Redemption Price of such Bond, plus accrued interest (if any). The Corporation may only exercise such option with the prior written consent of the Credit Facility Provider, if any, and after the Corporation shall have delivered a Favorable Opinion of Bond Counsel to the Bond Trustee along with a written direction to the Bond Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with Section 4.03 of this Bond Indenture. Bonds to be so purchased shall be selected by the Bond Trustee in the same manner as Bonds called for redemption pursuant to this Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption as described in this Section, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds (which funds shall be Available Moneys at any time a Credit Facility is in effect unless a Credit Facility Provider Failure has occurred and is continuing) and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption as described in this Section shall operate to extinguish the indebtedness of the City evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

SECTION 4.02      Selection of Bonds for Redemption. Whenever provision is made in this Bond Indenture for the redemption (or purchase in lieu of redemption pursuant to Section 4.01(F)) of less than all of the Bonds or any given portion thereof, the Bond Trustee shall select the Bonds to be redeemed (or purchased in lieu of redemption), from all Bonds subject to redemption (or purchase in lieu of redemption) or such given portion thereof not previously called for redemption (or purchase in lieu of redemption), by lot in any manner which the Bond Trustee in its sole discretion shall deem appropriate and fair; provided, however, that Bonds shall be redeemed (and purchased in lieu of redemption) in the following order of priority (and by lot within each priority):

FIRST:            Any Bonds which are Liquidity Facility Bonds or Pledged Bonds; and

SECOND:        Any other Bonds.

SECTION 4.03      Notice of Redemption. Notice of redemption shall be mailed by first-class mail by the Bond Trustee, not less than ten (10) days nor more than sixty (60) days prior to the redemption date (except in the case of (i) the redemption of Bonds bearing interest at a Long-Term Interest Rate, in which case not less than twenty (20) days prior to the redemption date, and (ii) the optional redemption of Liquidity Facility Bonds or Pledged Bonds, in which

case not less than two days prior to the redemption date), to the Holders of Bonds called for redemption at their addresses appearing on the bond registration books of the Bond Trustee and to the Master Trustee, with a copy to the City. For any redemption in whole, the Bond Trustee shall also provide notice of such redemption to each Rating Agency then rating the Bonds. Each notice of redemption shall state the date of such notice and date of issue of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the maturity, the CUSIP numbers, if any, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that, subject to prior rescission as provided in the next paragraph of this Section, on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Each notice shall also state that redemption is conditioned upon (i) receipt by the Bond Trustee of sufficient funds on the redemption date (which shall be Available Moneys if required pursuant to Section 4.01 hereof) to pay the Redemption Price of the Bonds to be redeemed and (ii) the legal ability of the Bond Trustee to apply such funds on the redemption date to the Redemption Price of the Bonds to be redeemed.

Any notice of optional redemption given pursuant to this Section 4.03 may be rescinded by written notice given to the Bond Trustee by the Corporation no later than five (5) Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given pursuant to this Section 4.03.

Failure by the Bond Trustee to mail notice of redemption in accordance with this Section 4.03 to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

Notice of redemption of Bonds shall be given by the Bond Trustee, at the expense of the Corporation, for and on behalf of the City.

**SECTION 4.04**      Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the City shall execute (but need not prepare) and the Bond Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or Bonds of Minimum Authorized Denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

**SECTION 4.05**      Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall

cease to be entitled to any benefit or security under this Bond Indenture and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

All Bonds redeemed pursuant to the provisions of this Article shall be canceled upon surrender thereof.

SECTION 4.06      Optional Tender.

(A)    Optional Tender During Daily Interest Rate Period. During any Daily Interest Rate Period for Bonds, any Eligible Bond shall be purchased at the option of the Holder on any Business Day at the Purchase Price, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of notices and to the Remarketing Agent, by no later than 11:00 a.m., New York City time, on such Business Day, of an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by telecopy or other writing, which states the principal amount of such Bonds to be purchased on such Business Day. For payment of the Purchase Price on the Purchase Date, such Bond must be delivered, at or prior to 12:00 noon, New York City time, on the Purchase Date, to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

(B)    Optional Tender During Weekly Interest Rate Period. During any Weekly Interest Rate Period for Bonds, any Eligible Bond shall be purchased from its Holder at the option of the Holder on any Business Day at the Purchase Price, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of notices and to the Remarketing Agent of an irrevocable written notice which states the name, the principal amount and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

SECTION 4.07      Mandatory Tender for Purchase On Day Next Succeeding the Last Day of Each Bond Interest Term. On the day following the last day of each Bond Interest Term for a Bond in a Short-Term Interest Rate Period, unless such day is the first day of a new Interest Rate Period for such Bond (in which event such Bond shall be subject to mandatory purchase pursuant to Section 4.08), such Bond shall be purchased from its Holder at the Purchase Price payable in immediately available funds, if such Bond is delivered to the Tender Agent on or prior to 10:00 a.m., New York City time, on such day, or if delivered after 10:00 a.m., New York

City time, on the next succeeding Business Day; provided, however, that in any event such Bond will not bear interest at the Bond Interest Term Rate after the last day of each Bond Interest Term. The Purchase Price of any Bond so purchased shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

SECTION 4.08 Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Bonds shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period and the first day of each succeeding Long-Term Interest Rate Period with respect to such Bonds, or on the day which would have been the first day of an Interest Rate Period for such Bonds had one of the events specified in Section 2.08(C) not occurred which resulted in the interest rate not being converted, at the Purchase Price, payable in immediately available funds. The Purchase Price of any Bond so purchased shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to such Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in this paragraph or in the notice provided pursuant to Section 2.08.

SECTION 4.09 Mandatory Tender Upon Termination, Substitution or Expiration of Liquidity Facility or Credit Facility; Mandatory Credit/Liquidity Tender. If at any time (i) the Bonds will cease to be subject to purchase pursuant to the Liquidity Facility or the Credit Facility then in effect as a result of the termination, replacement or expiration of the term, as extended, of that Liquidity Facility or Credit Facility, including but not limited to termination at the option of the Corporation in accordance with the terms of such Liquidity Facility or Credit Facility, or (ii) the Bond Trustee receives notice of the occurrence of a Mandatory Credit/Liquidity Tender, then the Bonds shall be subject to mandatory tender for purchase at the Purchase Price. If a Self-Liquidity Arrangement is replaced with an Alternate Liquidity Facility, then the Bonds shall be subject to mandatory tender for purchase at the Purchase Price. Any purchase of Bonds pursuant to this Section 4.09 shall occur: (1) on the fifth Business Day prior to any such expiration or termination of such Liquidity Facility or Credit Facility without replacement by an Alternate Liquidity Facility, a Self-Liquidity Arrangement, a Credit Facility, an Alternate Credit Facility or a Liquidity Facility, or (2) on the first Business Day following receipt by the Bond Trustee of notice from the Credit Facility Provider or Liquidity Facility Provider of a Mandatory Credit/Liquidity Tender, but in no event later than the second Business Day preceding any expiration or termination of the Credit Facility or Liquidity Facility, and (3) on the proposed date of the replacement of a Liquidity Facility, a Self-Liquidity Arrangement or a Credit Facility, in any case where an Alternate Liquidity Facility is to be delivered to the Tender Agent pursuant to Section 5.7 of the Loan Agreement, a Self-Liquidity Arrangement is to become effective pursuant to Section 5.8 of the Loan Agreement or a Credit Facility or an Alternate Credit Facility is to be delivered to the Bond Trustee pursuant to Section 5.9 of the Loan Agreement. In the case of any replacement of an existing Liquidity Facility, Self-Liquidity Arrangement or Credit Facility, the existing Liquidity Facility, Self-Liquidity Arrangement or Credit Facility will be drawn upon to pay the Purchase Price, if necessary, rather than the Alternate Liquidity Facility or

the Alternate Credit Facility, and the then-existing Liquidity Facility, Self-Liquidity Arrangement or Credit Facility shall not be surrendered or otherwise terminated by the Bond Trustee until after such drawing is honored. No such mandatory tender pursuant to this Section 4.09 will be effected upon the replacement of a Liquidity Facility or a Credit Facility in the case where the Liquidity Facility Provider or the Credit Facility Provider has wrongfully failed to honor conforming draws. The assignment of any Liquidity Facility which relieves the Liquidity Provider of its obligation to purchase Bonds shall be considered a replacement for the purposes of this Section 4.09. The Purchase Price of any Bonds purchased pursuant to this Section 4.09 shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in a notice provided to the Holders by the Bond Trustee.

SECTION 4.10 Mandatory Tender for Purchase at the Direction of the Corporation. During any Daily Interest Rate Period or Weekly Interest Rate Period, the Bonds are subject to mandatory tender for purchase on any Business Day designated by the Corporation, with the prior written consent of the Liquidity Facility Provider, if any, at the Purchase Price, payable in immediately available funds. Such purchase date shall be a Business Day not earlier than the 10th day following the second Business Day after receipt by the Bond Trustee of such designation. For payment of the Purchase Price on such Purchase Date, Bonds must be delivered at or prior to 10:00 a.m. on the Purchase Date. If delivered after that time, the Purchase Price shall be paid on the next succeeding Business Day. The Purchase Price shall be payable only upon surrender of such Bonds to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

SECTION 4.11 General Provisions Relating to Tenders.

(A) Creation of Bond Purchase Fund.

(i) There shall be created and established hereunder with the Tender Agent a fund to be designated the "Bond Purchase Fund" to be held in trust only for the benefit of the Holders of tendered Bonds who shall thereafter be restricted exclusively to the moneys held in such fund for the satisfaction of any claim for the Purchase Price of such tendered Bonds (and, in the case of the payment of the Purchase Price of Pledged Bonds, only for the benefit of the Liquidity Facility Provider). Neither the Corporation nor the City shall have any right, title or interest in any of the funds held on deposit in the Remarketing Proceeds Account or the Liquidity Facility Account nor any remarketing proceeds held for any period of time by the Remarketing Agent.

(ii) There shall be created and designated the following accounts within the Bond Purchase Fund: the "Remarketing Proceeds Account," the "Liquidity Facility Account" and the "Corporation Purchase Account." Moneys paid to the Tender Agent

for the purchase of tendered or deemed tendered Bonds received from (i) the Remarketing Agent shall be deposited in the Remarketing Proceeds Account in accordance with the provisions of Section 4.11(D)(i), (ii) payments pursuant to a Liquidity Facility, if any, shall be deposited in the Liquidity Facility Account in accordance with the provisions of Section 4.11(D)(ii), and (iii) the Corporation or any other Member shall be deposited in the Corporation Purchase Account in accordance with the provisions of Section 4.11(D)(iii). Moneys provided from payments made under the Liquidity Facility (if any) not required to be used in connection with the purchase of tendered Bonds shall be returned to the Liquidity Facility Provider in accordance with Section 4.11(D) and (E). Moneys provided by the Corporation or other Member not required to be used in connection with the purchase of tendered Bonds shall be returned to the Corporation in accordance with Sections 4.11(D) and (E).

(iii) Moneys in the Liquidity Facility Account, the Corporation Purchase Account and the Remarketing Proceeds Account shall not be commingled with other funds held by the Tender Agent and shall remain uninvested.

(B) Deposit of Bonds. The Tender Agent agrees to hold all Bonds delivered to it pursuant to Sections 4.06, 4.07, 4.08, 4.09 and 4.10 of this Bond Indenture in trust for the benefit of the respective Holders which shall have so delivered such Bonds until moneys representing the Purchase Price of such Bonds have been delivered to such Holder in accordance with the provisions of this Bond Indenture and until such Bonds shall have been delivered by the Tender Agent in accordance with Section 4.11(F).

(C) Remarketing of Bonds.

(i) As soon as practicable, but in no event later than 12:00 noon, New York City time, on the Purchase Date in the case of Bonds to be purchased pursuant to Section 4.06(A) or Section 4.07 and by no later than 4:00 p.m., New York City time, on the last Business Day prior to the Purchase Date in the case of Bonds to be purchased pursuant to Sections 4.06(B), 4.08, 4.09 or 4.10, the Remarketing Agent shall inform the Tender Agent by telephone, promptly confirmed in writing, of the principal amount of Purchased Bonds for which the Remarketing Agent has identified prospective purchasers and of the name, address and taxpayer identification number of each such purchaser, the principal amount of Purchased Bonds to be purchased and the Minimum Authorized Denominations in which such Purchased Bonds are to be delivered. Upon receipt from the Remarketing Agent of such information, the Tender Agent shall prepare Purchased Bonds in accordance with such information received from the Remarketing Agent for the registration of transfer and redelivery to the Remarketing Agent.

(ii) Any Purchased Bonds which are subject to mandatory tender for purchase in accordance with Sections 4.07, 4.08, 4.09 or 4.10 which are not presented to the Tender Agent on the Purchase Date and any Purchased Bonds which are the subject of a notice pursuant to Section 4.06 which are not presented to the Tender Agent on the Purchase Date, shall, in accordance with the provisions of Section 4.13, be deemed to have been purchased upon the deposit of moneys equal to the Purchase Price thereof into any or all of the accounts of the Bond Purchase Fund.

(D) Deposits of Funds.

(i) The Remarketing Agent shall transfer, or to cause to be transferred, to the Tender Agent the proceeds derived by the Remarketing Agent from remarketing of Bonds pursuant to Section 4.11(C) in immediately available funds by 12:15 p.m., New York City time, on the Purchase Date (11:15 a.m., New York City time in the case of Bonds to be purchased pursuant to Section 4.06(B), 4.08, 4.09 or 4.10) for deposit in the Remarketing Proceeds Account. The Tender Agent shall deposit into the Remarketing Proceeds Account any amounts received by it from the Remarketing Agent against receipt of Bonds by the Remarketing Agent pursuant to Section 4.11(F) and on account of Purchased Bonds remarketed pursuant to the terms of the Remarketing Agreement.

(ii) If a Liquidity Facility is in effect with respect to the Purchased Bonds, the Tender Agent shall, at or before 12:30 p.m., New York City time, on the Purchase Date (11:30 a.m., New York City time in the case of Bonds to be purchased pursuant to Section 4.06(B), 4.08, 4.09 or 4.10), present drafts for payment or otherwise request amounts under the Liquidity Facility, in accordance with its terms, in an amount equal to the Funding Amount, so that payment is received under the Liquidity Facility at or before 2:30 p.m., New York City time, on the Purchase Date. The Tender Agent shall deposit such amounts in the Liquidity Facility Account. If more than one Liquidity Facility is then in effect, the Tender Agent shall establish a separate subaccount in the Liquidity Facility Account for each Liquidity Facility and apply the moneys in such subaccounts solely to pay the purchase price of Purchased Bonds subject to such Liquidity Facility.

(iii) The Corporation has agreed in Section 3.5 of the Loan Agreement and in Obligation No. [x] to pay to the Tender Agent in immediately available funds the Funding Amount by 2:45 p.m., New York City time, on the Purchase Date (a) if a Liquidity Facility is not in effect with respect to the Purchased Bonds, (b) if the Liquidity Facility Provider has not paid the full amount required by clause (ii) of this subsection (D) at the times required therein, or (c) if such Bonds bear a Long-Term Interest Rate. The Tender Agent shall deposit such amounts into the Corporation Purchase Account.

(iv) The Tender Agent shall hold all proceeds received from the Remarketing Agent, the Liquidity Facility Provider or the Corporation pursuant to this Section 4.11(D) in trust for the tendering Bondholders. In holding such proceeds and moneys, the Tender Agent will be acting on behalf of such Bondholders by facilitating purchase of the Bonds and not on behalf of the City, any Liquidity Facility Provider, or the Corporation and will not be subject to the control of any of them. Subject to the provisions of Section 4.11(E), following the discharge of the lien created by Section 5.01 of this Bond Indenture or after payment in full of the Bonds, the Tender Agent shall pay any moneys remaining in any account of the Bond Purchase Fund directly to the Persons for whom such money is held upon presentation of evidence reasonably satisfactory to the Bond Trustee that such Person is rightfully entitled to such money and the Tender Agent shall not pay such amounts to any other Person.

(E) Disbursements; Payment of Purchase Price. Moneys delivered to the Tender Agent on a Purchase Date shall be applied at or before 3:00 p.m., New York City time, on such

Purchase Date to pay the Purchase Price of Purchased Bonds in immediately available funds as follows in the indicated order of application and, to the extent not so applied on such date, shall be held in the separate and segregated accounts of the Bond Purchase Fund for the benefit of the Holders of the Purchased Bonds which were to have been purchased:

FIRST: Moneys deposited in the Remarketing Proceeds Account.

SECOND: Moneys deposited in the Liquidity Facility Account.

THIRD: Moneys deposited in the Corporation Purchase Account.

Any moneys held by the Tender Agent in the Corporation Purchase Account remaining unclaimed by the Holders of the Purchased Bonds which were to have been purchased for three (3) years after the respective Purchase Date for such Bonds shall be paid, upon the written request of the Corporation, to the Corporation against written receipt therefor. The Holders of Purchased Bonds who have not yet claimed money in respect of such Bonds shall thereafter be entitled to look only to the Tender Agent, to the extent it shall hold moneys on deposit in the Bond Purchase Fund or the Corporation to the extent moneys have been transferred in accordance with this Section.

(F) Delivery of Purchased Bonds.

(i) The Remarketing Agent shall give telephonic or telegraphic notice, promptly confirmed by a written notice, to the Tender Agent on each date on which Bonds shall have been purchased pursuant to Sections 4.06, 4.07, 4.08, 4.09 and 4.10, specifying the principal amount of such Bonds, if any, sold by it pursuant to Section 4.14(A) along with a list of such purchasers showing the names and Minimum Authorized Denominations in which such Bonds shall be registered, and the addresses and social security or taxpayer identification numbers of such purchasers. By 12:15 p.m., New York City time, on the Purchase Date (11:15 a.m., New York City time in the case of Bonds to be purchased pursuant to Section 4.06(B), 4.08, 4.09 or 4.10), a principal amount of Bonds equal to the amount of Purchased Bonds purchased with moneys from the Remarketing Proceeds Account shall be made available by the Tender Agent to the Remarketing Agent. The Tender Agent shall prepare each Bond to be so delivered in such names as directed by the Remarketing Agent pursuant to Section 4.11(C)(i).

(ii) A principal amount of Bonds equal to the amount of Purchased Bonds purchased from moneys on deposit in the Liquidity Facility Account shall be delivered on the day of purchase as provided below. If such Bonds constitute Liquidity Facility Bonds, (i) the Tender Agent shall register such Bonds in the name of the Liquidity Facility Provider (or as otherwise specified in writing by the Liquidity Facility Provider) and deliver such Bonds to or as directed by the Liquidity Facility Provider, or (ii) if such Bonds are then registered under a book entry only system with the Securities Depository, the Tender Agent shall deliver such Bonds by transfer of such Bonds to an account specified from time to time by the Liquidity Facility Provider that the Liquidity Facility Provider maintains at the Securities Depository. If such Bonds constitute Pledged Bonds, (i) the Tender Agent shall register such Bonds in the name of the Custodian (or its

nominee) or, if requested in writing by the Liquidity Facility Provider, either (a) in the name of the Liquidity Facility Provider (or its nominee), as pledgee, or (b) in the name of the Corporation or an affiliate of the Corporation, or (ii) if such Bonds are then registered under a book-entry only system with the Securities Depository, the Tender Agent shall deliver such Bonds by transfer of such Bonds to an account specified from time to time by the Liquidity Facility Provider that the Custodian (or its nominee) maintains at the Securities Depository.

(iii) A principal amount of Bonds equal to the amount of Purchased Bonds purchased from moneys on deposit in the Corporation Purchase Account shall be delivered on the day of such purchase by the Tender Agent to or as directed by the Corporation. The Tender Agent shall register such Bonds in the name of the Corporation or as otherwise directed by the Corporation.

#### SECTION 4.12 Notices of Mandatory Tender.

(A) In connection with any mandatory tender for purchase of Bonds in accordance with Section 4.08, the Tender Agent shall give the notice provided herein as a part of the notice given pursuant to Sections 2.04(C), 2.05(C), 2.06(C) or 2.07(C). Such notice shall state: (1) that the Purchase Price of any Bond so subject to mandatory tender for purchase shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (2) that all Bonds so subject to mandatory tender for purchase shall be purchased on the mandatory purchase date which shall be explicitly stated; and (3) that if any Holder of a Bond so subject to mandatory tender for purchase shall not surrender such Bond to the Tender Agent for purchase on such mandatory purchase date, then such Bond shall be deemed to be an Undelivered Bond, and that no interest shall accrue thereon on and after such mandatory purchase date and that the Holder thereof shall have no rights under this Bond Indenture other than to receive payment of the Purchase Price thereof.

(B) The Bond Trustee shall give notice by first-class mail to the Holders of the Bonds on or before (1) the 10th day preceding the expiration or termination of a Credit Facility or Liquidity Facility in accordance with its terms or the proposed replacement of such Credit Facility or Liquidity Facility and (2) the second Business Day after receipt of a notice of Mandatory Credit/Liquidity Tender. Such notice shall, to the extent applicable, (1) state the date of such expiration, termination or proposed replacement of such Credit Facility or Liquidity Facility or Mandatory Credit/Liquidity Tender, (2) state that the Bonds are subject to mandatory tender for purchase as a result of such expiration, termination or proposed replacement or Mandatory Credit/Liquidity Tender, (3) state the date on which such purchase will occur pursuant to Section 4.09 and set forth the Purchase Price and the place of delivery for purchase of such Bonds, and (4) provide any other information necessary to effect a mandatory tender for purchase pursuant to Section 4.09. The Corporation shall provide the Bond Trustee with any information required to enable the Bond Trustee to give the foregoing notice. The Bond Trustee shall send a copy of the foregoing notice to the City, the Corporation, the Remarketing Agent, the Credit Facility Provider and the Liquidity Facility Provider.

(C) In connection with any mandatory tender pursuant to Section 4.10, the Bond Trustee shall give notice by first class mail to the Holders of the Bonds not less than ten (10) days prior to the mandatory tender date.

SECTION 4.13 Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds.

(A) The giving of notice by a Holder of a Bond as provided in Section 4.06 shall constitute the irrevocable tender for purchase of each such Bond with respect to which such notice shall have been given, regardless of whether such Bond is delivered to the Tender Agent for purchase on the relevant Purchase Date as provided in this Article IV.

(B) The Tender Agent may refuse to accept delivery of any such Bonds for which a proper instrument of transfer has not been provided; such refusal, however, shall not affect the validity of the purchase of such Bond as herein described. For purposes of this Article IV, the Tender Agent for the Bonds shall determine timely and proper delivery of such Bonds and the proper endorsement of such Bonds. Such determination shall be binding on the Holders of such Bonds, the Corporation and the Remarketing Agent, absent manifest error. If any Holder of a Bond who shall have given notice of tender of purchase pursuant to Section 4.06 or any Holder of a Bond subject to mandatory tender for purchase pursuant to Sections 4.07, 4.08, 4.09 or 4.10 shall fail to deliver such Bond to the Tender Agent at the place and on the applicable date and at the time specified, or shall fail to deliver such Bond properly endorsed, such Bond shall constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available in accordance with this Article IV for payment to the Holder thereof on the date and at the time specified, from and after the date and time of that required delivery, (1) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under this Bond Indenture; (2) interest shall no longer accrue thereon; and (3) funds in the amount of the Purchase Price of the Undelivered Bond shall be held by the Tender Agent for the benefit of the Holder thereof, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Principal Office. Any funds held by the Tender Agent as described in clause (3) of the preceding sentence shall be held uninvested.

SECTION 4.14 Remarketing of Bonds; Notice of Interest Rates.

(A) Upon a mandatory tender or notice of the tender for purchase of Bonds, the Remarketing Agent, subject to the provisions of the Remarketing Agreement, shall offer for sale and use its best efforts to sell such Bonds, any such sale to be made on the date of such purchase in accordance with this Article IV at the Purchase Price. If a Liquidity Facility is then in effect, the Remarketing Agent agrees that it shall not sell any Bonds offered for sale pursuant to this Article IV to the City, the Corporation or any other Member, or to any Person who controls, is controlled by, or is under common control with the City, the Corporation or any other Member or a Person who is otherwise a guarantor of the Loan Repayments; provided that if the Liquidity Facility or related Reimbursement Agreement provides for Pledged Bonds rather than Liquidity Facility Bonds, the Corporation may purchase such Pledged Bonds on and subject to the terms and conditions of the Reimbursement Agreement, and provided further that such a purchase by the Corporation shall only be permissible when the prior Bondholders of such purchased Bonds

received Purchase Price moneys from proceeds of the Liquidity Facility and any transfer of such Pledged Bonds shall only be made to or through the Liquidity Facility Provider or its custodian.

(B) The Remarketing Agent shall offer for sale and use its best efforts to sell Liquidity Facility Bonds and Pledged Bonds at a price equal to the principal amount thereof plus accrued interest to the date of purchase (based on the rate per annum which would have been applicable to such Bonds if they were not Liquidity Facility Bonds or Pledged Bonds). Neither Liquidity Facility Bonds nor Pledged Bonds shall be delivered by the Tender Agent, the Liquidity Facility Provider or the Custodian, as the case may be, upon their remarketing unless the Tender Agent shall have a written confirmation from the Liquidity Facility Provider that (i) all amounts required to be paid to the Liquidity Facility Provider by the Corporation in connection with the remarketing of such Liquidity Facility Bonds or Pledged Bonds in accordance with the terms of the Reimbursement Agreement, along with the proceeds of such remarketing, have been received by the Liquidity Facility Provider and (ii) the Liquidity Facility is reinstated in accordance with its terms to the full amount of the then Required Stated Amount, calculated for Outstanding Bonds other than Corporate Bonds, Liquidity Facility Bonds and Pledged Bonds.

(C) The Remarketing Agent shall determine the rate of interest to be borne by the Bonds (other than Liquidity Facility Bonds and Pledged Bonds) during each Interest Rate Period for such Bonds and by each Bond during each Bond Interest Term for such Bond and the Bond Interest Terms for each Bond during each Short-Term Interest Rate Period as provided in Article II hereof and shall furnish to the Tender Agent and to the Corporation upon request, in a timely fashion each rate of interest and Bond Interest Term so determined by Electronic Means.

(D) Anything in this Bond Indenture to the contrary notwithstanding, during the period during which a Liquidity Facility is required to be in effect, if there is no Liquidity Facility in effect, there shall be no remarketing of Bonds tendered or deemed tendered for purchase.

SECTION 4.15 The Remarketing Agent. The City, at the direction of the Corporation, hereby appoints Citigroup Global Markets Inc. as the initial Remarketing Agent for the Bonds. The Remarketing Agent shall be authorized by law to perform all the duties imposed upon it pursuant to the Remarketing Agreement. The Remarketing Agent or any successor shall signify its acceptance of the duties and obligations imposed upon it pursuant to the Remarketing Agreement by an agreement under which the Remarketing Agent will agree to:

(A) determine the interest rates applicable to the Bonds and give notice to the Tender Agent of such rates and periods in accordance with Article II hereof;

(B) keep such books and records as shall be consistent with prudent industry practice; and

(C) use its best efforts to remarket Bonds in accordance with the Remarketing Agreement.

The Remarketing Agent shall hold all amounts received by it in accordance with any remarketing of Bonds pursuant to Section 4.14 in trust only for the benefit of the Holders of

tendered Bonds (and, in the case of Pledged Bonds, for the benefit of the Liquidity Facility Provider) and shall not commingle such amounts with any other moneys.

SECTION 4.16      Qualifications of Remarketing Agent; Resignation; Removal.

(A) Each Remarketing Agent shall be a Member of the National Association of Securities Dealers, having a combined capital stock, surplus and undivided profits of at least \$[principal amount] and authorized by law to perform all the duties imposed upon it by this Bond Indenture. Any successor Remarketing Agent shall have senior unsecured long-term debt which shall be rated, so long as the Bonds with respect to which it is serving as Remarketing Agent shall be rated by Moody's, at least Baa3/P-3 or otherwise qualified by Moody's.

(B) A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Remarketing Agreement by giving sixty (60) days written notice to the Tender Agent, the City, the Liquidity Facility Provider and the Corporation. A Remarketing Agent may be removed at the direction of the Corporation or at any time on thirty (30) days prior written notice, by an instrument signed by the Corporation, filed with such Remarketing Agent, the Liquidity Facility Provider, the Bond Trustee, and the Tender Agent. Notwithstanding any provision to the contrary herein, but subject to the provisions of the Remarketing Agreement (which provisions shall control to the extent of any conflicts between the provisions hereof and the Remarketing Agreement), (i) any removal or resignation of the Remarketing Agent shall be effective only upon the appointment of, and the acceptance of such appointment by, a successor Remarketing Agent, approved in writing by the Liquidity Facility Provider, and (ii) upon any suspension or termination by the Remarketing Agent of the performance of its obligations under the Remarketing Agreement, the Corporation shall replace the Remarketing Agent immediately and, if it fails to do so within five (5) Business Days, the Liquidity Facility Provider may select a Remarketing Agent on behalf of the Corporation and the Corporation shall enter into a replacement Remarketing Agreement acceptable to the Liquidity Facility Provider.

SECTION 4.17      Successor Remarketing Agents.

(A) Any corporation, association, partnership or firm which succeeds to the business of the Remarketing Agent as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, and meets the requirements of Section 4.16(B), shall thereby become vested with all the property, rights and powers of such Remarketing Agent hereunder.

(B) If the Remarketing Agent has given notice of resignation or has been notified of its impending removal in accordance with Section 4.16(B), then, subject to the provisions of Section 4.16(B), the Corporation shall appoint a successor Remarketing Agent.

(C) If the property or affairs of the Remarketing Agent shall be taken under control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Corporation shall not have appointed its successor, the City shall appoint a successor and, if no appointment is made within thirty (30) days, the Tender Agent shall apply to a court of competent jurisdiction for such appointment.

SECTION 4.18      The Tender Agent.

(A) The City hereby appoints the Bond Trustee as the initial Tender Agent for the Bonds, and it and each successor Tender Agent appointed in accordance with this Bond Indenture (which must also be the same Person as the Bond Trustee at any time that a Liquidity Facility is in effect but may perform the duties of Tender Agent at a different office) shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it as described herein by a written instrument of acceptance delivered to the City, the Bond Trustee, the Liquidity Facility Provider, and the Corporation under which each Tender Agent will agree, particularly:

(1) to hold all Bonds delivered to it for purchase hereunder in trust for the exclusive benefit of the respective Holders that shall have so delivered such Bonds until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Holders;

(2) to hold all moneys delivered to it hereunder for the purchase of Bonds in trust for the exclusive benefit of the Person that shall have so delivered such moneys until the Bonds purchased with such moneys shall have been delivered to it for the account of such Person and, thereafter, for the benefit of the Holders tendering such Bonds; and

(3) to keep such books and records as shall be consistent with corporate industry practice and to make such books and records available for inspection by the City, the Bond Trustee, the Remarketing Agent, the Liquidity Facility Provider and the Corporation.

SECTION 4.19      Qualifications of Tender Agent; Resignation; Removal. Any successor Tender Agent shall be a commercial bank, national banking association or trust company duly organized under the laws of the United States of America or any state or territory thereof having trust powers and a combined capital stock, surplus and undivided profits of at least \$[principal amount] and authorized by law to perform all the duties imposed upon it by this Bond Indenture. Subject to the second succeeding paragraph, any Tender Agent may resign at any time, and be discharged of the duties and obligations created by this Bond Indenture by giving at least sixty (60) days' notice to the City, the Liquidity Facility Provider, the Corporation and the Bond Trustee. Subject to the second succeeding paragraph, any Tender Agent may be removed at any time, by an instrument signed by the Corporation and filed with the Bond Trustee, the Remarketing Agent, the Liquidity Facility Provider and the City.

Upon the resignation or removal of the Tender Agent, the Tender Agent shall pay over, assign and deliver any moneys, Pledged Bonds and/or Bonds held by it in such capacity to its successor and shall transfer any documentation relating to the Liquidity Facility or the Pledged Bonds in its custody, if any, to its successor. In the event of the resignation of a Tender Agent, the Bond Trustee shall also tender its resignation in accordance with the provisions of this Bond Indenture.

No resignation or removal of the Tender Agent shall be effective until a successor Tender Agent, approved in writing by the Liquidity Facility Provider, has been appointed and accepted such duties.

SECTION 4.20      Successor Tender Agents.

(A) Any corporation, association, partnership or firm which succeeds to the business of the Tender Agent as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, and meets the requirements of Section 4.19, shall thereby become vested with all the property, rights and powers of such Tender Agent hereunder.

(B) If the Tender Agent has given notice of resignation or has been notified of its impending removal in accordance with Section 4.19, the Corporation shall appoint a successor Tender Agent acceptable to the Liquidity Facility Provider. The Bond Trustee shall provide notice of any successor Tender Agent to each Rating Agency then rating the Bonds.

(C) If the Tender Agent shall resign, be removed or be dissolved, or if the property or affairs of the Tender Agent shall be taken under control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Corporation shall not have appointed its successor, the City shall appoint a successor and, if no appointment is made within thirty (30) days, the Tender Agent shall apply to a court of competent jurisdiction for such appointment.

SECTION 4.21      Inadequate Funds for Tenders. If sufficient funds are not available for the purchase of all Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, the failure to pay the Purchase Price of all tendered Bonds when due and payable shall constitute an Event of Default under the conditions set forth in Section 7.01(C). All tendered Bonds shall be returned by the Tender Agent to their respective Holders and all the Bonds then Outstanding shall bear interest at the Maximum Interest Rate from the date of such failed purchase until all such Bonds are purchased as required in accordance with this Bond Indenture. Any moneys deposited with the Remarketing Agent or transferred to the Tender Agent with respect to such failed remarketing shall be returned to the party depositing those moneys. Thereafter, the Bond Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider, the Credit Facility Provider or the Corporation to effect a subsequent successful remarketing of any tendered Bonds.

ARTICLE V

REVENUES

SECTION 5.01      Pledge and Assignment; Revenue Fund.

(A) Subject only to the provisions of this Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged to secure, first, the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of this Bond Indenture and, second, the payment of all Reimbursement Obligations (as defined herein) and the performance and

observance of the reimbursement and other obligations of the Corporation under the Reimbursement Agreement, all of the Revenues and any other amounts held in any fund or account established pursuant to this Bond Indenture (other than the Bond Purchase Fund and the Rebate Fund). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Bonds, without any physical delivery thereof or further act.

(B) The City hereby transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds and for the benefit of the Credit Facility Provider and Liquidity Facility Provider with respect to the obligations of the Corporation under the Reimbursement Agreement, all of the Revenues and other assets pledged in subsection (A) of this Section and all of the right, title and interest of the City in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the City, (ii) any rights of the City to indemnification, (iii) the obligation of the Corporation to make deposits pursuant to the Tax Agreement and (iv) as otherwise expressly set forth in the Loan Agreement) and Obligation No. [x]. The Bond Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the City shall be deemed to be held, and to have been collected or received, by the City as the agent of the Bond Trustee and shall forthwith be paid by the City to the Bond Trustee. The Bond Trustee also shall be entitled to and shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the City and all of the obligations of the Corporation under the Loan Agreement and of the Obligated Group Members under Obligation No. [x]. Notwithstanding the foregoing, any Revenues transferred by the Corporation directly to a Credit Facility Provider or Liquidity Facility Provider pursuant to a Reimbursement Agreement shall not be required to be collected and received by the Bond Trustee and the Bond Trustee shall have no duty to collect and receive such Revenues.

(C) All Revenues shall be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Bond Trustee is hereby directed to establish, maintain and hold in trust, except as otherwise provided in Sections 5.06 and 5.07 and except (i) that all moneys received by the Bond Trustee and required by the Loan Agreement, or Obligation No. [x] to be deposited in the Bond Purchase Fund or the Redemption Fund, shall be promptly deposited in the Bond Purchase Fund and Redemption Fund, respectively, and (ii) all moneys received by the Bond Trustee from a Credit Facility shall be promptly deposited in the Credit Facility Fund. All Revenues deposited with the Bond Trustee shall be held, disbursed, allocated and applied by the Bond Trustee only as provided in this Bond Indenture. The Revenue Fund (and all accounts therein) shall be required to be an Eligible Account.

(D) If a Credit Facility Provider fails to honor a draw under a Credit Facility for the purpose of paying principal of, or interest on, the Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, the Bond Trustee shall immediately notify the Corporation and shall demand payment by the Corporation of such amounts. Such demand upon the Corporation by the Bond Trustee shall specify that such amounts shall be paid to the Bond Trustee by the Corporation in sufficient time to make required payments to Holders.

SECTION 5.02 Allocation of Revenues. On or before the dates specified below, the Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee is hereby directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: on or before each Interest Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest, provided, that if the interest rate on the Bonds is subject to conversion following such deposit and prior to the applicable Interest Payment Date, interest for the period during which the actual interest rate on the Bonds is not known shall be assumed to be equal to the Maximum Interest Rate;

Second: to the Principal Account, on or before Sinking Fund Installment Date, the amount of the Sinking Fund Installment becoming due and payable on such date, until the balance in said account is equal to said amount of such Sinking Fund Installment; and

Third: to the Rebate Fund, such amounts as are required to be deposited therein by this Bond Indenture (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Corporation as an overpayment of Loan Repayments.

SECTION 5.03 Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity from funds on deposit in the Principal Account or the Redemption Fund pursuant to this Bond Indenture) or to reimburse the Credit Facility Provider for drawings made under the Credit Facility for such purpose. In accordance with Section 5.08(B), at any time a Credit Facility is in effect with respect to the Bonds, interest on the Bonds shall be paid solely with Available Moneys unless a Credit Facility Provider Failure has occurred and is continuing. Interest on Eligible Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, shall be payable first from the Credit Facility Provider from drawings made under the Credit Facility for such purpose and second from the Corporation from the Loan Repayments.

SECTION 5.04 Application of Principal Account.

(A) All amounts in the Principal Account shall be used and withdrawn by the Bond Trustee solely to purchase or redeem or pay Sinking Fund Installments or pay at maturity the Bonds as provided herein or to reimburse the Credit Facility Provider for drawings made under the Credit Facility for such purpose. In accordance with Section 5.08(B), at any time a Credit Facility is in effect with respect to the Bonds, principal and Redemption Price of Eligible Bonds shall be paid solely with Available Moneys unless a Credit Facility Provider Failure has occurred

and is continuing. Principal and Sinking Fund Installments on Eligible Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, shall be payable first from the Credit Facility Provider from drawings made under the Credit Facility for such purpose and second from the Corporation from the Loan Repayments.

(B) On each Sinking Fund Installment Date established pursuant to this Section 5.04, the Bond Trustee shall apply the Sinking Fund Installment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds, upon the notice and in the manner provided in Article IV; provided that, at any time prior to giving such notice of such redemption, if no Liquidity Facility Bonds or Pledged Bonds are then Outstanding, the Bond Trustee may apply moneys in the Principal Account to the purchase of Bonds at public or private sale in the secondary market, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par amount of the Bonds so purchased. If, during the twelve-month period immediately preceding a Sinking Fund Installment payment date, the Bond Trustee has purchased Bonds with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds with the Bond Trustee (together with a Request of the Corporation, to apply such Bonds to the Sinking Fund Installment due on said date), or Bonds were at any time purchased or redeemed by the Bond Trustee from the Redemption Fund and allocable to said Sinking Fund Installment, such Bonds shall be applied, to the extent of the full principal amount thereof, to reduce said Sinking Fund Installment. All Bonds purchased or deposited pursuant to this subsection, if any, shall be cancelled by the Bond Trustee. Bonds purchased from the Principal Account, purchased or redeemed from the Redemption Fund, or deposited by the Corporation with the Bond Trustee shall be allocated first to the next succeeding Sinking Fund Installment, then as a credit against such future Sinking Fund Installments as the Corporation may specify in writing.

(C) Subject to the terms and conditions set forth in this Section and in Section 4.01(F), the Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Sinking Fund Installments in the following amounts and on the following Sinking Fund Installment Dates:

Sinking Fund Installment Date (September 1 <sup>st</sup> )	<u>Sinking Fund Installments</u>
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† Except for the Maturity Date, if any such September 1 is not an Interest Payment Date, the Sinking Fund Installment Date for such Sinking Fund Installment shall be the Interest Payment Date immediately succeeding such September 1.

\* Final maturity.

SECTION 5.05      Application of Redemption Fund.      The Bond Trustee shall establish, maintain and hold in trust a fund separate from any other fund established and maintained hereunder designated as the “Redemption Fund.” All amounts deposited in the Redemption Fund shall be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in Article IV or to reimburse the Credit Facility Provider with respect to drawings under the Credit Facility for such purpose, at the next succeeding date of redemption for which notice has not been given; provided that at any time prior to giving such notice of redemption, the Bond Trustee shall, upon direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the principal amount of such Bonds; and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation.

SECTION 5.06      Rebate Fund.

(A)      The Bond Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. Within the Rebate Fund, the Bond Trustee shall maintain such accounts as shall be specified by the Corporation in order to comply with the Tax Agreement. Subject to the transfer provisions provided in subsection (E) below, all money at any time deposited in the Rebate Fund shall be held by the Bond Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement), for payment to the federal government of the United States of America. None of the City, the Corporation or the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by Section 6.06 and by the Tax Agreement (which is incorporated herein by reference). The Bond Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Corporation including supplying all necessary information requested by the City or the Corporation to comply with the Tax Agreement, and shall have no liability or responsibility to enforce compliance by the Corporation or the City with the terms of the Tax Agreement. The City shall be deemed conclusively to have complied with the provisions of this Section if it takes such action as may reasonably be requested by the Corporation pursuant to the Tax Agreement.

(B)      Upon the Corporation’s written direction, an amount shall be deposited to the Rebate Fund by the Bond Trustee from deposits by the Corporation or from available investment

earnings on amounts held in the Revenue Fund, if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Requirement. Computations of the Rebate Requirement shall be furnished to the Bond Trustee by or on behalf of the Corporation in accordance with the Tax Agreement.

(C) The Bond Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created under this Bond Indenture or from other moneys provided to it by the Corporation.

(D) At the written direction of the Corporation (which directions shall specify that they comply with all restrictions set forth in the Tax Agreement), the Bond Trustee shall invest all amounts held in the Rebate Fund in Investment Securities, subject to the restrictions set forth in the Tax Agreement. Neither the City nor the Bond Trustee shall be liable for any consequences arising from such investment. Money shall not be transferred from the Rebate Fund except as provided in subsection (E) below.

(E) Upon receipt of the Corporation's written directions, the Bond Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Corporation so directs in writing, the Bond Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds, as so directed. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Bond Trustee, shall be withdrawn and remitted to the Corporation

(F) Notwithstanding any other provision of this Bond Indenture, including in particular Article X, the obligation to remit the Rebate Requirements to the United States and to comply with all other requirements of this Section, Section 6.06 and the Tax Agreement shall survive the defeasance or payment in full of the Bonds.

SECTION 5.07 Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to this Bond Indenture (other than the Bond Purchase Fund and the Credit Facility Fund) shall be invested by the Bond Trustee, upon written direction of the Corporation, solely in Investment Securities. Moneys in the Bond Purchase Fund shall remain uninvested. Investment Securities shall be purchased at such prices as the Corporation may direct. All Investment Securities shall be acquired subject to the limitations as to maturities hereinafter in this Section set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. No Request of the Corporation shall impose any duty on the Bond Trustee inconsistent with its fiduciary responsibilities. In the absence of any such written request of the Corporation directing the investment of uninvested moneys held by the Bond Trustee, the Bond Trustee shall invest any such moneys in Investment Securities described in clause (g) of the definition thereof.

Moneys in the Bond Purchase Fund and the Credit Facility Fund shall remain uninvested. Moneys in all other funds and accounts shall be invested in Investment Securities maturing or able to be called by the Corporation not later than the date on which it is estimated that such moneys will be required for the purposes specified in this Bond Indenture. Investment Securities purchased under a repurchase agreement or investment contract may be deemed to mature on the

date or dates on which the Bond Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to this Bond Indenture shall be deposited when received in the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under this Bond Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Investment Securities credited to such fund or account shall be valued by the Bond Trustee at market value and marked to market at least once each year on or before September 1.

The Bond Trustee may commingle any of the amounts on deposit in the funds or accounts established pursuant to this Bond Indenture (other than the Bond Purchase Fund, the Credit Facility Fund or the Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Bond Trustee hereunder shall be accounted for separately as required by this Bond Indenture. The Bond Trustee may act as principal or agent in the making or disposing of any investment. The Bond Trustee may sell or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of Section 8.03 with respect to the Bond Trustee, neither the City nor the Bond Trustee shall be liable or responsible for any loss resulting from any investment made in accordance with the provisions of this Section 5.07.

The City (and the Corporation by its execution of the Loan Agreement) acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or the Corporation the right to receive brokerage confirmations of security transactions as they occur, the City and the Corporation will not receive such confirmations to the extent permitted by law. The Bond Trustee will furnish the City and the Corporation periodic cash transaction statements as provided herein which include detail for all investment transactions made by the Bond Trustee hereunder.

#### SECTION 5.08      Credit Facility; Credit Facility Fund.

(A) The Bond Trustee shall hold and maintain each Credit Facility (if any) for the benefit of the Holders until such Credit Facility expires in accordance with its terms. Subject to the provisions of this Bond Indenture, the Bond Trustee shall enforce all terms, covenants and conditions of each Credit Facility, including payment when due of any draws on such Credit Facility, and the provisions relating to the payment of draws on, and reinstatement of amounts that may be drawn under, such Credit Facility, and will not consent to, agree to or permit any

amendment or modification of such Credit Facility which would materially adversely affect the rights or security of the Holders. If at any time during the term of a Credit Facility any successor Bond Trustee shall be appointed and qualified under this Bond Indenture, the resigning or removed Bond Trustee shall request that the Credit Facility Provider transfer such Credit Facility to the successor Bond Trustee. If the resigning or removed Bond Trustee fails to make this request, the successor Bond Trustee shall do so before accepting appointment. When a Credit Facility expires in accordance with its terms or is replaced by an Alternate Credit Facility, the Bond Trustee shall immediately surrender such Credit Facility to the Credit Facility Provider. All provisions herein relating to the rights of the Credit Facility Provider shall be of no force and effect if there is no Credit Facility or Alternate Credit Facility in effect and, if the Credit Facility Provider and the Liquidity Facility Provider are the same entity, there are no Liquidity Facility Bonds or Pledged Bonds then Outstanding and all amounts owing to the Credit Facility Provider and, if the Credit Facility Provider and the Liquidity Facility Provider are the same entity, the Liquidity Facility Provider hereunder and under the Reimbursement Agreement then in effect have been paid and the Reimbursement Agreement has been cancelled by the Credit Facility Provider.

(B) Notwithstanding any other provision of this Bond Indenture, at any time a Credit Facility is in effect with respect to the Bonds, the principal and Redemption Price of and interest on Eligible Bonds shall be paid solely with Available Moneys unless a Credit Facility Provider Failure has occurred and is continuing. While a Credit Facility is in effect with respect to any Bonds, the Bond Trustee shall, on the Business Day preceding each Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of such Bonds is due), draw on the Credit Facility in accordance with the terms thereof so as to receive thereunder by 2:30 p.m., New York City time, on said Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of such bonds is due), an amount, in immediately available funds, equal to the amount of interest and principal payable on such Bonds on such Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of such Bonds is due). If for any reason the Credit Facility Provider wrongfully dishonors such drawing or repudiates its obligations under the Credit Facility, the Bond Trustee shall immediately (and in no event later than thirty (30) minutes following such failure or repudiation) notify the Corporation and make a demand for payment in an amount equal to such attempted drawing. The proceeds of such draws shall be deposited in the Credit Facility Fund pursuant to Section 5.08(C) hereof and shall be applied to pay principal of and interest on the Bonds prior to the application of any other funds held by the Bond Trustee therefor. Amounts held in the Credit Facility Fund shall be held uninvested and separate and apart from all other funds and accounts. Notwithstanding the foregoing, if the Credit Facility Provider and the Liquidity Facility Provider are the same entity, the Bond Trustee shall not draw on the Credit Facility with respect to any payments due or made in connection with Liquidity Facility Bonds or Pledged Bonds. In no event shall the Bond Trustee draw on the Credit Facility with respect to any payments made in connection with Bonds that are not Eligible Bonds.

(C) The Bond Trustee shall establish, maintain and hold in trust in the Bond Trustee's name for the benefit of Holders a special fund designated as the "Credit Facility Fund." The Bond Trustee shall deposit in the Credit Facility Fund all moneys derived from a drawing under a Credit Facility for the purpose of paying the principal of and interest on Bonds subject to such Credit Facility when due. Moneys held in the Credit Facility Fund shall be held uninvested and

shall not be commingled with any other moneys. Moneys in the Credit Facility Fund shall be withdrawn by the Bond Trustee from the Credit Facility Fund and applied to the payment of the principal of and interest on Bonds subject to such Credit Facility on each Sinking Fund Installment Date for such Bonds (or other date upon which principal of such Bonds is due) and Interest Payment Date for such Bonds, provided that such moneys shall not be used to pay the principal of or interest on Bonds which are not Eligible Bonds. The Credit Facility Fund shall be required to be an Eligible Account.

## ARTICLE VI

### PARTICULAR COVENANTS

SECTION 6.01 Punctual Payment. The City shall punctually cause to be paid the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Bond Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in this Bond Indenture.

SECTION 6.02 Extension of Payment of Bonds. Except as set forth in Section 9.01, the City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Bond Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the City to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

SECTION 6.03 Against Encumbrances. The City shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Bond Indenture while any of the Bonds are Outstanding, except the pledges and assignments created by this Bond Indenture, and will assist the Bond Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation, the City expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Law, and reserves the right to issue other obligations for such purposes.

SECTION 6.04 Power to Issue Bonds and Make Pledge and Assignment. The City is duly authorized pursuant to law to issue the Bonds and to enter into this Bond Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under this Bond Indenture in the manner and to the extent provided in this Bond Indenture. The Bonds and the provisions of this Bond Indenture are and will be the legal, valid and binding limited obligations of the City in accordance with their terms, and the City and Bond Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge

and assignment of Revenues and other assets and all the rights of the Bondholders under this Bond Indenture against all claims and demands of all Persons whomsoever.

SECTION 6.05      Accounting Records and Financial Statements.

(A) The Bond Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with corporate trust accounting standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Bonds, the Revenues, the Loan Agreement and all funds and accounts established pursuant to this Bond Indenture. Such books of record and account shall be available for inspection by the City, the Liquidity Facility Provider, the Credit Facility Provider, the Corporation and any Bondholder or any such Person's agent or representative duly authorized in writing, during the Bond Trustee's business hours on days on which the Bond Trustee is open for business.

(B) The Bond Trustee shall file and furnish to the City (if requested in writing) and to each Bondholder who shall have filed such Bondholder's name and address with the Bond Trustee for such purpose within thirty days after each March 1 and September 1 (commencing March 1, 2011), a complete financial statement (which need not be audited) covering receipts, disbursements, allocation and application of Revenues and any other moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to this Bond Indenture for the prior six month period. The Bond Trustee shall also furnish a copy of any such monthly statement to the Corporation.

(C) The Bond Trustee shall furnish to any Bondholder (upon such Bondholder's request) a statement of the aggregate principal amount of Bonds Outstanding and the redemption history of the Bonds (i.e., the dates, amounts, sources of funds, and distribution of calls to the maturities of any previously occurring redemptions).

SECTION 6.06      Tax Covenant. The City shall at all times do and perform all acts and things permitted by law and this Bond Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the City agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

SECTION 6.07      Enforcement of Loan Agreement and Obligation No. [x]. The Bond Trustee shall promptly collect all amounts due from the Corporation pursuant to the Loan Agreement and from the Obligated Group pursuant to Obligation No. [x], shall perform all duties imposed upon it pursuant to the Loan Agreement and shall enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all of the rights of the City and all of the obligations of the Corporation.

SECTION 6.08      Amendment of Loan Agreement and Master Indenture.

(A) Except as provided in Section 6.08(B), the City shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment,

modification or termination, unless the written consent of (i) the Credit Facility Provider or (ii) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider, the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the City or the Bond Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

(B) Notwithstanding the provisions of Section 6.08(A), the terms of the Loan Agreement may also be modified or amended from time to time and at any time by the City without the necessity of obtaining the consent of any Bondholders but with the written consent of the Credit Facility Provider, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the City or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the City may deem necessary or desirable and not inconsistent with the Loan Agreement or this Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility;

(4) to evidence or give effect to, or to conform to the terms and provisions of, any insurance policy, letter of credit or other credit enhancement for the Bonds;

(5) to maintain the exclusion from gross income of interest payable with respect to the Bonds; and

(6) to make any modification or amendment to the Loan Agreement which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to Section 4.08.

(C) In executing or consenting to any amendment to the Loan Agreement permitted by this Section, the City, and the Bond Trustee shall receive, and shall be fully protected in relying upon, an Opinion of Bond Counsel addressed to the City and the Bond Trustee stating that the execution of such amendment is authorized or permitted by the Loan Agreement and this Bond Indenture and the applicable law, will upon the execution and delivery thereof be valid and

binding obligations of the parties thereto, and that the execution and delivery thereof will not adversely affect the exclusion from federal gross income of interest on the Bonds.

(D) The Bond Trustee, as holder of Obligation No. [x], shall not consent to any amendment, modification or termination of any of the terms of the Master Indenture unless (1) in the opinion of the Bond Trustee (which may be based on an Opinion of Counsel upon which the Bond Trustee may rely) such amendment, modification or termination will not materially adversely affect the interests of the Bondholders, (2) such amendment, modification or termination will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to Section 4.08, or (3) the Bond Trustee first obtains the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination, provided that no such amendment, modification or termination shall reduce the amount payable by the Corporation to the Bond Trustee pursuant to Obligation No. [x], or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding. Notwithstanding the foregoing, the Bond Trustee, as holder of Obligation No. [x] shall, upon Request of the Corporation, consent to the amendment and restatement of the master indenture, dated as of June 1, 2001, between the Corporation and the Master Trustee in the form attached hereto as Exhibit B.

SECTION 6.09 Waiver of Laws. The City shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Bond Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the City to the extent permitted by law.

SECTION 6.10 Further Assurances. To the extent not inconsistent with the other provisions of this Bond Indenture, the City shall make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Bond Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in this Bond Indenture.

SECTION 6.11 Continuing Disclosure. Pursuant to Section 5.10 of the Loan Agreement, the Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and the City shall have no liability to the Holders of the Bonds or any other Person with respect to S.E.C. Rule 15c2-12. The Bond Trustee hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and Section 5.10 of the Loan Agreement. Notwithstanding any other provision of this Indenture, failure of the Corporation or the Bond Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Bond Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds but only to the extent funds in an amount satisfactory to the Bond Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Bond Trustee whatsoever, including, without limitation, fees and expenses of its attorneys, shall), or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate to, including seeking mandate or specific

performance by court order, cause the Corporation to comply with its obligations under Section 5.10 of the Loan Agreement or to cause the Bond Trustee to comply with its Obligations under this Section 6.12. For purposes of this Section, "Beneficial Owner" means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

## ARTICLE VII

### EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 7.01 Events of Default. The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) failure to pay the Purchase Price of any Bond tendered or subject to mandatory tender pursuant to Article IV; provided that if a Liquidity Facility is then in effect and a Liquidity Facility Provider Failure has occurred in connection with a drawing or other advance under the related Liquidity Facility for the purpose of paying the Purchase Price of a Bond, an Event of Default shall exist under this subsection (C) with respect to the failure to pay such Purchase Price only if such Purchase Price continues to be unpaid for a period of 365 days following the Purchase Date;

(D) default in any material respect by the City in the observance of any of the other covenants, agreements or conditions on its part in this Bond Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City and the Corporation by the Bond Trustee, or to the City, the Corporation and the Bond Trustee by the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

(E) a Loan Default Event;

(F) receipt by the Bond Trustee of notice from the Credit Facility Provider or the Liquidity Facility Provider that an event of default (as defined in the Reimbursement Agreement) has occurred under the Reimbursement Agreement and which notice directs the Bond Trustee to accelerate the Bonds or directs a Mandatory Credit/Liquidity Tender; or

(G) receipt by the Bond Trustee of notice from the Credit Facility Provider that the amount of an interest drawing under the Credit Facility will not be reinstated as provided in the Credit Facility.

Upon actual knowledge of the existence of any Event of Default, the Bond Trustee shall notify the Corporation, the City and the Master Trustee in writing as soon as practicable; provided, however, that the Bond Trustee need not provide notice of any Loan Default Event if the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Bond Trustee, the City and the Master Trustee. Additionally, the Bond Trustee shall immediately notify the Credit Facility Provider if at any time there are insufficient moneys to make any payments of principal of and/or interest on the Bonds and immediately upon the occurrence of any Event of Default hereunder.

SECTION 7.02 Acceleration of Maturities. Whenever any Event of Default referred to in Section 7.01 shall have happened and be continuing, the Bond Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in Section 7.01(A) and (B) of this Bond Indenture, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Bond Indenture to the contrary notwithstanding; provided, however, that if an Event of Default described in Section 7.01(A) or (B) has occurred as a result of a Credit Facility Provider Failure, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Bond Indenture to the contrary notwithstanding. The Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, also notify the City and the Master Trustee of such Event of Default, make a demand for payment under Obligation No. [x] and request the Master Trustee in writing to give notice pursuant to Section 4.02 of the Master Indenture to the Obligated Group Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. In addition, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. [x].

(B) In the case of an Event of Default described in Section 7.01(C) of this Bond Indenture, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Bond Indenture to the contrary notwithstanding; provided, however, that if the Event of Default described in Section 7.01(C) has occurred as a result of a Liquidity Facility Provider Failure, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the

same shall become and shall be immediately due and payable, anything in this Bond Indenture to the contrary notwithstanding. The Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, also notify the City and the Master Trustee of such Event of Default, make a demand for payment under Obligation No. [x] and request the Master Trustee in writing to give notice pursuant to Section 4.02 of the Master Indenture to the Obligated Group Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. In addition, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. [x]. Notwithstanding the foregoing provisions of this Section 7.02(B), the right of the Credit Facility Provider to consent to or direct the actions of the Bond Trustee shall only be applicable if the Credit Facility Provider is also the Liquidity Facility Provider.

(C) In the case of an Event of Default described in Section 7.01(D) or (E) of this Bond Indenture, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, notify the City and the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. [x] and request the Master Trustee in writing to give notice pursuant to Section 4.02 of the Master Indenture to the Obligated Group Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Thereupon, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Bond Indenture to the contrary notwithstanding. In addition, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. [x].

(D) In the case of an Event of Default described in Section 7.01(E) of this Bond Indenture, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, take whatever action the City would be entitled to take, and shall take whatever action the City would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

(E) In the case of an Event of Default described in Section 7.01(F) or (G) of this Bond Indenture, and if the Credit Facility Provider has directed the Bond Trustee to effect a Mandatory Credit/Liquidity Tender, then after the completion of such directed Mandatory Tender, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Bond Indenture to the contrary notwithstanding. The Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, also notify the City and the Master Trustee of such Event of Default, make a demand for payment under Obligation No. [x] and request the Master Trustee in writing to give notice pursuant to Section 4.02 of the Master Indenture to the Obligated Group Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. In

addition, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. [x].

Upon a declaration of acceleration pursuant to this Section 7.02, interest on Bonds (other than Liquidity Facility Bonds and Pledged Bonds) shall cease to accrue and the Bond Trustee shall immediately draw on the Credit Facility in accordance with its terms, as provided in Section 5.08, in an amount sufficient to pay principal and interest on Eligible Bonds and shall immediately apply the proceeds of such draw to the payment of such Bonds.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal (including any Sinking Fund Installments) or redemption price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and if the Bond Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. [x] has been annulled pursuant to the Master Indenture, and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, with the written consent of the Credit Facility Provider and receipt by the Bond Trustee of written confirmation that the Credit Facility and Liquidity Facility have been reinstated to the Required Stated Amount (calculated without regard to Liquidity Facility Bonds or Pledged Bonds), and in the case of an Event of Default pursuant to 7.01(F) the Bond Trustee has been notified by the Credit Facility Provider that notice previously delivered by the Credit Facility Provider requiring acceleration of the Bonds has been rescinded, the Bond Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration of acceleration of the Bonds and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Nothing contained herein, however, shall require the Bond Trustee to exercise any remedies in connection with an Event of Default (except an Event of Default specified in Section 7.01(A), (B) or (C)) unless the Bond Trustee shall have actual knowledge or shall have received written notice of such Event of Default.

SECTION 7.03        Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Bond Trustee under any of the provisions of this Bond Indenture (subject to Section 11.10 and other than moneys required to be deposited in the Rebate Fund, the Bond Purchase Fund or the Credit Facility Fund) shall be applied by the Bond Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of

the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Bond Indenture; and

(2) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Bond Indenture (including Section 6.02), as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference and *pari passu* therewith to the payment of the Credit Facility Provider to repay drawings under the Letter of Credit for the payment of interest on the Bonds;

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Sinking Fund Installments) or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference and *pari passu* therewith to the payment to the Credit Facility Provider to repay drawings under the Letter of Credit for the payment of principal on the Bonds; and

Third: To the extent not included in clauses "First" or "Second" above, to the payment to the Credit Facility Provider (if any), any amounts payable under the Reimbursement Agreement.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference, and then to the payment of the Credit Facility Provider (if any) of any amounts payable under the Reimbursement Agreement.

SECTION 7.04 Bond Trustee to Represent Bondholders. The Bond Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as Bond Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law and applicable provisions of any other law. Subject to the rights of the Credit Facility Provider with respect to the direction and enforcement of remedies related to the Bonds as described herein, upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee or in such Holders under this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law or any other law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under this Bond Indenture, pending such proceedings. If more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights of action under this Bond Indenture or the Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee shall be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Bond Indenture (including Section 6.02).

SECTION 7.05 Credit Facility Provider's (if any) and Bondholders' Direction of Proceedings. Anything in this Bond Indenture to the contrary notwithstanding, the Credit Facility Provider or, if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility in effect and no obligations are payable to the Credit Facility Provider under the Reimbursement Agreement, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, and upon indemnifying the Bond Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Bond Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Bond Indenture, and further provided that, if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility in effect and no obligations are payable to the Credit Facility Provider under the Reimbursement Agreement, the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction. If a Credit Facility or Liquidity Facility is in effect and the Provider thereof has failed to honor its payment obligations under the Credit Facility or Liquidity Facility, the Holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds enhanced by such Credit

Facility or Liquidity Facility, as applicable (excluding Bonds owned by any Corporate Bonds and Liquidity Facility Provider Bonds), shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Credit Facility or Liquidity Facility, as applicable, or any other proceedings thereunder; provided that such direction shall be in accordance with applicable law.

SECTION 7.06 Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Bond Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee and (5) a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility in effect and no obligations are payable to the Credit Facility Provider under the Reimbursement Agreement.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holder's or Holders' action to affect, disturb or prejudice the security of this Bond Indenture or the rights of any other Holders of Bonds, or to enforce any right under this Bond Indenture, the Loan Agreement, Obligation No. [x], the Law or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of this Bond Indenture (including Section 6.02).

SECTION 7.07 Absolute Obligation of City. Nothing in Section 7.06 or in any other provision of this Bond Indenture, or in the Bonds, contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, and not otherwise, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.08 Termination of Proceedings. In case any proceedings taken by the Bond Trustee, the Credit Facility Provider or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or the Bondholders, then in every such case the City, the Bond Trustee, the Liquidity Facility Provider, the Credit Facility Provider and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the City, the Bond Trustee, the Credit Facility Provider, the Liquidity Facility Provider and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.09 Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Bond Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.10 No Waiver of Default. No delay or omission of the Bond Trustee, the Credit Facility Provider or any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Bond Indenture to the Bond Trustee, the Credit Facility Provider or the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

## ARTICLE VIII

### THE BOND TRUSTEE

#### SECTION 8.01 Duties, Immunities and Liabilities of Bond Trustee.

(A) The Bond Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Bond Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into this Bond Indenture against the Bond Trustee. The Bond Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Bond Indenture, and use the same degree of care and skill in their exercise, as a prudent person that customarily engages in activities essentially similar to those provided for the Bond Trustee hereunder would exercise or use under the circumstances in the conduct of such person's own affairs.

(B) The City may, and upon written request of the Corporation shall, remove the Bond Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Bond Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Bond Trustee shall cease to be eligible in accordance with subsection (E) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Bond Trustee or its property shall be appointed, or any public officer shall take

control or charge of the Bond Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Bond Trustee, and thereupon shall appoint, with the written consent of the Corporation and the Credit Facility Provider, a successor Bond Trustee by an instrument in writing. The City, the Corporation or any Holder may at any time petition any court of competent jurisdiction for the removal for cause of the Bond Trustee.

(C) The Bond Trustee may at any time resign by giving written notice of such resignation to the City, the Credit Facility Provider, the Liquidity Facility Provider, the Corporation and the Remarketing Agent (if any) and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Bond Trustee. Upon receiving such notice of resignation, the City shall promptly appoint, with the written consent of the Corporation and the Credit Facility Provider, a successor Bond Trustee by an instrument in writing. The Bond Trustee shall not be relieved of its duties until such successor Bond Trustee has accepted appointment.

(D) Any removal or resignation of the Bond Trustee and appointment of a successor Bond Trustee shall only become effective upon written approval of such successor Bond Trustee and acceptance of appointment by the successor Bond Trustee. If no successor Bond Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Bond Trustee or any Bondholder (on behalf of such Bondholder and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Bond Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Bond Trustee. Any successor Bond Trustee appointed under this Bond Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Bond Trustee a written acceptance thereof, and thereupon such successor Bond Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Bond Trustee, with like effect as if originally named Bond Trustee herein; but, nevertheless at the request of the City or the request of the successor Bond Trustee, such predecessor Bond Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Bond Trustee all the right, title and interest of such predecessor Bond Trustee in and to any property held by it under this Bond Indenture and shall pay over, transfer, assign and deliver to the successor Bond Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Bond Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Bond Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Bond Trustee as provided in this subsection, the successor Bond Trustee shall mail a notice of the succession of such Bond Trustee to the trusts hereunder to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee.

(E) The Bond Trustee and any successor Bond Trustee shall be a national banking association, trust company or bank having trust powers and a combined capital and surplus of at least fifty million dollars (\$50,00,000) (or providing a guarantee of the full and prompt

performance by the Bond Trustee of its obligations under this Bond Indenture by a guarantor with such combined capital and surplus), and subject to supervision or examination by federal or state authority. If such national banking association, bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such national banking association, bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Bond Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Bond Trustee shall resign immediately in the manner and with the effect specified in this Section.

SECTION 8.02      Name Change, Merger or Consolidation.

(A) The Bond Trustee shall provide written notice to the Corporation at least thirty (30) days prior to any name change, merger or consolidation of the Bond Trustee.

(B) Any company into which the Bond Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Bond Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (E) of Section 8.01, shall be the successor to such Bond Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.03      Liability of Bond Trustee.

(A) The recitals of facts herein and in the Bonds contained shall be taken as statements of the City, and the Bond Trustee assumes no responsibility for the correctness of the same, makes no representations as to the validity or sufficiency of this Bond Indenture, of the Loan Agreement, of the Remarketing Agreement, of Obligation No. [x], or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it except for any recital or representation specifically relating to the Bond Trustee or its powers. The Bond Trustee assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed in connection with the issuance of the Bonds. The Bond Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Bond Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Bond Trustee may become the owner of Bonds with the same rights it would have if it were not Bond Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

(B) The Bond Trustee shall not be liable for any error of judgment made in good faith by any of its officers, employees, agents or representatives, unless it shall be proved that the Bond Trustee was negligent in ascertaining the pertinent facts.

(C) If a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility in effect and no obligations are payable to the Credit Facility Provider under the Reimbursement Agreement, the Bond Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or exercising any trust or power conferred upon the Bond Trustee under this Bond Indenture.

(D) The Bond Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Bond Indenture (except for nondiscretionary actions, including without limitation drawing or otherwise accessing funds from the Credit Facility and the Liquidity Facility when required under this Bond Indenture, effecting mandatory redemption, tender or acceleration of the Bonds as provided herein, and making payments of principal, interest or Purchase Price of tendered Bonds to the Holders thereof) at the request, order or direction of any of the Bondholders pursuant to the provisions of this Bond Indenture unless such Bondholders shall have offered to the Bond Trustee security or indemnity, satisfactory to the Bond Trustee, against the costs, expenses and liabilities which may be incurred therein or thereby. The Bond Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or redemption premium, if any, with respect to the Bonds from its own funds; but rather the Bond Trustee's obligations shall be limited to the performance of its duties hereunder.

(E) Except with respect to Events of Default specified in Section 7.01(A), (B) or (C), the Bond Trustee shall not be deemed to have knowledge of any Event of Default unless and until an officer at the Principal Office responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Bond Trustee shall have received written notice thereof at the Principal Office. The Bond Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Bond Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(F) The Bond Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys-in-fact, agents, receivers, officers, employees or representatives, and shall not be answerable for the negligence or misconduct of any such attorney-in-fact, agent, receiver, officer, employee or representative selected by it with due care. The Bond Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty hereunder, but the Bond Trustee shall not be answerable for the professional malpractice of any counsel or other professional (including without limiting the generality of the foregoing, attorneys-in-law or certified public accountants) in connection with the rendering of such counsel's or other professionals' advice in accordance

with the terms of this Bond Indenture, if such counsel or other professional was selected by the Bond Trustee with due care.

(G) The Bond Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys that shall be released or withdrawn in accordance with the provisions hereof.

(H) Whether or not therein expressly so provided, every provision of this Bond Indenture, the Loan Agreement, Obligation No. [x] or related documents relating to the conduct or affecting the liability of or affording protection to the Bond Trustee shall be subject to the provisions of this Article.

(I) The Bond Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Bond Indenture at the request, order or direction of any of the Holders pursuant to the provisions of this Bond Indenture unless such Holders shall have offered to the Bond Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(J) The Bond Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Bonds. All indemnifications and releases from liability granted herein to the Bond Trustee shall extend to the directors, officers, employees and agents of the Bond Trustee.

(K) The Bond Trustee agrees to accept and act upon instructions or directions pursuant to this Bond Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Bond Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the City and Corporation elect to give the Bond Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Bond Trustee in its discretion elects to act upon such instructions, the Bond Trustee's understanding of such instructions shall be deemed controlling. The Bond Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bond Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The City and Corporation agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Bond Trustee, including without limitation, the risk of the Bond Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(L) The Bond Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Bond Trustee and could not have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

(M) The permissive right of the Bond Trustee to do things enumerated in this Bond Indenture shall not be construed as a duty and the Bond Trustee shall not be answerable with respect to such permissive items for other than its negligence or willful misconduct.

SECTION 8.04 Right of Bond Trustee to Rely on Documents. The Bond Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Bond Trustee may consult with counsel, who may be counsel of or to the City and/or counsel selected by the Bond Trustee, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by this Bond Indenture the Bond Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the City, and such Certificate shall be full warrant to the Bond Trustee for any action taken or suffered in good faith under the provisions of this Bond Indenture in reliance upon such Certificate, but in its discretion the Bond Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

SECTION 8.05 Preservation and Inspection of Documents. All documents received by the Bond Trustee under the provisions of this Bond Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the City, the Corporation, the Liquidity Facility Provider, the Credit Facility Provider and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

SECTION 8.06 Compensation and Indemnification. The Corporation shall pay to the Bond Trustee from time to time reasonable compensation for all services rendered under this Bond Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Bond Indenture.

No provision of this Bond Indenture shall require the Bond Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers, if it has not received the agreed compensation for such services or, in cases where the Bond Trustee has a right to reimbursement or indemnification for such performance or exercise, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

## ARTICLE IX

## MODIFICATION OR AMENDMENT OF THE BOND INDENTURE

SECTION 9.01 Amendments Permitted.

(A) This Bond Indenture and the rights and obligations of the City and of the Holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the City and the Bond Trustee may enter into when the written consent of (1) Credit Facility Provider or (2) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility then in effect and no obligations are payable to the Credit Facility Provider under the Reimbursement Agreement, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding and the Corporation shall have been filed with the Bond Trustee. No such modification or amendment shall (x) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof or change the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (y) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Bond Indenture prior to or on a parity with the lien created by this Bond Indenture, or deprive the Holders of the Bonds of the lien created by this Bond Indenture on such Revenues and other assets (except as expressly provided in this Bond Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Bond Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the City and the Bond Trustee of any Supplemental Bond Indenture pursuant to this subsection (A), the Bond Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Bond Indenture to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

(B) This Bond Indenture and the rights and obligations of the City, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the City and the Bond Trustee may enter into with the consent of the Corporation and the Credit Facility Provider, but without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City contained in this Bond Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the City, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Bond Indenture, or in regard to matters or questions arising under this Bond Indenture, as the City or the Bond Trustee may deem necessary or desirable and not inconsistent with this Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement this Bond Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(4) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility;

(5) to evidence or give effect to, or to conform to the terms and provisions of, any letter of credit or other credit enhancement for the Bonds;

(6) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(7) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or

(8) to make any modification or amendment to the Bond Indenture which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to Section 4.08.

(C) The Bond Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Bond Indenture authorized by subsections (A) or (B) of this Section which materially adversely affects the Bond Trustee's own rights, duties or immunities under this Bond Indenture or otherwise.

(D) In executing, or accepting the additional trusts created by, any Supplemental Bond Indenture permitted by this Article or the modification thereby of the trusts created by this Bond Indenture, the Bond Trustee and the City shall receive, and shall be fully protected in relying upon, a Favorable Opinion of Bond Counsel addressed and delivered to the Bond Trustee and the City stating that the execution of such Supplemental Bond Indenture is permitted by and in compliance with this Bond Indenture, and that the execution and delivery thereof will not adversely affect the exclusion from federal gross income of interest on the Bonds.

SECTION 9.02 Effect of Supplemental Bond Indenture. Upon the execution of any Supplemental Bond Indenture pursuant to this Article, this Bond Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Bond Indenture of the City, the Bond Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such

Supplemental Bond Indenture shall be deemed to be part of the terms and conditions of this Bond Indenture for any and all purposes.

SECTION 9.03 Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Bond Indenture pursuant to this Article may, and if the City so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Bond Trustee as to any modification or amendment provided for in such Supplemental Bond Indenture, and, in that case, upon demand of the Holder of any Bond Outstanding at the time of such execution and presentation of such Holder's Bond for the purpose at the Principal Office of the Bond Trustee or at such additional offices as the Bond Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Bond Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the City, to any modification or amendment contained in such Supplemental Bond Indenture, shall be prepared by the Bond Trustee at the expense of the Corporation, executed by the City and authenticated by the Bond Trustee, and upon demand of the Holders of any Bonds then Outstanding shall be exchanged at the Principal Office of the Bond Trustee, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same maturity.

SECTION 9.04 Amendment of Particular Bonds. The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notation thereof is made on such Bonds.

## ARTICLE X

### DEFEASANCE

SECTION 10.01 Discharge of Indenture. The Bonds may be paid by the City or the Bond Trustee on behalf of the City in any of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding (with Available Moneys at any time at which there is a Credit Facility in effect), as and when the same become due and payable;

(B) by depositing with the Bond Trustee, in trust, at or before maturity, Available Moneys or securities (purchased with Available Moneys at any time at which there is a Credit Facility in effect) in the necessary amount (as provided in Section 10.03) to pay when due or redeem all Bonds then Outstanding; or

(C) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

If the City shall also pay or cause to be paid all other sums payable hereunder by the City and the Corporation shall have paid all Administrative Fees and Expenses payable to the City pursuant to the Loan Agreement and the Corporation shall have provided for full payment of all Reimbursement Obligations, then and in that case at the election of the City (evidenced by a Certificate of the City filed with the Bond Trustee signifying the intention of the City to discharge all such indebtedness and this Bond Indenture), and notwithstanding that any Bonds

shall not have been surrendered for payment, this Bond Indenture and the pledge of Revenues and other assets made under this Bond Indenture and all covenants, agreements and other obligations of the City under this Bond Indenture (except as otherwise provided in Section 5.06) shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the City, the Bond Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary to evidence such discharge and satisfaction, and the Bond Trustee shall pay over, transfer, assign or deliver to (i) to the Credit Facility Provider and/or the Liquidity Facility Provider, to the extent any amounts are owed to the Credit Facility Provider and/or the Liquidity Facility Provider pursuant to the applicable Reimbursement Agreement and (ii) thereafter, the Corporation, all moneys or securities or other property held by it pursuant to this Bond Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund shall be subject to the provisions of Section 5.06.

SECTION 10.02 Discharge of Liability on Bonds. Upon the deposit with the Bond Trustee, in trust, at or before maturity, of moneys (which shall be Available Moneys at any time at which there is a Credit Facility in effect) or securities (purchased with Available Moneys at any time at which a Credit Facility is in effect) in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the City, and the City shall remain liable for such payments, but only out of such money or securities deposited with the Bond Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

SECTION 10.03 Deposit of Money or Securities with Bond Trustee. Whenever in this Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to this Bond Indenture (other than the Rebate Fund) and shall be:

(A) lawful money of the United States of America (which shall be Available Moneys at any time at which there is a Credit Facility in effect) in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the Maximum Interest Rate for periods for which the actual interest rate on the Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations (not callable by the City thereof prior to maturity and purchased with Available Moneys, and maturing no later than the earlier of (x) the first day upon which such Bonds may be tendered or (y) the first day upon which such Bonds may be redeemed, at any time at which there is a Credit Facility in effect), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient, in the opinion of an independent certified public accountant or firm of independent certified public accountants, to pay the principal or Redemption Price of and all unpaid interest to maturity (based on an assumed interest rate equal to the Maximum Interest Rate for periods for which the actual interest rate on the Bonds cannot be determined), or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice;

provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of this Bond Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds, and provided further, if the Bonds are then rated by S&P and/or Moody's, the Bond Trustee shall have received written confirmation from S&P and/or Moody's, as applicable, that the rating on the Bonds will not be reduced or withdrawn solely as a result of the defeasance.

SECTION 10.04 Payment of Bonds After Discharge of Bond Indenture. Notwithstanding any provisions of this Bond Indenture, any moneys held by the Bond Trustee in trust for the payment of the principal of or premium, if any, or interest on, any Bonds and remaining unclaimed for two years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after such principal or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Bond Indenture), if such moneys were so held at such date, or two years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Corporation free from the trusts created by this Bond Indenture upon receipt of an indemnification agreement acceptable to the City and the Bond Trustee indemnifying the City and the Bond Trustee with respect to claims of Holders of Bonds which have not yet been paid and containing the agreement of the Corporation to remain liable for the amount so repaid to the Corporation, and all liability of the City and the Bond Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Bond Trustee may (at the cost of the Corporation) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Bond Trustee, a notice, in such form as may be deemed appropriate by the Bond Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof.

## ARTICLE XI

## MISCELLANEOUS

SECTION 11.01 Limited Liability of City. Notwithstanding anything in this Bond Indenture or in the Bonds contained, the City shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under this Bond Indenture for any of the purposes in this Bond Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of this Bond Indenture.

SECTION 11.02 Successor is Deemed Included in All References to Predecessor. Whenever in this Bond Indenture either the City or the Bond Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Bond Indenture contained by or on behalf of the City or the Bond Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.03 Limitation of Rights to Parties, City, Bond Trustee the Corporation, the Liquidity Facility Provider, the Credit Facility Provider and Bondholders. Nothing in this Bond Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the City, the Credit Facility Provider, the Bond Trustee, the Corporation, the Liquidity Facility Provider, and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Bond Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the City, the Bond Trustee, the Corporation, the Liquidity Facility Provider, the Credit Facility Provider and the Holders of the Bonds.

SECTION 11.04 Waiver of Notice. Whenever in this Bond Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.05 Destruction of Bonds. Whenever in this Bond Indenture provision is made for the cancellation by the Bond Trustee and the delivery to the City of any Bonds, the Bond Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds and deliver a certificate of such destruction to the City.

SECTION 11.06 Severability of Invalid Provisions. If any one or more of the provisions contained in this Bond Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Bond Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Bond Indenture, and this Bond Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

SECTION 11.07 Notices. Subject to Section 11.04, any notice or request to or demand upon the Bond Trustee shall be in writing and may be served or presented, and such demand may be made, at the Principal Office of the Bond Trustee or at such other address as may have been filed in writing by the Bond Trustee with the City. Any notice to or demand upon the City, the Corporation, Credit Facility Provider, the Initial Liquidity Facility Provider and the Tender Agent shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by confirmed facsimile transmission or by being deposited, postage prepaid, in a post office letter box, addressed as follows:

- (1) to the City at:

City of Torrance  
 3031 Torrance Boulevard  
 Torrance, California 90503  
 Attention: City Manager  
 Telephone:  
 Fax:

- (2) to the Corporation at:

Torrance Memorial Medical Center  
 3330 W. Lomita Blvd,  
 Torrance California 90505  
 Attention: Chief Financial Officer  
 Telephone:  
 Fax:

- (3) to the Bond Trustee and Tender Agent at:

- (4) to the Bank at:

Citibank, N.A.  
 390 Greenwich Street, 2nd Floor  
 New York, NY 10013

- (5) to S&P at:

Standard & Poor's  
 55 Water Street, 38th Floor  
 New York, NY 10041  
 Attention: Public Finance - Structured  
 e-mail: pubfin\_structured@sandp.com

(6) to Moody's at:

Moody's Investors Service  
 Municipal Structured Products Surveillance Group  
 7 World Trade Center at 250 Greenwich Street  
 New York, NY 10007  
 Fax 212-553-1066  
[MSPGSurveillance@moodys.com](mailto:MSPGSurveillance@moodys.com)

(or in each case at such other or additional addresses as may have been filed in writing with the Bond Trustee).

SECTION 11.08 Notices to be Provided to Rating Agencies. The Bond Trustee (at the expense of the Corporation) shall give notice of the following events to each Rating Agency then rating the Bonds: (1) expiration, termination, substitution, extension or amendment of a Credit Facility and/or Liquidity Facility then in effect; (2) redemption of the Bonds other than mandatory sinking fund redemption; (3) acceleration of the Bonds; (4) any Conversion; (5) amendments to the Bond Indenture or the Loan Agreement; (6) removal or substitution of the Bond Trustee, Tender Agent or Remarketing Agent; (7) any defeasance of the Bonds; (8) the addition of any guarantors under the Loan Agreement; and (9) any mandatory tender of the Bonds. The Bond Trustee (at the expense of the Corporation) shall also provide to each Rating Agency then rating the Bonds any other information reasonably requested in writing by such Rating Agency to maintain the rating on the Bonds.

SECTION 11.09 Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Bond Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of this Bond Indenture and shall be conclusive in favor of the Bond Trustee and of the City if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to such notary public or officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the bond registration books held by the Bond Trustee.

Any request, consent or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Bond Trustee or the City in accordance therewith or reliance thereon.

SECTION 11.10 Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Bond Indenture, Bonds which are owned or held by or for the account of the City, the Corporation or any of the other Obligated Group Members or by any other obligor on the Bonds or a Person who is otherwise a guarantor of Loan Repayments, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City, the Corporation or any of the other Obligated Group Members or any other obligor on the Bonds or a Person who is otherwise a guarantor of Loan Repayments, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Bond Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City, the Corporation or any of the other Obligated Group Members or any other obligor on the Bonds or a Person who is otherwise a guarantor of Loan Repayments. In case of a dispute as to such right, any decision by the Bond Trustee taken upon an Opinion of Counsel shall be full protection to the Bond Trustee. Upon request of the Bond Trustee, the City and/or the Corporation, as applicable, shall specify in a Certificate to the Bond Trustee those Bonds disqualified pursuant to this Section and the Bond Trustee may conclusively rely on such Certificate.

SECTION 11.11 Money Held for Particular Bonds. The money held by the Bond Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

SECTION 11.12 Funds and Accounts. Any fund required by this Bond Indenture to be established and maintained by the Bond Trustee may be established and maintained in the accounting records of the Bond Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the corporate trust industry, to the extent practicable, and with due regard for the requirements of Section 6.06 and for the protection of the security of the Bonds and the rights of every Holder thereof.

SECTION 11.13 Waiver of Personal Liability. No City Council member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal (or Redemption Price) of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such City Council member, officer, agent or employee from the performance of any official duty provided by law or by this Bond Indenture.

SECTION 11.14 Business Days. If any date specified herein shall not be a Business Day, any action required on such date may be made on the next succeeding Business Day with the same effect as if made on such date.

SECTION 11.15 Governing Law. This Bond Indenture and the Bonds are contracts made under the laws of the State of California, and shall be governed by and construed in accordance with the Constitution and such laws applicable to contracts made and performed in said State.

SECTION 11.16 Consent Rights of the Credit Facility Provider; Credit Facility Provider Deemed Holder of Bonds. Notwithstanding any other provision hereof, and excepting only the provisions of Sections 6.01(A) and 9.01(A) insofar as they require the consent of all Holders of the Bonds for the purposes specified therein, the Credit Facility Provider shall be deemed to be the Holder of all Bonds then Outstanding for the purpose of granting all consents and waivers required or permitted to be granted by such Holders hereunder, directing acceleration of the principal represented by the Bonds, directing Mandatory Credit/Liquidity Tenders, directing the Bond Trustee in the exercise of the rights and powers conferred upon the Bond Trustee pursuant to Article VII of this Bond Indenture, the directing rescission and annulment of any declaration of acceleration or waiver of any default hereunder with respect to the Bonds, and exercising the rights of the holder of Obligation No. [x] under the Master Indenture. Notwithstanding any other provision hereof, any provision of this Bond Indenture requiring the consent of, the giving of notice to, or control of proceedings by the Credit Facility Provider shall be in effect for so long as, and only during such time as, (i) such Credit Facility is in effect or any obligations are payable to the Credit Facility Provider under the Reimbursement Agreement and (ii) no Credit Facility Provider Failure shall have occurred and be continuing.

SECTION 11.17 Execution in Several Counterparts. This Bond Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Bond Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, CITY OF TORRANCE has caused this Bond Indenture to be signed in its name by its City Administrator and its seal to be hereunto affixed and attested by its Deputy City Clerk and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., in token of its acceptance of the trusts created hereunder, has caused this Bond Indenture to be signed in its corporate name by its duly authorized officer all as of the day and year first above written.

CITY OF TORRANCE

By \_\_\_\_\_  
City Administrator

[Seal]

Attested:

\_\_\_\_\_  
Deputy City Clerk

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Bond Trustee

By \_\_\_\_\_  
Authorized Officer

**EXHIBIT A****FORM OF BOND**

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OF TORRANCE, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM OR INTEREST ON THIS BOND

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the City or its agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

NUMBER	PRINCIPAL AMOUNT
R-1	\$[principal amount]

**CITY OF TORRANCE  
VARIABLE RATE REVENUE BOND  
(TORRANCE MEMORIAL MEDICAL CENTER)  
SERIES 2010B**

MATURITY DATE	INTEREST RATE	DATED	CUSIP NUMBER
September 1, _____	Variable	September __, 2010	

REGISTERED HOLDER: Cede & Co.

CITY OF TORRANCE, a municipal corporation and charter city of the State of California (herein called the "City"), for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to registered Holder specified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter mentioned), the principal sum specified above, in lawful money of the United States of America; and to pay interest thereon (but only from said Revenues and other assets pledged therefor) in like lawful money from the date hereof until payment of such principal sum shall be discharged as provided in the Bond Indenture hereinafter mentioned, at the rates per annum determined as set forth below, payable on each Interest Payment Date (as defined below). The principal (or Redemption Price) hereof is payable at the Principal Office (as defined in the Bond Indenture) of The Bank of New York Mellon Trust Company, N.A., in Los

Angeles, California (together with any successor Bond Trustee as provided in the Bond Indenture, as defined below, the "Bond Trustee"). Interest hereon is payable by check mailed by first-class mail on each Interest Payment Date to the Holder hereof as of the close of business on the Record Date (as hereinafter defined) at the address appearing on the bond registration books maintained by the Bond Trustee; provided, however, that in the case of Bonds bearing interest at Bond Interest Term Rates (as hereinafter described), or Bonds bearing interest other than at a Bond Interest Term Rate for a Holder who owns an aggregate principal amount in excess of \$1,000,000 of Bonds and who, at least one (1) Business Day prior to the Record Date next preceding any Interest Payment Date, shall have provided the Bond Trustee with written wire transfer instructions, in accordance with such written wire transfer instructions in immediately available funds to an account within the United States, provided that while the Bonds bear interest at Bond Interest Term Rates, except for Bonds registered in the name of the Securities Depository (as defined in the Bond Indenture), interest payable hereon is payable only upon presentation hereof to the Bond Trustee, at its Principal Office.

The Record Date means (i) with respect to any Bonds bearing interest at a Daily Interest Rate (as hereinafter described), the last Business Day (as hereinafter described) of each calendar month and in the case of the last Interest Payment Date in respect to a Daily Interest Rate Period (as hereinafter described), the Business Day immediately preceding such Interest Payment Date; (ii) with respect to any Bonds bearing interest at a Weekly Interest Rate (as hereinafter described) or a Bond Interest Term Rate (as hereinafter described), the Business Day immediately preceding the related Interest Payment Date, and (iii) with respect to any Bonds bearing interest at a Long-Term Interest Rate, the 15th day of the calendar month immediately preceding the calendar month in which such Interest Payment Date falls or, if an Interest Payment Date shall occur less than 15 days after the first day of a Long-Term Interest Rate Period, such first day. If available funds are insufficient on any Interest Payment Date to pay the interest then due hereon, such interest shall continue to accrue but shall cease to be payable to the Holder shown on the registration books of the Bond Trustee as of the related Record Date. If sufficient funds for the payment of the overdue interest thereafter become available, the Bond Trustee shall establish a special interest payment date (any such date being herein referred to as a "Special Interest Payment Date") for the payment of the overdue interest and a special record date (which shall be a Business Day) for determining the Bondholders entitled to such payments (any such date being herein referred to as a "Special Record Date"), shall mail a notice by first class mail of each such date to each Holder at least ten days prior to the Special Record Date, but not more than thirty days prior to the Special Interest Payment Date, and shall pay the overdue interest to the Holders as of the close of business on the Special Record Date on the Special Interest Payment Date.

This Bond is issuable in denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 for Bonds during the Daily Interest Rate Period, Short-Term Interest Rate Period or Weekly Interest Rate Period. During the Long-Term Interest Rate Period, this Bond shall be issuable in denominations of \$5,000 or any integral multiple thereof.

This Bond is one of a duly authorized issue of bonds of the City designated as "City of Torrance Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B" (the "Bonds"), limited in aggregate principal amount to [principal amount in words] dollars (\$[principal amount]), and issued pursuant to the provisions of the City of Torrance Health

Facility Revenue Bond Law as amended (herein called the "Law") and a bond indenture, dated as of September 1, 2010, between the City and the Bond Trustee (the "Bond Indenture"). The Bonds are issued for the purpose of making a loan to Torrance Memorial Medical Center, a California nonprofit public benefit corporation (the "Corporation"), pursuant to a loan agreement, dated as of September 1, 2010 (the "Loan Agreement"), between the City and the Corporation, for the purposes and on the terms and conditions set forth therein.

Reference is hereby made to the Bond Indenture (a copy of which is on file at said designated corporate trust office of the Bond Trustee) and all indentures supplemental thereto, to the Loan Agreement (a copy of which is on file at said designated corporate trust office of the Bond Trustee) and to the Law for a description of the rights thereunder of the Holders of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Bond Trustee and of the rights and obligations of the City thereunder, to all the provisions of which Bond Indenture and Loan Agreement the Holder of this Bond, by acceptance hereof, assents and agrees.

The Bonds and the interest thereon are payable from Revenues (as that term is defined in the Bond Indenture) and are secured by a pledge and assignment of said Revenues and any other amounts held in any funds or accounts established pursuant to the Bond Indenture (other than the Bond Purchase Fund and the Rebate Fund), subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture. The Bonds are further secured by an assignment of the right, title and interest of the City in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture) and in Obligation No. [x], dated as of the date of initial delivery of the Bonds, and issued by the Corporation, pursuant to the terms of a master indenture of trust, dated as of June 1, 2001, and amended and restated as of September 1, 2010 (the "Master Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as successor Master Trustee (herein called the "Master Trustee") and a supplemental master indenture of trust, dated as of September 1, 2010, between the Corporation and the Master Trustee.

The term of the Bonds will be divided into consecutive Interest Rate Periods during each of which the Bonds shall bear interest at a Daily Interest Rate (a "Daily Interest Rate Period"), a Weekly Interest Rate (a "Weekly Interest Rate Period"), a Long-Term Interest Rate (a "Long-Term Interest Rate Period"), or Bond Interest Term Rates for one or more consecutive Bond Interest Terms (a "Short-Term Interest Rate Period"); provided, however, that no Bond shall bear interest in excess of the Maximum Interest Rate (as defined in the Bond Indenture). The initial Interest Rate Period for the Bonds shall be a Weekly Interest Rate Period during which the Bonds shall bear interest at the rate set forth in the Bond Indenture. The Interest Rate Period on the Bonds thereafter may be converted from time to time to Daily Interest Rate Period, a Short-Term Interest Rate Period or a Long-Term Interest Rate Period and thereafter again converted as described in the Bond Indenture. As hereinafter described, the Bonds are subject to mandatory purchase on the first day of any Interest Rate Period.

During any Daily Interest Rate Period, interest on this Bond shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date (or, in the case of the first Interest Payment Date during any Daily Interest Rate Period, the Interest Accrual Date preceding such Interest Payment Date) and ending

on the last day of the month in which such Interest Accrual Date occurs (or, if sooner, the last day of the Daily Interest Rate Period). During any Weekly Interest Rate Period, interest on this Bond shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on the Tuesday (whether or not a Business Day) immediately preceding the Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period). During any Short-Term Interest Rate Period or Long-Term Interest Rate Period, interest on this Bond shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date. In any event, interest on this Bond shall be payable for the final Interest Rate Period to the date on which this Bond shall have been paid in full. Interest shall be computed, in the case of a Long-Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months, and in the case of any other Interest Rate Period, on the basis of a 365- or 366- day year, as the case may be, for the actual number of days elapsed.

The term “Interest Accrual Date” means (i) with respect to any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each month, (ii) with respect to any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period (whether or not a Business Day), (iii) with respect to any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date during that Long-Term Interest Rate Period, and (iv) with respect to each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof. The term “Interest Payment Date” means (i) with respect to any Daily Interest Rate Period, the fifth Business Day of the next succeeding calendar month, (ii) with respect to any Weekly Interest Rate Period, the first Wednesday of each calendar month or, if such first Wednesday shall not be a Business Day, the next succeeding Business Day, (iii) with respect to any Long-Term Interest Rate Period, each March 1 and September 1, provided that if any such March 1 or September 1 is not a Business Day, the next succeeding Business Day, (iv) with respect to any Bond Interest Term, the day next succeeding the last day thereof, and (iv) for each Interest Rate Period the day immediately succeeding the last day thereof. The term “Business Day” means any day on which banks located in the State of California, New York, New York and the city in which the Principal Offices of the Bond Trustee and the Remarketing Agent are located are not required or authorized to be closed and on which the New York Stock Exchange is open.

The interest rate on the Bonds shall be determined as follows:

(1) Daily Interest Rate. During each Daily Interest Rate Period, this Bond shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) on or before 9:30 a.m., New York City time, on a Business Day to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of such Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount

thereof. The Daily Interest Rate for any day which is not a Business Day shall be the same as the Daily Interest Rate for the immediately preceding Business Day. If for any reason a Daily Interest Rate for this Bond is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate for such Business Day shall be the same as the Daily Interest Rate for the immediately preceding day and such rate shall continue until the earlier of (A) the date on which the Remarketing Agent determines a new Daily Interest Rate or (B) the seventh day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent. In the event that the Daily Interest Rate shall be held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of seven days as described in clause (B) of the immediately preceding sentence, the interest rate applicable to this Bond, as determined by the Remarketing Agent, shall be the interest rate per annum equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* for each Business Day (and for the immediately preceding Business Day for each day which is not a Business Day) until such Daily Interest Rate is again validly determined by such Remarketing Agent.

(2) Weekly Interest Rate. During each Weekly Interest Rate Period, this Bond shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by no later than 5:00 p.m., New York City time, on Tuesday of each week during such Weekly Interest Rate Period or if such day shall not be a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate determined for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate shall apply to the period commencing on the first Wednesday on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period shall end on a day other than a Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period. The initial interest rate and the Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the effective date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week shall be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. If the Weekly Interest Rate for the immediately preceding week was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Weekly Interest Rate would otherwise be determined as provided herein for such Weekly Interest Rate Period.

(3) Long-Term Interest Rate. During the Long-Term Interest Rate Period, this Bond shall bear interest at the Long-Term Interest Rate. The Long-Term Interest Rate shall be determined by the Remarketing Agent on a Business Day no later than the Long-Term Bond Conversion Date. The Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell such Bonds on the date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof (or will result in the lowest net interest cost for the Bond taking into account any discount below or premium above par if Bond Counsel (as defined in the Bond Indenture) delivers a Favorable Opinion of Bond Counsel (as defined in the Bond Indenture) to the Bond Trustee).

(4) Bond Interest Term Rates. During each Short-Term Interest Rate Period, each Bond shall bear interest during each Bond Interest Term for such Bond at the Bond Interest Term Rate for that Bond. The Bond Interest Term and the Bond Interest Term Rate for each Bond need not be the same for any two Bonds, even if determined on the same date. Each Bond Interest Term and Bond Interest Term Rate shall be determined by the Remarketing Agent no later than the first day of each Bond Interest Term. Except for any Bond purchased on behalf of the Corporation and remaining unsold by the Remarketing Agent at the close of business on the first day of the Bond Interest Term, each Bond Interest Term shall be for a period of days within the range or ranges announced by the Remarketing Agent as possible Bond Interest Terms no later than 9:00 a.m., New York City time, on the first day of each Bond Interest Term. Each Bond Interest Term for each Bond shall be a period of not more than one hundred eighty (180) days, determined by the Remarketing Agent to be the period which, together with all other Bond Interest Terms for all Bonds then Outstanding, will result in the lowest overall interest expense on the Bonds. Any Bond purchased on behalf of the Corporation and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Bond Interest Term for such Bond shall have a Bond Interest Term of one day or, if that Bond Interest Term would not end on a day immediately preceding a Business Day, a Bond Interest Term ending on the day immediately preceding the next Business Day. Each Bond Interest Term shall end on either a day which immediately precedes a Business Day or on the day immediately preceding the Maturity Date. If, for any reason, a Bond Interest Term for any Bond cannot be so determined by the Remarketing Agent, or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, then such Bond Interest Term shall be thirty (30) days, but if the last day so determined shall not be a day immediately preceding a Business Day, shall end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the Sinking Fund Installment Date or the Maturity Date for such Bond, the Bond Interest Term shall end on the day immediately preceding such Sinking Fund Installment Date or Maturity Date. In determining the number of days in each Bond Interest Term, the Remarketing Agent shall take into account the following factors: (1) existing short-term, tax-exempt market rates and indices of such short-term rates; (2) the existing market supply and demand for short-term tax-exempt securities; (3) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds; (4) general economic conditions; (5) industry economic and financial conditions that may affect or be relevant to the Bonds; and (6) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent, in its sole discretion, shall determine to be relevant provided, however, that the number of days in any Bond Interest Term shall not exceed the number of days of interest coverage provided under the Liquidity

Facility (if any) or the Credit Facility (if any) then in effect less five days and no Bond Interest Term shall end after the date which is five Business Days prior to the Expiration Date of the Liquidity Facility (if any) or the Credit Facility (if any) then in effect.

The Bond Interest Term Rate for each Bond Interest Term for each Bond in a Short-Term Interest Rate Period shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax exempt obligations comparable, in the reasonable judgment of such Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by such Bond for such Bond Interest Term, would enable the Remarketing Agent to sell such Bond on the effective date of such Bond Interest Term at a price equal to the principal amount thereof.

If for any reason a Bond Interest Term Rate for any Bond in a Short-Term Interest Rate Period (other than a Liquidity Facility Bond) is not established by the Remarketing Agent for any Bond Interest Term, or the determination of such Bond Interest Term Rate is held by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate for such Bond Interest Term, as determined by the Remarketing Agent, shall be the rate per annum equal to 85% of the interest rate on high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the first day of such Bond Interest Term and which maturity most nearly equals the Bond Interest Term for which a Bond Interest Term Rate is being calculated.

The Bond Trustee shall give notice by first class mail of a conversion in the Interest Rate Period not less than ten (10) days prior to the proposed effective date of such Interest Rate Period. If any condition to such conversion shall not have been satisfied, then the Interest Rate Period shall not be converted and this Bond shall bear interest at a Weekly Interest Rate commencing on the date which would have been the effective date of such conversion unless this Bond was in a Daily Interest Rate Period immediately prior to such proposed conversion. If this Bond was in a Daily Interest Rate Period immediately prior to such proposed conversion, then this Bond shall continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed conversion. This Bond shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of such conversion.

Optional Purchase of Bonds During Daily Interest Rate Period. During any Daily Interest Rate Period with respect to this Bond, this Bond shall be purchased at the option of the Holder on any Business Day at the Purchase Price, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of notices and to the Remarketing Agent, by no later than 11:00 a.m., New York City time, on such Business Day, of an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by telecopy or other writing, which states the principal amount of this Bond to be purchased on such Business Day. For payment of the Purchase Price on the Purchase Date, such Bond must be delivered, at or prior to 12:00 noon, New York City time, on the Purchase Date, to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Optional Purchase of Bonds During Weekly Interest Rate Period. During any Weekly Interest Rate Period with respect to this Bond, this Bond shall be purchased at the option of the Holder on any Business Day at the Purchase Price, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of notices and to the Remarketing Agent of an irrevocable written notice which states the name of this Bond, the principal amount of this Bond and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, this Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer hereof, in form satisfactory to the Tender Agent executed in blank by the Holder hereof or the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange. The giving of notice by a Holder of this Bond that such Holder elects to have this Bond purchased during a Weekly Interest Rate Period as described above shall constitute the irrevocable tender for purchase of this Bond with respect to which such notice shall have been given regardless of whether this Bond shall be delivered to the Tender Agent for purchase on the relevant Purchase Date and shall be binding upon the Holder of this Bond and any transferee thereof whether or not such transferee has notice thereof.

Mandatory Tender for Purchase on Day Next Succeeding the Last Day of Each Bond Interest Term. On the day following the last day of each Bond Interest Term for this Bond while in a Short-Term Interest Rate Period, unless such day is the first day of a new Interest Rate Period, this Bond shall be purchased from its Holder at the Purchase Price, payable in immediately available funds, if this Bond is delivered to the Tender Agent on or prior to 10:00 a.m., New York City time, on such day or, if delivered after 10:00 a.m., New York City time, on the next succeeding Business Day; provided, however, that in any event this Bond will not bear interest at the Bond Interest Term Rate after the last day of each Bond Interest Term. The Purchase Price of any Bond so purchased shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. This Bond shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period and the first day of each succeeding Long-Term Interest Rate Period, or on the day which would have been the first day of an Interest Rate Period if one of the conditions precedent to the conversion to a new Interest Rate Period shall not be met as described in the Bond Indenture, at the Purchase Price, payable in immediately available funds. The Purchase Price of any Bond so purchased shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York City time, on the date specified for

such delivery in this paragraph or in the notice of conversion to a new Interest Rate Period provided to the Holders by the Bond Trustee.

Mandatory Tender Upon Termination, Substitution or Expiration of Liquidity Facility or Credit Facility; Mandatory Credit/Liquidity Tender. If at any time (i) the Bonds will cease to be subject to purchase pursuant to the Liquidity Facility or the Credit Facility then in effect as a result of the termination, replacement or expiration of the term, as extended, of that Liquidity Facility or Credit Facility, including but not limited to termination at the option of the Corporation in accordance with the terms of such Liquidity Facility or Credit Facility, or (ii) the Bond Trustee receives notice of the occurrence of a Mandatory Credit/Liquidity Tender, then the Bonds shall be subject to mandatory tender for purchase at the Purchase Price. If a Self-Liquidity Arrangement is replaced with an Alternate Liquidity Facility, then the Bonds shall be subject to mandatory tender for purchase at the Purchase Price. Any purchase of Bonds pursuant to this provision shall occur: (1) on the fifth Business Day preceding any such expiration or termination of such Liquidity Facility or Credit Facility without replacement by an Alternate Liquidity Facility, a Self-Liquidity Arrangement, a Credit Facility, an Alternate Credit Facility or a Liquidity Facility or (2) on the fifth Business Day following receipt by the Bond Trustee of notice from the Credit Facility Provider or Liquidity Facility Provider of a Mandatory Credit/Liquidity Tender, but in no event later than the second Business Day preceding any expiration of the Credit Facility or Liquidity Facility, and (3) on the proposed date of the replacement of a Liquidity Facility, a Self-Liquidity Arrangement or a Credit Facility, in any case where an Alternate Liquidity Facility is to be delivered to the Tender Agent, a Self-Liquidity Arrangement is to become effective or a Credit Facility or an Alternate Credit Facility is to be delivered to the Bond Trustee. In the case of any replacement of an existing Liquidity Facility, Self-Liquidity Arrangement or Credit Facility, the existing Liquidity Facility, Self-Liquidity Arrangement or Credit Facility will be drawn upon to pay the Purchase Price, if necessary, rather than the Alternate Liquidity Facility or the Alternate Credit Facility, and the then-existing Liquidity Facility, Self-Liquidity Arrangement or Credit Facility shall not be surrendered or otherwise terminated by the Bond Trustee until after such drawing is honored. No such mandatory tender pursuant to this provision will be effected upon the replacement of a Liquidity Facility or a Credit Facility in the case where the Liquidity Facility Provider or the Credit Facility Provider has wrongfully failed to honor conforming draws. The assignment of any Liquidity Facility which relieves the Liquidity Provider of its obligation to purchase Bonds shall be considered a replacement for the purposes of this provision. The Purchase Price of any Bonds purchased pursuant to this provision shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in a notice provided to the Holders by the Bond Trustee.

“Mandatory Credit/Liquidity Tender” means the mandatory tender of the Bonds as described above upon receipt by the Bond Trustee of written notice from the Credit Facility Provider or the Liquidity Facility Provider, as the case may be, that an event with respect to the applicable Reimbursement Agreement, the Credit Facility or the Liquidity Facility has occurred which requires or gives the Credit Facility Provider or Liquidity Facility Provider the option to

terminate the Credit Facility or Liquidity Facility or cause a mandatory tender of Bonds upon the designated notice.

Mandatory Tender for Purchase at the Direction of the Corporation. During any Daily Interest Rate Period or Weekly Interest Rate Period, the Bonds are subject to mandatory tender for purchase on any Business Day designated by the Corporation, with the prior written consent of the Liquidity Facility Provider, if any, at the Purchase Price, payable in immediately available funds. Such purchase date shall be a Business Day not earlier than the 10th day following the second Business Day after receipt by the Bond Trustee of such designation. For payment of the Purchase Price on such Purchase Date, Bonds must be delivered at or prior to 10:00 a.m. on the Purchase Date. If delivered after that time, the Purchase Price shall be paid on the next succeeding Business Day. The Purchase Price shall be payable only upon surrender of such Bonds to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

The Tender Agent may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided; such refusal, however, shall not affect the validity of the purchase of such Bond as herein described. The Tender Agent for the Bonds shall determine timely and proper delivery of any Bond and the proper endorsement of such Bond. Such determination shall be binding on the Holder of such Bond absent manifest error. If any Holder of a Bond who shall have given notice of such Holder's election to have this Bond purchased during a Daily Interest Rate Period or a Weekly Interest Rate Period or any Holder of a Bond subject to mandatory tender shall fail to deliver such Bond to the Tender Agent at the place and on the applicable date and time specified, or shall fail to deliver such Bond properly endorsed, such Bond shall constitute an "Undelivered Bond." If funds in the amount of the Purchase Price of any Undelivered Bond are available for payment to the Holder thereof on the date and at the time specified, then from and after the date and time of that required delivery, (i) such Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Bond Indenture; (ii) interest shall no longer accrue thereon; and (iii) funds in the amount of the Purchase Price of the Undelivered Bond shall be held by the Tender Agent for the benefit of the Holder thereof, to be paid upon delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Principal Office.

BY ACCEPTANCE OF THIS BOND, EACH HOLDER IRREVOCABLY AGREES THAT, IF THIS BOND (OR ANY PORTION HEREOF) IS TO BE PURCHASED ON ANY DATE AND SUFFICIENT FUNDS ARE ON DEPOSIT WITH THE BOND TRUSTEE FOR ALL PURCHASES TO BE MADE ON SUCH DATE AS AFORESAID, THIS BOND (OR THE PORTION TO BE PURCHASED) SHALL BE DEEMED TO HAVE BEEN PURCHASED FOR ALL PURPOSES HEREUNDER AND UNDER THE BOND INDENTURE AND, THEREAFTER, THE HOLDER SHALL HAVE NO FURTHER RIGHTS HEREUNDER OR UNDER THE BOND INDENTURE WITH RESPECT TO THIS BOND (OR SUCH PORTION), EXCEPT TO RECEIVE THE PURCHASE PRICE FOR THIS BOND (OR SUCH PORTION) FROM THE FUNDS SO DEPOSITED UPON SURRENDER HEREOF AS AFORESAID.

The Bonds are subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised as directed by the Corporation, a copy of which direction shall be delivered to the Bond Trustee not less than thirty (30) days prior to the date fixed for such redemption, or such shorter period as agreed to in writing by the Bond Trustee) in whole or in part (in such amounts as may be specified by the Corporation) on any date, from certain hazard insurance or condemnation proceeds received with respect to the facilities of any Member and deposited in the Special Redemption Account in accordance with the Loan Agreement, at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

While any Daily Interest Rate or Weekly Interest Rate is in effect with respect to Bonds, the Bonds are also subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least fifteen (15) days prior to the date fixed for redemption), in whole or in part (in such amounts as may be specified by the Corporation), on any date at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

While any Long-Term Interest Rate is in effect with respect to Bonds, the Bonds are also subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least twenty-five (25) days prior to the date fixed for redemption), in whole or in part, but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds, (1) on any date such Bonds are subject to mandatory tender pursuant to the Bond Indenture at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, and (2) during the periods specified below, in whole or in part on any date, at the Redemption Prices (expressed as a percentage of principal amount) hereinafter indicated or specified in the notice of the Corporation to the Bond Trustee, plus accrued interest thereon (if any) to the date fixed for redemption:

Length of Long-Term Interest Rate Period ( <u>expressed in years</u> )	Redemption <u>Price</u>
greater than 10	after 10 years at par
less than or equal to 10	not subject to optional redemption

The foregoing notwithstanding, if the Corporation delivers to the Bond Trustee, the Remarketing Agent, and the City prior to any Conversion Date to the Long-Term Interest Rate a notice containing an alternative redemption schedule setting forth different dates on which, or different redemption prices at which, the Bonds may be redeemed while the Long-Term Interest

Rate is in effect and a Favorable Opinion of Bond Counsel, then during such Long-Term Interest Rate Period such alternative redemption schedule shall apply to the redemption of the Bonds.

While any Bond Interest Term Rate is in effect with respect to Bonds, the Bonds subject to such Bond Interest Term Rate are also subject to redemption prior to their stated maturity, at the option of the City (which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least fifteen (15) days prior to the date fixed for redemption), in whole or in part (in such amounts as may be specified by the Corporation), on the day succeeding the last day of such Bond Interest Term at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium but only with Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

The Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to the Bond Indenture on any Sinking Fund Installment Date.

Each Holder, by purchase and acceptance of this Bond, irrevocably grants to the Corporation the option to purchase this Bond at any time such Bond is subject to optional redemption. This Bond is to be purchased at a purchase price equal to the then applicable Redemption Price of this Bond, plus accrued interest. The Corporation may only exercise such option, after the Corporation shall have delivered a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall have directed the Bond Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, as described in the following paragraph. Bonds to be so purchased shall be selected by the Bond Trustee in the same manner as Bonds called for redemption pursuant to the Bond Indenture. On the date fixed for purchase of this Bond in lieu of redemption as described in this paragraph, the Corporation shall pay the purchase price of this Bond to the Bond Trustee in immediately available funds (which funds shall be Available Moneys at any time a Credit Facility is in effect unless a Credit Facility Provider Failure has occurred and is continuing) and the Bond Trustee shall pay the same to the Holder of this Bond against delivery thereof. No purchase of this Bond in lieu of redemption as described in this paragraph shall operate to extinguish the indebtedness of the City evidenced by this Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

Notice of redemption shall be mailed by first-class mail by the Bond Trustee, not less than ten (10) days nor more than sixty (60) days (except in the case of the redemption of Bonds bearing interest at a Long-Term Interest Rate, in which case no less than twenty (20) days prior to the redemption date), to the Holders of Bonds called for redemption at their addresses appearing on the bond registration books of the Bond Trustee and to the Master Trustee, with a copy to the City. For any redemption in whole, the Bond Trustee shall also provide notice of such redemption to each Rating Agency then rating the Bonds. Each notice of redemption shall state the date of such notice and date of issue of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the maturity, the CUSIP numbers, if any, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that, subject to prior rescission as provided in the

next paragraph of this Section, on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Each notice shall also state that redemption is conditioned upon (i) receipt by the Bond Trustee of sufficient funds on the redemption date (which shall be Available Moneys if required by the Bond Indenture) to pay the Redemption Price of the Bonds to be redeemed and (ii) the legal ability of the Bond Trustee to apply such funds on the redemption date to the Redemption Price of the Bonds to be redeemed.

Any notice of optional redemption may be rescinded by written notice given to the Bond Trustee by the Corporation no later than five (5) Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given.

Failure by the Bond Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

If an Event of Default (as that term is defined in the Bond Indenture) shall occur and be continuing, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Bond Indenture. The Bond Indenture provides that in certain events such declaration and its consequences may be rescinded.

Subject to the limitations and upon payment of the charges, if any, provided in the Bond Indenture, Bonds may be exchanged, at the designated corporate trust office of the Bond Trustee, for a like aggregate principal amount of Bonds of other authorized denominations.

This Bond is transferable by the Holder hereof, in person or by such Person's duly authorized attorney, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Bond Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a Bond or Bonds, of authorized denomination or denominations and for the same aggregate principal amount, will be issued to the transferee in exchange herefor.

The City and the Bond Trustee shall treat the Holder hereof as the absolute owner hereof for all purposes, and the City and the Bond Trustee shall not be affected by any notice to the contrary.

The Bond Indenture and the rights and obligations of the City and of the Holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Bond Indenture; provided that no such modification or amendment shall (i) extend the stated maturity of this Bond, or extend the time of payment, or change the method of computing the rate of interest hereon, or extend the time of payment of interest hereon, or reduce any premium payable upon the redemption hereof or change the Purchase Price to be paid upon tender hereof, without the consent of the Holder hereof, or (ii) reduce the percentage of Bonds the consent of the Holders of which is required to

effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture as security for the Bonds prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds then outstanding, all as more fully set forth in the Bond Indenture.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the provisions of the Law and by the Constitution and laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit prescribed by the Law or the Constitution and laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Bond Indenture.

This Bond shall not be entitled to any benefit under the Bond Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been manually signed by the Bond Trustee.

IN WITNESS WHEREOF, CITY OF TORRANCE has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Mayor and its seal to be reproduced hereon by facsimile and attested by the facsimile signature of its Deputy City Clerk all as of September \_\_, 2010.

CITY OF TORRANCE

[Seal]

By: \_\_\_\_\_  
Mayor

Attest:

\_\_\_\_\_  
Deputy City Clerk

**[FORM OF BOND TRUSTEE'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]**

This is one of the Bonds described in the within mentioned Bond Indenture, which has been registered on the date set forth below.

Dated:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Bond Trustee

By: \_\_\_\_\_  
Authorized Officer

**[FORM OF ASSIGNMENT]**

For value received, the undersigned do(es) hereby sell, assign and transfer unto \_\_\_\_\_ the within mentioned Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_, attorney, to transfer the same on the books of the within named Bond Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Notice: The signature on this Assignment must correspond with the name as it appears on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever

Social Security Number, Taxpayer Identification Number or other Identifying Number of Assignee:

\_\_\_\_\_

Signature Guaranteed By:

\_\_\_\_\_  
NOTICE: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Bond Trustee.

## Variable Rate Loan Agreement

CITY OF TORRANCE

and

TORRANCE MEMORIAL MEDICAL CENTER

LOAN AGREEMENT

Dated as of September 1, 2010

relating to

[\$principal amount]  
CITY OF TORRANCE  
VARIABLE RATE REVENUE BONDS  
(TORRANCE MEMORIAL MEDICAL CENTER),  
SERIES 2010B

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This LOAN AGREEMENT, dated as of September 1, 2010 (the “Loan Agreement”), between CITY OF TORRANCE, a municipal corporation and charter city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the “City”), and TORRANCE MEMORIAL MEDICAL CENTER, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Corporation”);

W I T N E S S E T H:

WHEREAS, the City is a municipal corporation and charter city duly organized and existing under a freeholders’ charter pursuant to which the City has the right and power to make and enforce all laws and regulations in respect to municipal affairs and certain other matters in accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and the charter of the City (together, the “Law”);

WHEREAS, the City Council of the City acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Article II, Section 6 of the Charter, has adopted the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the “Law”), and has therein authorized the provision of financial assistance to health facilities for the purposes and subject to the conditions described therein;

WHEREAS, the Corporation has requested has requested financial assistance from the City to refund on a current basis the City of Torrance Hospital Revenue Bonds (Little Company of Mary Hospital – Torrance Memorial Medical Center), Series 1992 (the “Prior Bonds”) and to finance a portion of the costs of constructing and equipping certain additions and improvements to its health care facilities located within the geographic boundaries of the City (as further defined herein, the “Project”);

WHEREAS, the City, after due investigation and deliberation, has authorized the issuance of its Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B (the “Bonds”), in an aggregate principal amount of [principal amount in words] (\$[principal amount]) for such purposes;

WHEREAS, the Corporation has requested the City to enter into this loan agreement specifying the terms and conditions of a loan by the City to the Corporation of the proceeds of the Bonds and of the payment by the Corporation to the City of the amounts required for the payment of the principal of, premium, if any, and interest on the Bonds and certain related expenses;

WHEREAS, pursuant to a master indenture of trust, dated as of June 1, 2001, and amended and restated as of September 1, 2010 (the “the Master Indenture”), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the “Master Trustee”), and a supplemental master indenture of trust, dated as of September 1, 2010, between the Corporation and the Master Trustee, the Corporation has issued its Obligation No. [x] to evidence the obligation of the Members to make payments sufficient to pay the principal of and interest on the Bonds;

WHEREAS, in order to further support payments of principal of and interest on the Bonds, the Corporation has obtained an irrevocable direct-pay letter of credit from Citibank, N.A. as the initial Credit Facility, which will also serve as the initial Liquidity Facility with respect to the Bonds; and

WHEREAS, the City and the Corporation have each duly authorized the execution, delivery and performance of this Loan Agreement;

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

## ARTICLE I

### DEFINITIONS; INTERPRETATION

Section 1.1. Definitions. Unless otherwise required by the context, all terms used herein shall have the meanings assigned to such terms in Section 1.01 of the Bond Indenture, dated as of September 1, 2010 (the “Bond Indenture”) between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Bond Trustee”), as originally executed and as amended or supplemented from time to time.

#### Section 1.2. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

Section 1.3. Content of Certificates and Opinions. Every certificate or opinion provided for herein with respect to compliance with any provision hereof shall include and be based on the information described in Section 1.02 of the Bond Indenture.

## ARTICLE II

### ISSUANCE OF BONDS AND OBLIGATION NO. [x]

Section 2.1. The Bonds. The City has authorized the issuance of the Bonds pursuant to the Bond Indenture in the aggregate principal amount of [principal amount in words] (\$[principal amount]). The Corporation hereby approves the Bond Indenture; the assignment thereunder to the Bond Trustee of the right, title and interest of the City (with certain exceptions, including but not limited to those set forth in Sections 3.2 and 5.5 hereof) in this Loan Agreement and Obligation No. [x]; and the issuance thereunder by the City of the Bonds. All rights accruing to or vested in the City with respect to Obligation No. [x] may be exercised by the Bond Trustee.

Section 2.2. Issuance of Obligation No. [x]. In consideration of the issuance of the Bonds by the City and the application of the proceeds thereof as provided in the Bond Indenture, the Corporation agrees to issue, and to cause to be authenticated and delivered to the City or its designee, pursuant to the Master Indenture and Supplement No. [x], concurrently with the issuance and delivery of the Bonds, Obligation No. [x] in substantially the form set forth in Section 11 of Supplement No. [x]. The City agrees that Obligation No. [x] shall be registered in the name of the Bond Trustee. The Corporation agrees that the aggregate principal amount of Obligation No. [x] shall be limited to \$[principal amount], except for any Obligation No. [x] authenticated and delivered in lieu of another Obligation No. [x] as provided in Section 6 of Supplement No. [x] with respect to the mutilation, destruction, loss or theft of Obligation No. [x]. Issuance and delivery of the Bonds by the City shall be a condition of the issuance and delivery of Obligation No. [x].

Section 2.3. Restrictions on Number and Transfer of Obligation No. [x].

(a) The Corporation agrees that, except as provided in subsection (b) of this Section, so long as any Bond remains Outstanding, Obligation No. [x] shall be issuable only as a single obligation without coupons, registered as to principal and interest in the name of the Bond Trustee, and no transfer of Obligation No. [x] shall be registered under the Master Indenture or be recognized by the Corporation except for transfers to a successor Bond Trustee.

(b) Upon the principal of all the Master Indenture Obligations Outstanding (within the meaning of that term as used in the Master Indenture) being declared immediately due and payable, Obligation No. [x] may be transferred if and to the extent that the Bond Trustee requests that the restrictions of subsection (a) of this Section on transfers be terminated.

### ARTICLE III

#### LOAN OF PROCEEDS; PAYMENTS

Section 3.1. Loan of Proceeds; Payments of Principal, Premium and Interest. The City hereby loans and advances to the Corporation, and the Corporation hereby borrows and accepts from the City a loan in a principal amount equal to the aggregate principal amount of the Bonds, the net proceeds of which loan shall be equal to the net proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of this Loan Agreement and the Bond Indenture. In consideration of the loan of such proceeds to the Corporation, the Corporation agrees to pay, or cause to be paid, "Loan Repayments" in an amount sufficient to enable the Bond Trustee to make the transfers and deposits required at the times and in the amounts pursuant to Section 5.02 of the Bond Indenture. Each Loan Repayment shall be made in immediately available funds. Notwithstanding the foregoing, the Corporation agrees to make payments, or cause payments to be made, not later than the times and in the amounts required to be paid as principal or redemption price of and interest on the Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Except as otherwise expressly provided herein, all amounts payable hereunder by the Corporation to the City shall be paid to the Bond Trustee or other parties entitled thereto as assignee of the City and this Loan Agreement and all right, title and interest of the City in any such payments are hereby assigned and pledged to the Bond Trustee so long as any Bonds remain Outstanding.

Notwithstanding the foregoing provisions of this Section 3.1, the Corporation shall receive credit against Loan Repayments required to be made hereunder on any Interest Payment Date or Maturity Date to the extent that payments are received by the Bond Trustee in an amount sufficient to pay the interest on or principal of the Bonds becoming due and payable on such Interest Payment Date or Maturity Date, respectively, from a drawing on the Credit Facility pursuant to Section 5.08 of the Bond Indenture.

Section 3.2. Additional Payments. In addition to Loan Repayments, the Corporation shall also pay to the City, the Bond Trustee, the Tender Agent, the Liquidity Facility Provider (if any), the Credit Facility Provider (if any), the Remarketing Agent (if any), or the designated agent of any of them, as the case may be, "Additional Payments," as follows:

(a) All taxes and assessments of any type or character charged to the City or to the Bond Trustee affecting the amount available to the City or the Bond Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Bond Trustee and taxes based upon or measured by the net income of the Bond Trustee; provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the City or the Bond Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the City or the Bond Trustee;

(b) All reasonable fees, charges, expenses and indemnities of the Bond Trustee and the Tender Agent hereunder and under the Bond Indenture, the reasonable fees, charges, expenses and indemnities of the Remarketing Agent (if any) under the Remarketing Agreement, the Liquidity Facility Provider (if any) under the Liquidity Facility (if any), and the Credit Facility Provider (if any) under the Credit Facility (if any), as and when the same become due and payable;

(c) The fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the City or the Bond Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Loan Agreement or the Bond Indenture;

(d) All other reasonable and necessary fees and expenses attributable to the Bonds, this Loan Agreement, Obligation No. [x], or related documents, including without limitation all payments required pursuant to the Tax Agreement; and

Such Additional Payments shall be billed to the Corporation by or upon direction of the City, the Bond Trustee, the Tender Agent, the Remarketing Agent, the Credit Facility Provider (if any) or the Liquidity Facility Provider (if any), from time to time, together with a statement certifying that the amount billed has been incurred or paid for one or more of the above items. After such a demand, amounts so billed shall be paid by the Corporation within thirty (30) days after receipt of the bill by the Corporation.

The obligations of the Corporation under this Section shall survive the resignation or removal of the Bond Trustee or Tender Agent under the Bond Indenture and payment of the Bonds and discharge of the Bond Indenture.

Section 3.3. Credits for Payments. The Corporation shall receive credit against its payments required to be made under Section 3.1, in addition to any credits resulting from payment or repayment from other sources, as follows:

(a) On installments of interest in an amount equal to moneys deposited in the Interest Account, which amounts are available to pay interest on the Bonds, to the extent such amounts have not previously been credited against such payments;

(b) On installments of principal in an amount equal to moneys deposited in the Principal Account, which amounts are available to pay principal of the Bonds, to the extent such amounts have not previously been credited against such payments;

(c) On installments of principal and interest in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts (as determined by Section 10.03 of the Bond Indenture) in cash or United States Government Obligations are on deposit as provided in Section 10.03 of the Bond Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal and interest which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due; and

(d) On installments of principal and interest in an amount equal to the principal amount of Bonds acquired by the Corporation and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee on behalf of the Corporation and surrendered to the Bond Trustee for cancellation, and the interest on such Bonds from and after the date interest thereon has been paid prior to surrender and cancellation. Such credits shall be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

Section 3.4. Prepayment. The Corporation shall have the right, so long as all amounts which have become due hereunder have been paid, at any time or from time to time to prepay all or any part of the Loan Repayments and the City agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds, as contemplated by subsections 3.3(c) and (d). All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt at the Corporation's direction in the Redemption Fund (or in such other Bond Trustee escrow account as may be specified by the Corporation) and, at the request of and as determined by the Corporation, credited against payments due hereunder or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made hereunder remain unpaid, the Corporation shall not be relieved of its obligations hereunder.

Section 3.5. Payment of Purchase Price of Bonds.

(a) The Corporation agrees that, if a Liquidity Facility is not in effect with respect to the Bonds or if the Liquidity Facility Provider has not paid the full amount required by the Bond Indenture at the times required under the Bond Indenture, it shall pay to the Tender Agent all amounts necessary for the purchase of Bonds pursuant to Section 4.11 of the Bond Indenture and not deposited with the Tender Agent by the Remarketing Agent from the proceeds of the sale of such Bonds pursuant to Section 4.11 of the Bond Indenture. Each such payment by the Corporation to the Tender Agent pursuant to this Section shall be in immediately available funds and paid to the Tender Agent at its Principal Office by 2:45 p.m., New York City time, on each date upon which a payment is to be made pursuant to Section 4.11 of the Bond Indenture.

(b) If the Fixed Rate Conversion Date for the Bonds is established pursuant to the Bond Indenture, the obligations of the Corporation pursuant to this Section 3.5 with respect to such Bonds shall be terminated following the Fixed Rate Conversion Date.

Section 3.6. Obligations Unconditional. The obligations of the Corporation hereunder are absolute and unconditional, notwithstanding any other provision of this Loan Agreement, Supplement No. [x], Obligation No. [x], the Master Indenture or the Bond Indenture. Until this Loan Agreement is terminated and all payments hereunder are made, the Corporation:

(a) will pay all amounts required hereunder without abatement, deduction or setoff except as otherwise expressly provided in this Loan Agreement;

(b) will not suspend or discontinue any payments due hereunder for any reason whatsoever, including, without limitation, any right of setoff or counterclaim;

(c) will perform and observe all its other agreements contained in this Loan Agreement; and

(d) except as provided herein, will not terminate this Loan Agreement for any cause, including, without limiting the generality of the foregoing, damage, destruction or

condemnation of its health facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California, or any political subdivision of either thereof or any failure of the City to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement. Nothing contained in this Section 3.6 shall be construed to release the City from the performance of any of the agreements on its part contained herein, and in the event the City should fail to perform any such agreement on its part, the Corporation may institute such action against the City as the Corporation may deem necessary to compel performance.

The rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the City, the Master Trustee or the Bond Trustee owing to the Corporation, or by reason of any other indebtedness or liability at any time owing by the City, the Master Trustee or the Bond Trustee to the Corporation.

Section 3.7. Condition Precedent. The obligation of the City to make the loan as herein provided shall be subject to the receipt by it of the proceeds of the issuance and sale of the Bonds.

#### ARTICLE IV

#### FINDINGS OF THE CITY; REPRESENTATIONS AND WARRANTIES OF CORPORATION

Section 4.1. Findings of the City. The City hereby finds and determines that (i) the loan to be made hereunder with the proceeds of the Bonds will promote the purposes of the Law by providing funds to finance or refinance indebtedness incurred for acquiring, constructing, rehabilitating or improving a health facility; and (ii) said loan is necessary, essential, in the public interest, serves a public purpose, promotes the health, welfare and safety of the citizens of the City of Torrance, constitutes a municipal affair, may be expected to result in lower charges or containment of the rate of increase in hospital rates and a saving to third parties, including government and to others who must pay for care and meets the requirements of the Law.

Section 4.2. Representations and Warranties of the Corporation. The Corporation represents and warrants to the City that, as of the date of execution of this Loan Agreement, as of the date of delivery of the Bonds to the initial purchasers thereof and as of the date of delivery of Obligation No. [x] to the Bond Trustee:

(a) The Corporation is a nonprofit public benefit corporation duly incorporated under the laws of the State of California, has full legal right, power and authority to enter into this Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x] and to carry out and consummate all transactions contemplated hereby and thereby and by proper corporate action has duly authorized the execution, delivery and performance of this Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x].

(b) The officers of the Corporation executing this Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x] are duly and properly in office and fully authorized to execute the same.

(c) This Loan Agreement, the Master Indenture, Supplement No. [x] and Obligation No. [x] have been duly authorized, executed and delivered by the Corporation.

(d) This Loan Agreement and Supplement No. [x], when assigned to the Bond Trustee pursuant to the Bond Indenture, will constitute, and Obligation No. [x] constitutes, the legal, valid and binding agreements of the Corporation, enforceable against the Corporation in accordance with their terms for the benefit of the Holders of the Bonds, and any rights of the City and obligations of the Corporation not so assigned to the Bond Trustee constitute the legal, valid, and binding agreements of the Corporation enforceable against the Corporation in accordance with their terms; except as enforcement may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought.

(e) The execution and delivery of this Loan Agreement, Supplement No. [x], Obligation No. [x] and the Master Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, will not conflict with or constitute a violation or breach of or default under the articles of incorporation of the Corporation, its bylaws or any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement or instrument to which the Corporation is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Loan Agreement, Obligation No. [x], Supplement No. [x] or the Master Indenture or the financial condition, assets, properties or operations of the Obligated Group taken as a whole.

(f) No consent or approval of any trustee or holder of any indebtedness of the Corporation or any Member of the Obligated Group and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Loan Agreement, Supplement No. [x], Obligation No. [x] or the Master Indenture or heretofore required for the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(g) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority, pending, or to the knowledge of the Corporation, after reasonable investigation, threatened, against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material adverse effect upon the consummation of the transactions contemplated by, or the validity of, this Loan Agreement, Obligation No. [x], Supplement No. [x] or the

Master Indenture or upon the financial condition, assets, properties or operations of the Obligated Group taken as a whole, and the Corporation is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Loan Agreement, Obligation No. [x], Supplement No. [x] or the Master Indenture, or the financial condition, assets, properties or operations of the Obligated Group taken as a whole. All tax returns (federal, state and local) required to be filed by or on behalf of the Corporation have been filed, and all taxes shown thereon to be due, including interest and penalties, except such, if any, as are being actively contested by the Corporation, in good faith, have been paid or adequate reserves have been made for the payment thereof.

(h) The audited combined financial statements of the Corporation for the fiscal years ended December 31, 2009 and December 31, 2008 (copies of which, audited by KPMG LLP, independent public accountants, have been furnished to the City), fairly state the financial position of the Corporation at December 31, 2009 and December 31, 2008, and the results of operations of the Corporation for the years ended on such dates.

(i) No information, exhibit or report furnished to the City by the Corporation in connection with the negotiation of this Loan Agreement, Obligation No. [x] or Supplement No. [x] (including without limitation information concerning the Corporation or the Members in the Official Statement of the City for the Bonds) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(j) The Corporation and each Member which will use proceeds of the Bonds is an organization described in Section 501(c)(3) of the Code, is exempt from federal income tax under Section 501(a) of the Code (except for unrelated business income subject to taxation under Section 511 of the Code), and is not a private foundation as described in Section 509(a) of the Code.

(k) The Corporation and each Member which will use proceeds of the Bonds does not restrict use of its facilities on racial or religious grounds or on any other legally impermissible basis.

(l) The Corporation and the other Members have good title to their facilities free and clear from all encumbrances other than Permitted Encumbrances (as defined in the Master Indenture).

## ARTICLE V

### COVENANTS

Section 5.1. Prohibited Uses. No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building used or to be used (A) primarily for sectarian instruction or study or as a place for religious worship, or (B) by a Person that is not an organization described in Section 501(c)(3) of the Code (a “501c3 Organization”) or a

Governmental Unit, or (C) by a 501c3 Organization (including the Corporation) in an “unrelated trade or business” (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code.

Section 5.2. Nonliability of the City. The City shall not be obligated to pay the principal of, premium, if any, or interest on the Bonds, except from payments received hereunder, under Obligation No. [x] and other Revenues. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of, premium or interest on the Bonds and the issuance of the Bonds shall not, directly, indirectly, or contingently, obligate the State of California or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment.

The Corporation hereby acknowledges that the City’s sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation hereunder and by the Obligated Group pursuant to Obligation No. [x] and other Revenues, together with amounts on deposit in, and investment income on, certain funds and accounts held by the Bond Trustee under the Bond Indenture, and hereby agrees that if the payments to be made hereunder and under Obligation No. [x] shall ever prove insufficient to pay all principal of, premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Bond Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Bond Trustee, the Master Trustee, the Obligated Group, the City or any third party.

Section 5.3. Expenses. The Corporation covenants and agrees to pay and to indemnify the City and the Bond Trustee against all costs and charges, including fees of attorneys, accountants, consultants and other experts, incurred in good faith and arising out of or in connection with the transactions contemplated hereby and by the Bond Indenture.

Section 5.4. Tax Covenant. The Corporation covenants and agrees that it will at all times do and perform all acts and things permitted by law, the Tax Agreement and this Loan Agreement which are necessary in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Corporation agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds. The Tax Agreement is hereby incorporated by reference into this Loan Agreement as if the provisions thereof were set forth herein in full.

Section 5.5. Special Services Covenant. The Corporation shall maintain facilities providing health care services to residents within the territorial limits of the City of Torrance, as long as any Bonds remain Outstanding; provided, however, the City, upon review of such facts as it deems relevant, may, from time to time, allow the Corporation to provide

alternative services which provide public benefit to the City of Torrance and its residents, or deem this special services covenant to be satisfied in whole or in part.

Section 5.6. Financial Statements, Reports and Other Information. On an annual basis, the Corporation shall furnish to the Bond Trustee the documents and items required to be provided to the Master Trustee pursuant to Section 3.010 of the Master Indenture. The Bond Trustee shall furnish such documents and items to the City upon written request in accordance with the Bond Indenture.

Section 5.7. Liquidity Facility; Alternate Liquidity Facility.

(a) A Liquidity Facility, in an amount equal to the Required Stated Amount, shall be maintained by the Corporation for Bonds bearing interest at the Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rates and, if and to the extent that the Corporation shall elect, for Bonds bearing interest at the Long-Term Interest Rate. The Corporation may maintain a Self-Liquidity Arrangement in lieu of a Liquidity Facility.

(b) The Corporation may, at any time at its sole option, deliver to the Tender Agent an Alternate Liquidity Facility in substitution for the Liquidity Facility, or may, at any time at its sole option (subject to the notice and mandatory tender provisions set out in the Bond Indenture) proceed without a Liquidity Facility with respect to the Bonds available for use by the Tender Agent to provide for the purchase of Bonds upon their optional or mandatory tender in accordance with the Bond Indenture. Any Alternate Liquidity Facility shall be in an amount equal to the Required Stated Amount with a term of at least 360 days from the effective date thereof.

(c) Any Alternate Liquidity Facility delivered to the Tender Agent pursuant to this Section 5.7 shall be delivered and become effective not later than 10 days prior to the date on which the former Liquidity Facility, if any, terminates or expires and shall contain administrative provisions reasonably acceptable to the Tender Agent and the Remarketing Agent. On or prior to the date of the delivery of the Alternate Liquidity Facility to the Tender Agent, the Corporation shall furnish to the Tender Agent (i) if the Alternate Liquidity Facility is issued by a Liquidity Facility Provider other than a domestic commercial bank, an Opinion of Counsel addressed to the City, the Corporation, the Bond Trustee, the Tender Agent and the Remarketing Agent and satisfactory to the Bond Trustee and the Remarketing Agent that no registration of the Alternate Liquidity Facility is required under the Securities Act, and no qualification of the Bond Indenture is required under the Trust Indenture Act, or that all applicable registration or qualification requirements have been fulfilled and (ii) an Opinion of Counsel addressed to the City, the Corporation, the Bond Trustee, the Tender Agent and the Remarketing Agent and satisfactory to the Bond Trustee and the Remarketing Agent to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer thereof.

(d) In lieu of the Opinion of Counsel required by Section 5.7(c)(i) above, there may be delivered an Opinion of Counsel addressed to the City, the Corporation, the Bond Trustee, the Tender Agent and the Remarketing Agent and satisfactory to the Bond Trustee and the Remarketing Agent to the effect that either (i) at all times during the term of the Alternate Liquidity Facility, the Bonds will be offered, sold and held by Holders in transactions not

constituting a public offering of the Bonds or the Alternate Liquidity Facility under the Securities Act, and accordingly no registration of the Alternate Liquidity Facility under the Securities Act nor qualification of the Bond Indenture under the Trust Indenture Act will be required in connection with the issuance and delivery of the Alternate Liquidity Facility or the remarketing of the Bonds with the benefits thereof, or (ii) the offering and sale of the Bonds, to the extent evidencing the Alternate Liquidity Facility, has been registered under the Securities Act and any indenture required to be qualified with respect thereto under the Trust Indenture Act has been so qualified. If the opinion described in clause (i) of this Section 5.7(d) is given, the Bonds and any transfer records relating to the Bonds shall be noted indicating the restrictions on sale and transferability described in clause (i).

Section 5.8. Self-Liquidity Arrangements. The Corporation, at its sole option, may maintain a Self-Liquidity Arrangement in lieu of a Liquidity Facility. A Self-Liquidity Arrangement shall become effective upon delivery to the Tender Agent of letters from each Rating Agency then rating the Bonds confirming that the Bonds are rated in the highest short-term Rating Category.

Section 5.9. Credit Facility; Alternate Credit Facility.

(a) The Corporation may, at any time at its sole option (subject to the provisions of the Master Indenture), furnish an Alternate Credit Facility in substitution for the Credit Facility, or may, at any time at its sole option (subject to the notice and mandatory tender provisions set out in the Bond Indenture) proceed without a Credit Facility with respect to the Bonds. Any Alternate Credit Facility shall be in an amount equal to the Required Stated Amount with a term of at least 360 days from the effective date thereof.

(b) With respect to the Bonds while in a Daily Interest Rate Period, Weekly Interest Rate Period or Short-Term Interest Rate Period, the Corporation (1) shall maintain the Credit Facility or an Alternate Credit Facility, in an amount equal to the Required Stated Amount, and (2) shall not voluntarily terminate the Credit Facility or any Alternate Credit Facility without at least sixty (60) days written notice to the Bond Trustee, the Tender Agent, the Liquidity Facility Provider (if any) and the Remarketing Agent (if any), and providing for a mandatory tender of the Bonds prior to the effective date of termination.

(c) Any Alternate Credit Facility delivered to the Bond Trustee pursuant to this Section 5.9 shall be delivered and become effective not later than 10 days prior to the date on which the former Credit Facility, if any, terminates or expires and shall contain administrative provisions reasonably acceptable to the Bond Trustee and the Remarketing Agent. On or prior to the date of the delivery of the Alternate Credit Facility to the Bond Trustee, the Corporation shall furnish to the Bond Trustee (i) if the Alternate Credit Facility is issued by a Credit Facility Provider other than a domestic commercial bank, an Opinion of Counsel addressed to the City, the Corporation, the Bond Trustee and the Remarketing Agent and satisfactory to the Bond Trustee and the Remarketing Agent that no registration of the Alternate Credit Facility is required under the Securities Act, and no qualification of the Bond Indenture is required under the Trust Indenture Act, or that all applicable registration or qualification requirements have been fulfilled and (ii) an Opinion of Counsel addressed to the City, the Corporation, the Bond Trustee, and the Remarketing Agent and satisfactory to the Bond Trustee and the Remarketing Agent to

the effect that such Alternate Credit Facility is a valid and enforceable obligation of the issuer thereof.

(d) In lieu of the Opinion of Counsel required by Section 5.9(c)(i) above, there may be delivered an Opinion of Counsel addressed to the City, the Corporation, the Bond Trustee and the Remarketing Agent and satisfactory to the Bond Trustee and the Remarketing Agent to the effect that either (i) at all times during the term of the Alternate Credit Facility, the Bonds will be offered, sold and held by Holders in transactions not constituting a public offering of the Bonds or the Alternate Credit Facility under the Securities Act, and accordingly no registration of the Alternate Credit Facility under the Securities Act nor qualification of the Bond Indenture under the Trust Indenture Act will be required in connection with the issuance and delivery of the Alternate Credit Facility or the remarketing of the Bonds with the benefits thereof, or (ii) the offering and sale of the Bonds, to the extent evidencing the Alternate Credit Facility, has been registered under the Securities Act and any indenture required to be qualified with respect thereto under the Trust Indenture Act has been so qualified. If the opinion described in clause (i) of this Section 5.9(d) is given, the Bonds and any transfer records relating to the Bonds shall be noted indicating the restrictions on sale and transferability described in clause (i).

Section 5.10. Continuing Disclosure. So long as the Bonds are in a Daily Interest Rate Period, a Weekly Interest Rate Period or a Bond Interest Term, the Corporation shall have no continuing disclosure obligation hereunder. Otherwise, the Corporation hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement or the Master Indenture, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event or an Event of Default under the Master Indenture; however, the Bond Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least twenty-five percent (25%) aggregate principal amount in Outstanding Bonds, shall, upon being indemnified against all costs and expenses in a manner reasonably acceptable to the Bond Trustee) take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under this Section 5.10.

Section 5.11. Bond Indenture. The execution of this Loan Agreement shall constitute conclusive evidence of approval of the Bond Indenture by the Corporation. Whenever the Bond Indenture by its terms imposes a duty or obligation upon the Corporation, such duty or obligation shall be binding upon the Corporation to the same extent as if the Corporation were an express party to the Bond Indenture, and the Corporation shall carry out and perform all of its obligations under the Bond Indenture as fully as if the Corporation were a party to the Bond Indenture.

Section 5.12. Acquisition, Construction and Installation of the Project. The Corporation shall acquire, construct and install the Project or cause such Project to be acquired, constructed and installed. The Corporation hereby certifies and represents that the total amount of the loan hereunder shall not exceed the total cost of the Project. The Corporation has entered or will enter into purchase commitments and agreements which provide, in the aggregate, for the acquisition, installation and construction of the Project by such date and at a price which will permit completion of the Project for an amount not to exceed the amount of money deposited in

the Project Fund and other available funds. The Corporation hereby grants to the City, until completion of the Project, all rights of access necessary for the City to carry out its obligations and to enforce its rights hereunder. It is expressly understood and agreed that the City and the Bond Trustee shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project or any expense incurred in connection with the Project and that all such costs and expenses shall be paid by the Corporation. The acquisition, installation and construction of the Project shall be in accordance with all applicable zoning, planning and building regulations, and the Corporation shall obtain all necessary governmental permits, licenses, certificates, authorizations and approvals necessary to be obtained for the acquisition, installation, construction and operation of the Project.

Section 5.13. Disbursements from the Project Fund. Disbursements will be made from the Project Fund to pay the costs of the Project and subject to the terms and conditions set forth in the Bond Indenture. In the event that amounts in the Project Fund are not sufficient to pay the costs of the Project in full, the Corporation nevertheless shall complete or cause the completion of the Project and shall pay at its own expense all such costs of completing the Project in excess of amounts available in the Project Fund, from its own funds, without any diminution or postponement of any Loan Repayment or Additional Payment and without any right of reimbursement from the City or the Bond Trustee.

## ARTICLE VI

### EVENTS OF DEFAULT AND REMEDIES

Section 6.1. Events of Default. Each of the following events shall constitute and be referred to herein as a “Loan Default Event”:

(a) Failure by the Corporation to pay in full any payment required hereunder or of the Obligated Group to pay in full any payment required under Obligation No. [x] when due, whether on an interest payment date, at maturity, upon a date fixed for prepayment, by declaration, upon tender of the Bonds for purchase pursuant to the Bond Indenture, or otherwise pursuant to the terms hereof or thereof;

(b) If any material representation or warranty made by the Corporation herein or made by the Corporation or any Obligated Group Member in any document, instrument or certificate furnished to the Bond Trustee or the City in connection with the issuance of Obligation No. [x] or the Bonds shall at any time prove to have been incorrect in any respect as of the time made;

(c) If the Corporation shall fail to observe or perform any other covenant, condition, agreement or provision in this Loan Agreement on its part to be observed or performed, or shall breach any warranty by the Corporation herein contained, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the City or the Bond Trustee; except that, if such failure or breach can be remedied but not within such sixty-day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty-day period, such failure or breach shall not become a Loan Default Event for so long as the

Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Bond Trustee;

- (d) Any Event of Default as defined in and under the Bond Indenture; or
- (e) Any Event of Default as defined in and under the Master Indenture.

Section 6.2. Remedies on Default. If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Bond Trustee on behalf of the City, at the direction of or with the consent of the Credit Facility Provider, but subject to the limitations in the Bond Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due hereunder, to enforce performance and observance of any obligation or agreement of the Corporation hereunder or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given hereby or available hereunder or given by or available under any other instrument of any kind securing the Corporation's performance hereunder;

(b) By written notice to the Corporation declare all Loan Repayments and Additional Payments to be immediately due and payable under this Loan Agreement, whereupon the same shall become immediately due and payable; and

(c) Take any action at law or in equity to collect the payment required hereunder then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Corporation hereunder.

Section 6.3. Discontinuance or Abandonment of Default Proceedings. If any proceeding taken by the Bond Trustee on account of any Loan Default Event shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Bond Trustee, then and in every case the City, the Bond Trustee and the Corporation shall be restored to their former position and rights hereunder, respectively, and all rights, remedies and powers of the City and the Bond Trustee shall continue as though no such proceeding had taken place.

Section 6.4. Remedies Cumulative. No remedy conferred upon or reserved to the City or the Bond Trustee hereby or now or hereafter existing at law or in equity or by statute, shall be exclusive but shall be cumulative with all others. Such remedies are not mutually exclusive and no election need be made among them, but any such remedy or any combination of such remedies may be pursued at the same time or from time to time so long as all amounts realized are properly applied and credited as provided herein. No delay or omission to exercise any right or power accruing upon any Loan Default Event shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient by the City or the Bond Trustee. In the event of any waiver of a Loan Default Event hereunder, the parties shall be restored to their former positions and rights hereunder, but no such waiver shall extend to any other or subsequent Loan Default Event or impair any right arising as a result thereof. In order to entitle the Bond

Trustee to exercise any remedy reserved to it, it shall not be necessary to give notice other than as expressly required herein. To the extent that this Loan Agreement confers upon or gives or grants the Bond Trustee any right, remedy or claim under or by reason of this Loan Agreement, the Bond Trustee is hereby explicitly recognized as a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted.

Section 6.5. Application of Moneys Collected. Any amounts collected pursuant to action taken under this Article shall be applied in accordance with the provisions of Article VII of the Bond Indenture and to the extent applied to the payment of amounts due on the Bonds shall be credited against amounts due on Obligation No. [x].

Section 6.6. Attorneys' Fees and Other Expenses. If, as a result of the occurrence of a Loan Default Event, the City or the Bond Trustee employs attorneys or incurs other expenses for the collection of payments due hereunder or for the enforcement of performance or observance of any obligation or agreement on the part of the Corporation, the Corporation will, on demand, reimburse the City or the Bond Trustee, as the case may be, for the fees of such attorneys and such other expenses so incurred.

Section 6.7. Notice of Default. The Corporation agrees that, as soon as is practicable, and in any event within five (5) days, the Corporation will furnish the Bond Trustee and the Credit Facility Provider notice of any event which is a Loan Default Event pursuant to Section 6.1 which has occurred and is continuing on the date of such notice, which notice shall set forth the nature of such event and the action which the Corporation proposes to take with respect thereto; provided, however, that with respect to a Loan Default Event pursuant to Section 6.1(a), the Bond Trustee shall give the Corporation immediate telephonic notice on the date such default occurs.

## ARTICLE VII

### MISCELLANEOUS

Section 7.1. Amendments and Supplements. This Loan Agreement may be amended, changed or modified only as provided in Section 6.08 of the Bond Indenture.

Section 7.2. Time of the Essence; Nonbusiness Days. Time shall be of the essence of this Loan Agreement. When any action is provided for herein to be done on a day named or within a specified time period, and the day or the last day of the period falls on a day other than a Business Day, such action may be performed on the next ensuing Business Day with the same effect as though performed on the appointed day or within the specified period.

Section 7.3. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon the City and the Corporation and their respective successors and assigns, subject to the limitations contained herein; provided, however, that the Bond Trustee shall have only such duties and obligations as are expressly given to it hereunder.

Section 7.4. Entire Agreement. This Loan Agreement, together with all agreements and documents incorporated by reference herein, constitutes the entire agreement of

the parties and is not subject to modification, amendment, qualification or limitation except as expressly provided herein.

Section 7.5. Severability. If any covenant, agreement or provision, or any portion thereof contained in this Loan Agreement, where the application thereof to any Person or circumstance is held to be unconstitutional, invalid or unenforceable, the remainder of this Loan Agreement and the application of such covenant, agreement or provision, or portion thereof, to other Persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Loan Agreement shall remain valid, and the Bondholders shall retain all valid rights and benefits accorded to them under this Loan Agreement and the Constitution and laws of the State of California.

Section 7.6. Notices.

(a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be deemed sufficiently given or served if given by confirmed facsimile transmission or in writing, mailed by first-class mail, postage prepaid and addressed as follows:

(1) to the City at:

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503  
Attention: City Manager  
Telephone:  
Fax:

(2) to the Corporation at:

Torrance Memorial Medical Center  
3330 W. Lomita Blvd,  
Torrance, California 90505  
Attention: Chief Financial Officer  
Telephone:  
Fax:

(3) to the Bond Trustee at:

(b) The Corporation, the City, or the Bond Trustee may at any time and from time to time by notice in writing to the other Persons listed in Section 7.6(a) designate a different address or addresses for notice under this Loan Agreement.

Section 7.7. Term. Except as otherwise provided herein this Loan Agreement shall remain in full force and effect from the date of execution hereof until no Bonds remain Outstanding under the Bond Indenture and all payments required hereunder have been made.

Section 7.8. Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 7.9. Governing Law. This Loan Agreement shall be governed by and construed according to the laws of the State of California applicable to contracts made and performed within such State.

Section 7.10. Waiver of Personal Liability. No City Council member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal (or redemption price) of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the execution and delivery of this Loan Agreement; but nothing herein contained shall relieve any such City Council member, officer, agent or employee from the performance of any official duty provided by law or by this Loan Agreement.

IN WITNESS WHEREOF, the City and the Corporation have each caused this Loan Agreement to be executed in their respective names as of the date first written above.

CITY OF TORRANCE

By: \_\_\_\_\_  
City Administrator

TORRANCE MEMORIAL MEDICAL CENTER

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

# Variable Rate Official Statement

**APPENDIX A****INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER**

*The information contained herein was provided and approved by the Corporation. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. Neither the City nor the Underwriters have undertaken to independently verify such information, and neither the City nor the Underwriter make any representation as to its accuracy or completeness. Capitalized terms used in this APPENDIX A and not otherwise defined have the meanings set forth in the body of this Official Statement or in APPENDIX C.*



This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy the Bonds, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with and as part of its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information relating to the City set forth herein under the captions "THE CITY OF TORRANCE" and "ABSENCE OF MATERIAL LITIGATION—The City" has been furnished by the City and the information relating to DTC and the book-entry system set forth in APPENDIX E—"BOOK-ENTRY ONLY SYSTEM" has been furnished by DTC. The information relating to the Series 2010B Bank set forth herein under the caption "THE SERIES 2010B BANK" has been furnished by the Series 2010B Bank, the information relating to the Series 2010C Bank set forth herein under the caption "THE SERIES 2010C BANK" has been furnished by the Series 2010C Bank and the information relating to the Letter of Credits and Reimbursement Agreements set forth herein under the captions "THE SERIES 2010B LETTER OF CREDIT," "THE SERIES 2010B REIMBURSEMENT AGREEMENT," "THE SERIES 2010C LETTER OF CREDIT," "THE SERIES 2010C REIMBURSEMENT AGREEMENT" has been furnished by the Banks' counsel. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters or the Corporation. All other information set forth herein has been obtained from the Corporation and other sources (other than the City) that are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by and is not to be construed as a representation by the City or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale of Bonds made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the City, the Corporation or DTC since the date hereof.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE BOND INDENTURES HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT.

**CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions "INTRODUCTION—Plan of Financing" and "PLAN OF FINANCING" in the forepart of this Official Statement and the statements contained in APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—SUMMARY OF OPERATIONS and FINANCIAL POSITION."

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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**OFFICIAL STATEMENT**

\$[\_\_\_\_\_]  
**CITY OF TORRANCE**  
**VARIABLE RATE REVENUE BONDS**  
**(TORRANCE MEMORIAL MEDICAL CENTER)**

consisting of:

\$[\_\_\_\_\_]  
**Series 2010B**

\$[\_\_\_\_\_]  
**Series 2010C**

**INTRODUCTORY STATEMENT**

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein or in APPENDIX C have the same meaning as in the Master Indenture or the Bond Indentures (each as defined below).

**Purpose of the Official Statement**

This Official Statement is provided to furnish information in connection with the offering of the \$[\_\_\_\_\_] City of Torrance Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B (the "Series 2010B Bonds") and \$[\_\_\_\_\_] City of Torrance Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010C (the "Series 2010C Bonds" and together with the Series 2010B Bonds, the "Bonds").

**The Bonds**

The Series 2010B Bonds will be issued in accordance with the provisions of the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the "Bond Law"), and will be issued and delivered pursuant to and secured by the Bond Indenture, dated as of September 1, 2010 (the "Series 2010B Bond Indenture"), between the City of Torrance, California (the "City") and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"). The proceeds of the sale of the Series 2010B Bonds will be loaned to the Corporation pursuant to a Loan Agreement, dated as of September 1, 2010 (the "Series 2010B Loan Agreement"), between the City and Torrance Memorial Medical Center (the "Corporation").

The Corporation's obligations under the Series 2010B Loan Agreement will be secured by Obligation No. 3 ("Obligation No. 3") issued under and pursuant to the Master Indenture of Trust, dated as of June 1, 2001 (the "Original Master Indenture"), between The Bank of New York Mellon Trust Company, N.A., as successor master trustee (in such capacity, the "Master Trustee") and the Corporation, as amended and restated by the Amended and Restated Master Indenture of Trust, dated as of September 1, 2010, between the Master Trustee and the Corporation and as supplemented by the Supplemental Master Indenture for Obligation No. 3, dated as of September 1, 2010 ("Supplement No. 3"), between the Corporation and the Master Trustee.

The Series 2010C Bonds will be issued in accordance with the Bond Law, and will be issued and delivered pursuant to and secured by the Bond Indenture, dated as of September 1, 2010 (the "Series

2010C Bond Indenture' and, together with the Series 2010B Bond Indenture, the "Bond Indentures"), between the City and the Bond Trustee. The proceeds of the sale of the Series 2010C Bonds will be loaned to the Corporation pursuant to a Loan Agreement, dated as of September 1, 2010 (the "Series 2010C Loan Agreement" and, together with the Series 2010B Loan Agreement, the "Loan Agreements"), between the City and the Corporation.

The Corporation's obligations under the Series 2010C Loan Agreement will be secured by Obligation No. 5 ("Obligation No. 5") issued under and pursuant to the Amended and Restated Master Indenture of Trust, as supplemented by the Supplemental Master Indenture for Obligation No. 5, dated as of September 1, 2010 ("Supplement No. 5"), between the Corporation and the Master Trustee.

Under the Bond Indentures, the Series 2010B Bonds and the Series 2010C Bonds are each authorized to be issued in the Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period. The Bonds initially will bear interest at a Weekly Interest Rate. While the Bonds bear interest at a Weekly Interest Rate, interest on the Bonds is payable on the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day. Thereafter, each series of Bonds may be converted in whole to bear interest in another Interest Rate Period. See "THE BONDS" herein. See also APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS—BOND INDENTURES."

The Bonds will be subject to optional tender for purchase by the Holders thereof while in a Weekly Interest Rate Period, and will be subject to mandatory tender upon certain events, including the conversion to a different Interest Rate Period, provided certain conditions to conversion are satisfied as described herein. See "THE BONDS—Tender of Bonds" herein.

### **The Corporation and the Obligated Group**

The Corporation is a nonprofit public benefit corporation incorporated under the laws of the State of California. The Corporation owns and operates the Torrance Memorial Medical Center (the "Medical Center") which is located in the City. Founded by Jared Sydney Torrance in 1925, the Medical Center was the first hospital in the South Bay area of Los Angeles and opened with 32 beds. The Corporation has responded to the growing needs of the City and the South Bay for hospital services by expanding the Medical Center's facilities and adopting medical technologies to streamline operations and enhance patient outcomes. Today, the Medical Center has 401 licensed beds and serves Los Angeles's South Bay and Palos Verdes Peninsula communities, which have a combined population of approximately 900,000, including the cities of Torrance, Lomita, El Segundo, Hermosa Beach, Manhattan Beach, Redondo Beach, Palos Verdes, Gardena, Hawthorne, Lawndale, Carson, Harbor City, Wilmington and San Pedro. See APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER."

The Corporation is currently the only member of the Obligated Group created under the Master Indenture (as defined herein). Additional Members may join the Obligated Group and Members may withdraw from the Obligated Group, upon compliance with the terms of the Master Indenture. The Corporation and any future Members of the Obligated Group are collectively referred to herein as the "Obligated Group," "Members" or "Members of the Obligated Group."

### **Security for the Bonds**

The Bonds are limited obligations of the City and are payable solely from Revenues, which consist primarily of payments by the Corporation received by the Bond Trustee as Loan Repayments (as defined herein) under the Loan Agreements, and from certain funds held by the Bond Trustee under the Bond Indentures. Pursuant to the Loan Agreements, the Corporation agrees to make the Loan Repayments to the Bond Trustee in amounts sufficient to pay the principal of, premium, if any and interest on the Bonds, when due, and to pay certain other fees and expenses. To secure the Corporation's obligations under the Series 2010B Loan Agreement, the Corporation will issue

Obligation No. 3 (“Obligation No. 3”) under the Master Indenture (defined below) to the Bond Trustee. To secure the Corporation’s obligations under the Series 2010C Loan Agreement, the Corporation will issue Obligation No. 5 (“Obligation No. 5”) under the Master Indenture to the Bond Trustee.

The Corporation’s obligations under the Series 2010B Loan Agreement will be secured by Obligation No. 3 issued under and pursuant to the Master Indenture of Trust, dated as of June 1, 2001 (the “Original Master Indenture”), as amended and restated by the Amended and Restated Master Indenture of Trust, dated as of September 1, 2010 (the “Amended and Restated Master Indenture,” and as supplemented and amended from time to time, the “Master Indenture”), between The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the “Master Trustee”) and the Corporation, including as supplemented by the Supplemental Master Indenture for Obligation No. 3, dated as of September 1, 2010 (“Supplement No. 3”), between the Corporation and the Master Trustee. The Corporation’s obligations under the Series 2010C Loan Agreement will be secured by Obligation No. 5 issued under and pursuant to the Master Indenture, as supplemented by the Supplemental Master Indenture for Obligation No. 5, dated as of September 1, 2010 (“Supplement No. 5”), between the Corporation and the Master Trustee. The Corporation and any future Member(s) of the Obligated Group are jointly and severally obligated to make payments on Obligation No. 3 and Obligation No. 5, when due. Obligation No. 3 and Obligation No. 5 entitle the Bond Trustee, as the holder of Obligation No. 3 and Obligation No. 5, to the protection of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. Under the Master Indenture, the Corporation, as the Obligated Group Representative and acting on behalf of the Obligated Group, may execute and deliver obligations (each, an “Obligation” and collectively, the “Obligations”) to evidence or secure Indebtedness or for other purposes. All Obligations issued under the Master Indenture, including Obligation No. 3 and Obligation No. 5, are the joint and several obligations of the Corporation and any future Members of the Obligated Group and are secured by a security interest in the Gross Receivables of the Obligated Group. For additional information regarding the Master Indenture, Supplement No. 3, Supplement No. 5, Obligation No. 3 and Obligation No. 5, see “SECURITY FOR THE BONDS—The Master Indenture” herein and APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

***Except for the security interest granted to the Master Trustee by the Obligated Group in Gross Receivables described below under “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—The Master Indenture—Security Interest in Gross Receivables,” the Bonds are not secured by a reserve fund or a mortgage of or security interest in any real or personal property of any Members of the Obligated Group.*** Pursuant to the Master Indenture, the Obligated Group agrees that it will not create, assume or suffer to exist, any Lien upon its Property, including Gross Receivables, other than Permitted Encumbrances, unless all Obligations will be secured prior to any Indebtedness or other obligation secured by such Lien. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES Bonds—The Master Indenture” herein and APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

### **The Letters of Credit**

Concurrently with and as a condition to the issuance of the Bonds, the Corporation will cause to be delivered to the Bond Trustee under each Bond Indenture, for the benefit of the owners of the related Bonds, a separate direct-pay Letter of Credit, each dated September [ ], 2010 (with respect to the Series 2010B Bonds, the “Series 2010B Letter of Credit,” and with respect to the Series 2010C Bonds, the “Series 2010C Letter of Credit,” and collectively, the “Letters of Credit”), to be issued, with respect to the Series 2010B Bonds, by Citibank, N.A. (the “Series 2010B Bank”), and with respect to the Series 2010C Bonds, by JPMorgan Chase Bank, National Association (the “Series 2010C Bank,” and, together with the Series 2010B Bank, the “Banks”).

Each Letter of Credit will be issued pursuant to a separate Letter of Credit Reimbursement Agreement, each dated as of September [ ], 2010 (collectively, the "Reimbursement Agreements"), by and among the applicable Bank and the Members of the Obligated Group. The respective Letters of Credit, any alternate credit facility and any alternate liquidity facility are defined under the Bond Indentures as the "Credit Facility" or "Liquidity Facility," as appropriate. The Bond Trustee will be entitled under the Letters of Credit to draw up to (i) the principal amount of the related Bonds to enable the Bond Trustee to pay the principal of the related Bonds when due at maturity, upon redemption or acceleration, or upon tender, if such tendered Bonds are not successfully remarketed by the remarketing agent for such Bonds, plus (ii) 41 days' accrued interest on such Bonds at the Maximum Interest Rate of 12% per annum on the principal amount of such Bonds, to enable the Bond Trustee to pay interest on such Bonds. The initial expiration date of the Letters of Credit is September [ ], 2013, unless extended or earlier terminated, as described herein. For information regarding the Letters of Credit, see "THE SERIES 2010B BANK," "THE SERIES 2010C BANK," "THE SERIES 2010B LETTER OF CREDIT," "THE SERIES 2010B REIMBURSEMENT AGREEMENT," "THE SERIES 2010C LETTER OF CREDIT," "THE SERIES 2010C REIMBURSEMENT AGREEMENT" herein.

Pursuant to the Bond Indentures, the Bond Trustee will pay the interest on and principal of the related series of Bonds, including payment of principal of and interest on the related Bonds upon redemption, when due solely from Available Moneys, including moneys drawn under the related Letter of Credit, unless a Bank has failed to honor a properly presented and conforming drawing with respect to such Letter of Credit, in which case the Bond Trustee will pay the principal of and interest on such Bond from Revenues (as defined in the Bond Indentures).

The Corporation's reimbursement obligations to the Series 2010B Bank with respect to the Series 2010B Letter of Credit will also be secured by a separate obligation issued and secured under the Master Indenture ("Obligation No. 4") pursuant to the Supplemental Master Indenture for Obligation No. 4, dated as of September 1, 2010 ("Supplement No. 4"), between the Corporation and the Master Trustee. The Corporation's reimbursement obligations to the Series 2010C Bank with respect to the Series 2010C Letter of Credit will also be secured by a separate obligation issued and secured under the Master Indenture ("Obligation No. 6," and, together with Obligation No. 4, the "2010 Bank Obligations") pursuant to the Supplemental Master Indenture for Obligation No. 6, dated as of September 1, 2010 ("Supplement No. 6"), between the Corporation and the Master Trustee.

### **Credit Provider Covenants**

The Master Indenture contains certain additional covenants and restrictions solely for the benefit of certain providers of credit enhancement (the "Credit Providers"), including the Banks, on the Corporation's outstanding indebtedness (the "Credit Provider Covenants"). These Credit Provider Covenants and restrictions may be waived, modified or amended by the applicable Credit Provider(s) in their sole discretion and without notice to or consent by the Bond Trustee, the Master Trustee, the holders of outstanding bonds, including the Bonds, the holders of any Obligations or any other Person. Violation of any of such covenants may result in an Event of Default under the Master Indenture which could result in acceleration of all of the Obligations, including Obligation No. 3 and Obligation No. 5. See APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—Events of Default" hereto.

### **Consent to Amendments to Original Master Indenture by Purchase of Bonds**

*Holders and Beneficial Owners of the Bonds are deemed by their purchase of the Bonds: (i) to have consented to certain amendments to the Original Master Indenture, which are contained in the Amended and Restated Master Indenture and which are summarized in APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE" and (ii) to have directed the Bond Trustee, as holder of Obligation No. 3 and Obligation No. 5 to consent to the Amended and*

*Restated Master Indenture. The Amended and Restated Master Indenture will become effective upon issuance of the Bonds.*

### **Obligation No. 1, Obligation No. 2 and Other Indebtedness**

Simultaneously with the issuance of the Bonds, the Corporation has asked the City to issue its \$[140,000,000] City of Torrance Revenue Bonds (Torrance Memorial Medical Center), Series 2010A (the "Series 2010A Bonds, and together with the Bonds, the "Series 2010 Bonds"). Each series of the Series 2010 Bonds will be sold pursuant to a separate bond purchase agreement, and pursuant to each, the sale and issuance of any series of Series 2010 Bonds will not be conditioned upon the sale and issuance of any other series of Series 2010 Bonds. The Series 2010A Bonds will be secured by an Obligation issued and secured under the Master Indenture ("Obligations No. 2"). The Series 2010A Bonds are being issued for the purposes discussed under the heading "PLAN OF FINANCING." In addition, the City has previously issued \$65,000,000 original principal amount of its Hospital Revenue Bonds (Torrance Memorial Medical Center), Series 2001A (the "Series 2001A Bonds"), which are currently outstanding in the aggregate principal amount of \$[ ] and which are secured by Obligation No. 1 issued under the Master Indenture (the "Obligation No. 1").

Following the issuance of the Series 2010 Bonds and the refunding of the Series 1992 Bonds (as more fully described under "PLAN OF FINANCE" herein), the Corporation will have \$[ ] of Long-Term Indebtedness Outstanding, which is the sum of the aggregate principal amount of the Series 2010 Bonds and the outstanding Series 2001A Bonds.

### **Remarketing Agents**

Citigroup Global Markets Inc. has been appointed as the initial remarketing agent (the "Series 2010B Remarketing Agent") for the Series 2010B Bonds under the Series 2010B Bond Indenture. The Series 2010B Remarketing Agent may be removed or replaced at any time, subject to the terms and conditions of the Series 2010B Bond Indenture and the Remarketing Agreement, dated as of September 1, 2010 (the "Series 2010B Remarketing Agreement"), between the Corporation and the Series 2010B Remarketing Agent.

J.P. Morgan Securities Inc. has been appointed as the initial remarketing agent (the "Series 2010C Remarketing Agent") for the Series 2010C Bonds under the Series 2010C Bond Indenture. The Series 2010C Remarketing Agent may be removed or replaced at any time, subject to the terms and conditions of the Series 2010C Bond Indenture and the Remarketing Agreement, dated as of September 1, 2010 (the "Series 2010C Remarketing Agreement," and, together with the Series 2010B Remarketing Agreement, the "Remarketing Agreements"), between the Corporation and the Series 2010C Remarketing Agent.

### **Limited Obligation of the City**

THE SERIES 2010B BONDS AND THE SERIES 2010C BONDS, WHICH ARE ISSUED IN ACCORDANCE WITH THE BOND LAW, ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE RESPECTIVE LOAN AGREEMENT, OBLIGATION NO.3 AND OBLIGATION NO.5, RESPECTIVELY, AND RESPECTIVE THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS, NOR WILL THE BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

### **Plan of Financing**

The proceeds of the Series 2010B Bonds will be applied by the Corporation (1) to finance and reimburse certain capital expenditures with respect to its health care facilities; (2) to pay capitalized

interest on the Series 2010B Bonds; and (3) to pay costs of issuance of the Series 2010B Bonds. The proceeds of the Series 2010C Bonds will be applied by the Corporation (1) to refund on a current basis the City's outstanding Hospital Revenue Bonds (Little Company of Mary Hospital - Torrance Memorial Medical Center), Series 1992 (the "Series 1992 Bonds"), currently outstanding in the aggregate principal amount of \$[34,800,000], and (2) to pay costs of issuance of the Series 2010C Bonds.

See "PLAN OF FINANCING" herein for a more full description of the plan of finance, including a discussion of the planned use of the proceeds of the Series 2010A Bonds.

### **Bondholders' Risks**

There are risks associated with the purchase of the Bonds. See the information under the heading "BONDHOLDERS' RISKS" in this Official Statement for a discussion of certain of these risks.

### **Continuing Disclosure**

The Corporation, on behalf of the Obligated Group, will enter into a Continuing Disclosure Agreement for the benefit of the Holders of the Bonds to provide certain information annually and quarterly and to provide notice of certain events to the Municipal Securities Rulemaking Board, as described under "CONTINUING DISCLOSURE" herein and in APPENDIX E hereto.

### **Availability of Documents**

The descriptions and summaries of various documents set forth in this Official Statement do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions hereof. All such summaries herein are qualified by reference to each such document in its entirety and are further qualified in their entirety by reference to laws and principles of equity and bankruptcy and other laws relating to or affecting the enforceability of creditors' rights. Further descriptions of the Master Indenture, Supplement No. 3, Supplement No. 5, the Bond Indentures and the Loan Agreements are set forth in APPENDIX C hereto. All references herein to the Bonds, Obligation No. 3, Obligation No. 5, the Master Indenture, Supplement No. 3, Supplement No. 5, the Continuing Disclosure Agreements, the Bond Indentures and the Loan Agreements are qualified in their entirety by such documents, copies of which are available from the Underwriters prior to the issuance of the Bonds and thereafter may be examined or obtained at the expense of the person requesting the same at the corporate trust office of the Bond Trustee in Los Angeles, California. Information relating to The Depository Trust Company ("DTC") and the book-entry only system has been furnished by DTC.

## **THE CITY OF TORRANCE**

### **General**

The City was founded in 1912 and incorporated in 1921. The City, which currently covers an area of approximately 21 square miles, is located in southwestern Los Angeles County, approximately 20 miles southwest of downtown Los Angeles.

The City is organized and exists under a charter (the "Charter") pursuant to which the City has the right and power to make and enforce all laws and regulations with respect to municipal affairs and certain other matters in accordance with provisions of the California Constitution.

The City uses a Council-Mayor form of government. The City Council consists of seven members, including the Mayor. The City Council appoints the City Manager, who leads the executive branch of City government and is responsible for the administration of various City departments.

### **Authority to Issue Bonds; Limited Obligations**

The City Council, acting under and pursuant to the powers reserved to the City under the Constitution of the State of California and the Charter, has enacted the Bond Law, which establishes a procedure for the authorization, issuance and sale of revenue bonds by the City for the purpose (among others) of making loans to provide financing for health facilities located within its boundaries.

THE SERIES 2010B BONDS AND THE SERIES 2010C BONDS, WHICH ARE ISSUED IN ACCORDANCE WITH THE BOND LAW, ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE RESPECTIVE LOAN AGREEMENT, OBLIGATION NO. 3 AND OBLIGATION NO. 5, RESPECTIVELY, AND RESPECTIVE THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS, NOR WILL THE BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

## **PLAN OF FINANCING**

### **The Bonds**

The proceeds of the Series 2010B Bonds will be applied by the Corporation (1) to finance and reimburse certain capital expenditures with respect to its health care facilities; (2) to pay capitalized interest on the Series 2010B Bonds; and (3) to pay costs of issuance of the Series 2010B Bonds. The proceeds of the Series 2010C Bonds will be applied by the Corporation (1) to refund on a current basis the City's Series 1992 Bonds, currently outstanding in the aggregate principal amount of \$34,800,000, and (2) to pay costs of issuance of the Series 2010C Bonds.

See "SOURCES AND USES OF FUNDS" herein. See also APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—FACILITIES" for a more detailed description of the Corporation's expansion and modernization program.

### **The Series 2010A Bonds**

Simultaneously with the issuance of the Bonds, the City is issuing the Series 2010A Bonds. Each series of the Series 2010 Bonds will be sold pursuant to a separate bond purchase agreement, and pursuant to each, the sale and issuance of any series of Series 2010 Bonds will not be conditioned upon the sale and issuance of any other series of Series 2010 Bonds. The proceeds of the Series 2010A Bonds will be applied by Corporation to (1) finance and reimburse certain capital expenditures with respect to its health care facilities; and (2) to pay costs of issuance of the Series 2010A Bonds.

See "SOURCES AND USES OF FUNDS" herein. See also APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—FACILITIES" for a more detailed description of the Corporation's expansion and modernization program.

**SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of proceeds of the Series 2010 Bonds:

	Series 2010A Bonds <sup>(1)</sup>	Series 2010B Bonds <sup>(1)</sup>	Series 2010C Bonds <sup>(1)</sup>	Total
<b>Sources of Proceeds</b>				
Principal Amount				
Original Issue				
Premium/Discount				
<b>Total Sources</b>				
<b>Uses of Proceeds</b>				
Deposits to Project Funds				
Refunding of Series 1992 Bonds				
Costs of Issuance <sup>(2)</sup>				
<b>Total Uses</b>				

<sup>(1)</sup> Each series of the Series 2010 Bonds will be sold pursuant to a separate bond purchase agreement, and pursuant to each, the sale and issuance of any series of Series 2010 Bonds will not be conditioned upon the sale and issuance of any other series of Series 2010 Bonds.

<sup>(2)</sup> Includes proceeds applied for the payment of legal and accounting fees, Underwriters' discount, printing costs, rating agency fees and miscellaneous other costs of issuance.

## ANNUAL DEBT SERVICE REQUIREMENTS

*The following table sets forth the amounts to be required in each Fiscal Year ending December 31 for the payment of interest when due and of principal at maturity or upon mandatory sinking fund redemption for the Series 2010A Bonds, the Series 2010B Bonds, the Series 2010C Bonds and the Series 2001A Bonds, and assumes the refunding of the Series 1992 Bonds occurs simultaneously with the issuance of the Series 2010 Bonds.*

Fiscal Year Ending December 31,	Series 2010A Bonds		Series 2010B Bonds	Series 2010C Bonds	Series 2001A Bonds	Estimated Total Long-
	Principal <sup>(1)</sup>	Interest	Total Debt Service	Total Debt Service	Total Debt Service <sup>(1)</sup>	Term Debt Service <sup>(2)</sup>
	Interest		Total			
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040						
<b>TOTAL</b>						

<sup>(1)</sup> Includes mandatory sinking fund redemption.

<sup>(2)</sup> Assumes that the Series 1992 Bonds are redeemed with a portion of the proceeds of the Series 2010C Bonds. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

## THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the related Bond Indenture for all of the provisions relating to the related Bonds. The discussion herein is qualified by such reference. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—BOND INDENTURES.”

**This Official Statement describes certain terms of the Bonds applicable while the Bonds bear interest at a Weekly Interest Rate. There are significant changes in the terms of the Bonds while the Bonds accrue interest in another Interest Rate Period. This Official Statement is not intended to provide information with respect to the Bonds in any other Interest Rate Period or if the Bonds are no longer secured by the Letters of Credit.**

### Description of the Bonds

The Bonds are being issued pursuant to the related Bond Indenture in the aggregate principal amount set forth on the cover of this Official Statement. Under the related Bond Indenture, the related series of Bonds are variable rate bonds that are authorized to be issued in the Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period. The Bonds initially will bear interest at a Weekly Interest Rate. Thereafter, a series of Bonds may be converted in whole to bear interest in another Interest Rate Period. While in a Weekly Interest Rate Period, the Bonds will be delivered in fully registered form without coupons. The Bonds will be dated the date of delivery and are payable as to principal, subject to the redemption provisions described herein, on the date and in the amount set forth on the cover of this Official Statement. The Bonds will be transferable and exchangeable as set forth in the related Bond Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. See “THE BONDS—Book-Entry System.”

The Bonds will bear interest at a Weekly Interest Rate until the Bonds are converted to another Interest Rate Period as described herein or, maturity or prior redemption. While in a Weekly Interest Rate Period, interest on the Bonds is payable on the first Wednesday of each calendar month, commencing [\_\_\_\_\_], 2010, or, if the first Wednesday is not a Business Day, the next succeeding Business Day (each an “Interest Payment Date”). Interest is payable to the person whose name appears on the bond registration books of the Bond Trustee as the Holder thereof as of the close of business on the Record Date (which is the Business Day immediately preceding an Interest Payment Date) for each Interest Payment Date (except with respect to interest in default, for which a special record date shall be established). So long as Cede & Co. is the registered owner of the Bonds, principal and purchase price of and premium, if any, and interest on the Bonds are payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX E—“BOOK-ENTRY ONLY SYSTEM.”

If the book-entry system for the Bonds is ever discontinued, payment of interest on the Bonds will be made by check mailed by first-class mail on each Interest Payment Date to each Holder at its address as it appears on the bond registration books maintained by the Bond Trustee or, at the written request of any Holder of at least one million dollars (\$1,000,000) in aggregate principal amount of Bonds, submitted to the Bond Trustee at least one Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by the Holder

and payment of the principal or redemption price of the Bonds will be payable upon presentation and surrender of the Bonds at the designated corporate trust office of the Bond Trustee.

### **Interest on the Bonds**

***Weekly Interest Rate Period.*** While the Bonds are in a Weekly Interest Rate Period, the Bonds will bear interest at the Weekly Interest Rate, which will be determined by the Remarketing Agent no later than 5:00 p.m., New York City time, on each Tuesday, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate will be determined by the Remarketing Agent prior to the date of issuance of the Bonds and will apply to the period commencing on the date of issuance of the Bonds and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate will apply to the period commencing on the first Wednesday on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period ends on a day other than a Tuesday, in which event the last Weekly Interest Rate will apply to the period commencing on the Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period.

***Weekly Interest Rate.*** Interest on the Bonds in a Weekly Interest Rate Period will be computed on the basis of a 365- or 366 day year for the actual number of days elapsed. The Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the effective date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. In the event that the Remarketing Agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week will be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. In the event that the Weekly Interest Rate for the immediately preceding week was not determined by the related Remarketing Agent, or in the event that the Weekly Interest Rate determined by the related Remarketing Agent is held to be invalid or unenforceable by a court of law, then the interest rate for such week, as determined by the related Remarketing Agent, will be equal to 110% of the SIFMA Index on the day such Weekly Interest Rate would otherwise be determined as provided in the related Bond Indenture for such Weekly Interest Rate Period, or if such index is no longer available, 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Weekly Interest Rate would otherwise be determined as provided in the related Bond Indenture for such Weekly Interest Rate Period. In any case, the Weekly Interest Rate will not exceed the lesser of 12% per annum and the Maximum Lawful Rate (the “Maximum Interest Rate”).

### **Converting Interest Rate Periods**

The Corporation may elect to convert a series of Bonds to another Interest Rate Period (a “Conversion”) by providing written notice of its election to the Bond Trustee, the Tender Agent, the related Remarketing Agent and the related Bank. Such Conversion will be effective on a Business Day not earlier than the tenth (10th) day following the second Business Day after receipt by the Bond Trustee of such notice. Upon Conversion from a Weekly Interest Rate Period, the converted Bonds will accrue interest in a Daily Interest Rate Period, a Short-Term Interest Rate Period or a Long-Term Interest Rate Period. The Bond Trustee shall provide notice by first-class mail of such Conversion to the Holders of the related Bonds not less than 10 days prior to the proposed effective date of such Conversion. The Bonds to be converted will be subject to mandatory tender for purchase on the first day of each new Interest Rate Period subject to the terms of the related Bond Indenture. If any condition of Conversion described under the related Bond Indenture is not satisfied, the Bonds to be converted will continue to bear interest in the Weekly Interest Rate Period, and will be subject to mandatory tender for purchase on the proposed date of the Conversion (the “Purchase Date”).

The Corporation may rescind its election to convert a series of Bonds to another Interest Rate Period by delivering a notice to that effect to the Bond Trustee, the City, the Tender Agent, the related Remarketing Agent and the related Bank, on or prior to 10:00 a.m., New York City time, on the Business Day preceding the effective date of the proposed Conversion. If the Corporation rescinds its election to convert the Bonds to be converted, then such Bonds will remain in the Weekly Interest Rate Period. However, if at the time the Corporation rescinds its election to convert the Bonds to be converted, the Bond Trustee has already mailed a notice of such Conversion to the Holders of the Bonds to be converted, then such Bonds will be subject to mandatory tender for purchase on the proposed date of such Conversion.

### **Tender of Bonds**

***Optional Tender.*** While in a Weekly Interest Rate Period, any Bonds other than Corporate Bonds, Pledged Bonds or Bonds owned by, for the account of, or on behalf of, the Issuer, the Corporation or any other Member, or any Person who controls, is controlled by, or is under common control with the Issuer, the Corporation or any other Member or a Person who is otherwise a guarantor of the Loan Repayments (an “Eligible Bond”) shall be purchased from its Holder at the option of the Holder on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase shall be an Interest Payment Date in which case at a purchase price equal to the principal amount thereof (the “Purchase Price”), payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of notices and to the Remarketing Agent of an irrevocable written notice which states the name, the principal amount and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder’s duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

***Mandatory Tender for Purchase on First Day of Each Interest Rate Period.*** The Bonds are subject to mandatory tender for purchase at the Purchase Price, payable in immediately available funds, on the first day of each Interest Rate Period or on the day which would have been the first day of an Interest Rate Period in the event that one of the conditions precedent to the adjustment to a new Interest Rate Period shall not be met as described in the related Bond Indenture. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder’s duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

In connection with any such mandatory tender for purchase of Bonds, the Tender Agent shall give notice by first-class mail to the Holders of the Bonds, as part of the notice of Conversion, not less than 10 days prior to the proposed effective date of such Conversion, stating: (1) that the Purchase Price of any Bond so subject to mandatory tender for purchase shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder’s duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (2) that all Bonds so subject to mandatory tender for purchase shall be purchased on the mandatory purchase date, which shall be explicitly stated; and (3) that in the event that any Holder of a Bond so subject to mandatory tender for purchase shall not surrender such Bond to the Tender Agent for purchase on such mandatory purchase date, then such Bond shall be deemed to be an Undelivered Bond, and that no interest shall accrue thereon on and after such mandatory purchase date and that the Holder thereof shall have no rights under the related Bond Indenture other than to receive payment of the Purchase Price thereof.

***Mandatory Tender for Purchase Upon Termination, Substitution or Expiration of Liquidity Facility or Credit Facility; Mandatory Credit/Liquidity Tender.*** If at any time (i) the Bonds cease to be subject to purchase pursuant to the related Liquidity Facility or the related Credit Facility then in effect as a result of the termination, replacement or expiration of the term, as extended, of that Liquidity Facility or Credit Facility, including but not limited to termination at the option of the Corporation in accordance with the terms of such Liquidity Facility or Credit Facility, or (ii) the Bond Trustee receives notice from the Credit Facility Provider or the Liquidity Facility Provider, as the case may be, that an event with respect to the related Reimbursement Agreement, the Credit Facility or the Liquidity Facility has occurred which requires or gives the Credit Facility Provider or Liquidity Facility Provider the option to terminate the Credit Facility or Liquidity Facility or cause a mandatory tender of related Bonds upon the designated notice (a “Mandatory Credit/Liquidity Tender”), then such Bonds shall be subject to mandatory tender for purchase at the Purchase Price. Any purchase of Bonds in the case of such a mandatory tender shall occur: (1) on the fifth Business Day preceding any such expiration or termination of such Liquidity Facility or Credit Facility without replacement, (2) on the fifth Business Day following receipt by the Bond Trustee of notice from the Credit Facility Provider or Liquidity Facility Provider of a Mandatory Credit/Liquidity Tender, but in no event later than the second Business Day preceding any expiration of such Credit Facility or Liquidity Facility, and (3) on the proposed date of the replacement of a Liquidity Facility, a Self-Liquidity Arrangement or a Credit Facility, in any case where an Alternate Liquidity Facility is to be delivered to the Tender Agent, a Self-Liquidity Arrangement is to become effective or a Credit Facility or an Alternate Credit Facility is to be delivered to the Bond Trustee. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder’s duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

The Bond Trustee shall give notice by first-class mail to the Holders of the Bonds on or before (1) the tenth day preceding the expiration or termination of a related Credit Facility or Liquidity Facility in accordance with its terms or the proposed replacement of such Credit Facility or Liquidity Facility and (2) the second Business Day after receipt of a notice of Mandatory Credit/Liquidity Tender. Such notice shall, to the extent applicable, (1) state the date of such expiration, termination or proposed replacement of such Credit Facility or Liquidity Facility or Mandatory Credit/Liquidity Tender, (2) state that the related Bonds are subject to mandatory tender for purchase as a result of such expiration, termination or proposed replacement or Mandatory Credit/Liquidity Tender, (3) state the date on which such purchase will occur and set forth the Purchase Price and the place of delivery for purchase of such Bonds, and (4) provide any other information necessary to effect a mandatory tender for purchase.

***Mandatory Tender for Purchase at the Direction of the Corporation.*** During any Weekly Interest Rate Period, the Bonds are subject to mandatory tender for purchase on any Business Day designated by the Corporation, with the consent of the Remarketing Agent and the Liquidity Facility Provider, if any, at the Purchase Price, payable in immediately available funds. Such purchase date shall be a Business Day not earlier than the 10th day following the second Business Day after receipt by the Bond Trustee of such designation. The Bond Trustee shall give notice by first-class mail to the Holders of the Bonds subject to mandatory tender not less than 10 days prior to the mandatory tender date. For payment of the Purchase Price on the Purchase Date, Bonds must be delivered at or prior to 10:00 a.m. on the Purchase Date. If delivered after that time, the Purchase Price shall be paid on the next succeeding Business Day. The Purchase Price shall be payable only upon surrender of the Bonds to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondholder or its duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

***Effect of Election to Tender or Mandatory Tender for Purchase of Bonds.*** The giving of notice by a Holder of a Bond that such Holder elects to have such Bond purchased during a Weekly Interest Rate Period shall constitute the irrevocable tender for purchase of such Bond with respect to which such notice shall have been given, regardless of whether such Bond is delivered to the Tender Agent for purchase on the relevant purchase date. The Tender Agent may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided; such refusal, however, shall not affect the validity of the purchase of such Bond as herein described. The Tender Agent for the Bonds shall determine timely and proper delivery of any Bond and the proper endorsement of such Bond. Such determination shall be binding on the Holder of such Bond, the Corporation and the Remarketing Agent, absent manifest error.

In the event that any Holder of a Bond who shall have given notice of tender for purchase or any Holder of a Bond subject to mandatory tender for purchase shall fail to deliver such Bond to the Tender Agent at the place and on the applicable date and time specified, or shall fail to deliver such Bond properly endorsed, such Bond shall constitute an “Undelivered Bond.” If funds in the amount of the Purchase Price of any Undelivered Bond are available for payment to the Holder thereof on the date and at the time specified, then from and after the date and time of that required delivery, (i) such Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the related Bond Indenture; (ii) interest shall no longer accrue thereon; and (iii) funds in the amount of the Purchase Price of the Undelivered Bond shall be held by the Tender Agent for the benefit of the Holder thereof, to be paid upon delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Principal Office. Any such funds held by the Tender Agent for the purchase of Undelivered Bonds shall be held uninvested.

***Payment of Purchase Price.*** Moneys delivered to the Tender Agent on a Purchase Date shall be applied at or before 3:00 p.m., New York City time, on such Purchase Date to pay the Purchase Price of Purchased Bonds in immediately available funds as follows in the indicated order of application and, to the extent not so applied on such date, shall be held in separate and segregated accounts of the Bond Purchase Fund of the related Bond Indenture for the benefit of the Holders of the Purchased Bonds which were to have been purchased:

FIRST: Moneys derived from the remarketing of tendered Bonds and deposited in the Remarketing Proceeds Account of the related Bond Indenture;

SECOND: Moneys drawn under a related Liquidity Facility, including the related Letter of Credit, and deposited in the Liquidity Facility Account of the related Bond Indenture; and

THIRD: Moneys provided by the Corporation and deposited in the Corporation Purchase Account of the related Bond Indenture.

Any moneys held by the Tender Agent in the Corporation Purchase Account of the related Bond Indenture remaining unclaimed by the Holders of the Purchased Bonds which were to have been purchased for three years after the respective Purchase Date for such Bonds shall be paid, upon the written request of the Corporation, to the Corporation against written receipt therefor. The Holders of Purchased Bonds who have not yet claimed money in respect of such Bonds shall thereafter be entitled to look only to the Tender Agent, to the extent it shall hold moneys on deposit in the related Bond Purchase Fund, or the Corporation, to the extent moneys have been transferred as described above.

***Inadequate Funds for Tenders.*** If sufficient funds are not available for the purchase of all Bonds of a series tendered or deemed tendered and required to be purchased on any Purchase Date, the failure to pay the Purchase Price of all such tendered Bonds when due and payable shall constitute an Event of Default pursuant to the related Bond Indenture and all such tendered Bonds shall be returned by the Tender Agent to their respective Holders and such Bonds shall bear interest at the Maximum Interest Rate from the date of such failed purchase until all such Bonds are purchased as required in accordance with the related Bond Indenture. Any moneys deposited with the Remarketing Agent or

transferred to the Tender Agent with respect to such failed remarketing shall be returned to the party depositing those moneys. Thereafter, the Bond Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider, the Credit Facility Provider or the Corporation to effect a subsequent successful remarketing of any such tendered Bonds. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—BOND INDENTURES—Events of Default.”

***Tenders of Bonds Are Subject to DTC Procedures.*** As long as the book-entry only system is in effect with respect to the Bonds, all tenders for purchase and deliveries of the Bonds tendered for purchase or subject to mandatory tender under the provisions of the related Bond Indenture shall be made pursuant to DTC’s procedures as in effect from time to time, and none of the City, the Corporation, the Bond Trustee or the Remarketing Agent shall have any responsibility for or liability with respect to the implementation of such procedures. For a description of the tender procedures through DTC, see APPENDIX E—“BOOK-ENTRY ONLY SYSTEM” hereto.

### **Special Consideration Relating to the Bonds**

***The Remarketing Agents are Paid by the Corporation.*** The Remarketing Agents’ responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the related Remarketing Agreement), all as further described in this Official Statement. Each Remarketing Agent is appointed by the Corporation, and is paid by the Corporation for its services. As a result, the interests of the Remarketing Agents may differ from those of existing holders and potential purchasers of Bonds.

***The Remarketing Agents Routinely Purchase Bonds for their Own Accounts.*** The Remarketing Agents act as remarketing agent for a variety of variable rate demand obligations and, in their sole discretions, routinely purchase such obligations for their own account. The Remarketing Agents are permitted, but not obligated, to purchase tendered Bonds for their own account and, in their sole discretion, routinely acquire such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agents are not obligated to purchase Bonds and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents are not required to make a market in any of the Bonds. The Remarketing Agents may also sell any Bonds they have purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agents may create the appearance that there is greater third-party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

***Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date.*** Pursuant to the Bond Indentures and the Remarketing Agreements, the Remarketing Agents are required to determine the applicable rate of interest that, in their judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on the date on which such interest rate determination is made. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether a Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on the date on which such interest rate determination is made, the Remarketing Agents may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agents may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agents are not obligated to advise purchasers in a remarketing if it

does not have third-party buyers for all of the Bonds at the remarketing price. In the event a Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer the Bonds on any date, including the date on which an interest rate determination is made, at a discount to par to some investors.

***The Ability to Sell the Bonds other than through Tender Process May Be Limited.*** The Remarketing Agents may buy and sell Bonds other than through the tender process. However, they are not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

***Under Certain Circumstances, the Remarketing Agents May Be Removed or Resign Without a Successor Being Named.*** Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease their remarketing efforts, without a successor having been named, subject to the terms of the related Remarketing Agreements and the related Bond Indentures.

## **Redemption**

***Optional Redemption.*** While a Weekly Interest Rate is in effect, the Bonds are subject to redemption prior to their stated maturity at the option of the City (which option shall be exercised upon the request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least fifteen (15) days prior to the date fixed for redemption) in whole or in part (in such amounts as may be specified by the Corporation) on any date at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only in the case of Eligible Bonds from related Available Moneys (as defined in the related Bond Indenture) at any time at which there is a Credit Facility in effect with respect to such Bonds.

***Extraordinary Optional Redemption.*** The Bonds are subject to redemption prior to their stated maturity, at the option of the City (which option will be exercised as directed by the Corporation, a copy of which direction shall be delivered to the Bond Trustee at least thirty (30) days prior to the date fixed for redemption, or such shorter period as agreed to in writing by the Bond Trustee) in whole or in part (in such amounts as may be specified by the Corporation), on any date, from certain hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the related Special Redemption Account (as defined in the related Bond Indenture) in accordance with the related Loan Agreement, at a redemption price equal to the principal amount thereof, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only in the case of Eligible Bonds from related Available Moneys at any time at which there is a Credit Facility in effect with respect to such Bonds.

**Mandatory Redemption.** The Series 2010B Bonds are also subject to redemption prior to their stated maturity (or payment at maturity, as the case may be) in part from Sinking Fund Installments established pursuant to the related Bond Indenture in the amounts set forth below on September 1 of the following dates (provided that, except in the case of the maturity date, if any such September 1 is not an Interest Payment Date, the mandatory sinking fund redemption shall occur on the Interest Payment Date immediately succeeding such September 1), at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium:

<b>Redemption Date</b>	<b>Sinking Fund Installments</b>	<b>Redemption Date</b>	<b>Sinking Fund Installments</b>
	\$		\$

† Final maturity.

The Series 2010C Bonds are also subject to redemption prior to their stated maturity (or payment at maturity, as the case may be) in part from Sinking Fund Installments established pursuant to the related Bond Indenture in the amounts set forth below on September 1 of the following dates (provided that, except in the case of the maturity date, if any such September 1 is not an Interest Payment Date, the mandatory sinking fund redemption shall occur on the Interest Payment Date immediately succeeding such September 1), at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium:

<b>Redemption Date</b>	<b>Sinking Fund Installments</b>	<b>Redemption Date</b>	<b>Sinking Fund Installments</b>
	\$		\$

† Final maturity.

**Notice of Redemption While in a Weekly Interest Rate Period.** Notice of redemption will be mailed by first-class mail by the Bond Trustee, not less than 10 days and not more than 60 days prior to the redemption date, to the Holders of any Bonds called for redemption at their addresses appearing on the bond registration books of the Bond Trustee and to the Master Trustee, with a copy to the City. Each notice of redemption shall state the date of such notice, the date of issuance of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the maturity, the CUSIP number, if any, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that, subject to certain provisions of the related Bond Indenture, on the date of redemption there will become due and payable on each of the related Bonds being redeemed the Redemption Price thereof or of such specified portion of the principal amount

thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Each notice shall further state that redemption is conditioned upon (i) receipt by the Bond Trustee of sufficient funds on the redemption date (which shall be Available Moneys if required by the related Bond Indenture) to pay the Redemption Price of the related Bonds to be redeemed and (ii) the legal ability of the Bond Trustee to apply such funds on the redemption date to the Redemption Price of the related Bonds to be redeemed. The failure by the Bond Trustee to mail notice of redemption to any one or more of the Holders of any related Bonds designated for redemption shall not affect the sufficiency of the proceedings for the redemption of the related Bonds with respect to the Holder or Holders to whom such notice was mailed. Notice of redemption having been given in accordance with the related Bond Indenture and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the related Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, the related Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest thereon to the redemption date, interest on such Bonds shall cease to accrue from and after the redemption date, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the related Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

***Rescission of Notice of Redemption.*** Any notice of optional redemption may be rescinded by written notice given to the Bond Trustee by the Corporation no later than five Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

***Selection of Bonds for Redemption.*** Whenever provision is made in the related Bond Indenture for the redemption of less than all of the related Bonds or any given portion thereof, the Bond Trustee shall select the related Bonds to be redeemed, from all related Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Bond Trustee in its sole discretion shall deem appropriate and fair; provided, however, that related Pledged Bonds shall be redeemed prior to any other related Bonds.

***Purchase in Lieu of Redemption.*** Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption. Such Bond is to be purchased at a purchase price equal to the then applicable Redemption Price of such Bond, plus accrued interest. The Corporation may only exercise such option after the Corporation shall have delivered a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall have directed the Bond Trustee to provide notice of mandatory purchase, as and to the extent applicable, as described above under “Notice of Redemption While in a Weekly Interest Rate Period.” Bonds to be so purchased shall be selected by the Bond Trustee in the same manner as Bonds called for redemption pursuant to the related Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds (which funds shall be Available Moneys at any time a Credit Facility is in effect unless the Credit Facility Provider has failed to honor a properly presented and conforming drawing with respect to the Credit Facility) and the Bond Trustee shall pay the same to the Holders of the related Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness of the City evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

### **Book-Entry System**

The Bonds will be issued in book-entry form. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co.

(DTC's partnership nominee). One fully-registered Bond will be issued for each series of the Bonds in the total aggregate principal amount due on such series of the Bonds and will be deposited with DTC. See APPENDIX E—"BOOK-ENTRY ONLY SYSTEM."

The Corporation and the City cannot and do not give any assurances that DTC will distribute to DTC Participants or that DTC Participants or others will distribute to the Beneficial Owners payments of principal or purchase price of and interest and premium, if any, on the Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Corporation nor the City is responsible or liable for the failure of DTC or any DTC Participant or DTC Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

### THE SERIES 2010B LETTER OF CREDIT

*The following summarizes certain provisions of the Series 2010B Letter of Credit. Reference is made to the Series 2010B Letter of Credit for the details and provisions thereof. Capitalized terms used in this section but not otherwise defined herein shall have the meaning set forth in the Series 2010B Letter of Credit.*

#### ***[BANK COUNSEL TO REVISE/COMPLETE AS APPROPRIATE]***

The Series 2010B Letter of Credit irrevocably authorizes draws in accordance with its terms in an aggregate amount not exceeding \$[ ] (as reduced and reinstated from time to time in accordance with the provisions of each such Letter of Credit, the "Stated Amount"), consisting of (i) the amount of \$[ ], which may be drawn upon with respect to payment of the unpaid principal amount of, or portion of the purchase price corresponding to the principal of, the related Bonds and (ii) the amount of \$[ ], which may be drawn upon with respect to the payment of up to 41 days' accrued interest on the Series 2010B Bonds, in each case assuming a maximum interest rate of 12% per annum and computed on the basis of the actual number of days elapsed over a year of 365 days.

Subject to the provisions contained in the immediately following paragraph, each drawing under the Series 2010B Letter of Credit shall reduce the Stated Amount by the amount of such drawing.

Upon a drawing to pay interest on the Series 2010B Bonds when required under the Series 2010B Bond Indenture, the Stated Amount will be, on the eleventh (11<sup>th</sup>) day following the date such drawing is honored (provided that if such day is not a Business Day, then on the next succeeding Business Day), automatically reinstated by an amount equal to the amount of such drawing, unless the Bond Trustee receives from the Series 2010B Bank on or before the close of business on the tenth (10<sup>th</sup>) day (or, if not a Business Day, on the next succeeding Business Day) after such drawing was honored by the Series 2010B Bank (i) a notice stating that such amount is not so reinstated because a drawing has been made under the Series 2010B Letter of Credit for which the Series 2010B Bank has not been reimbursed in full when due by the Obligated Group or (ii) a Termination Event of Default Notice (as defined in the Letters of Credit). After a drawing in connection with a purchase of Series 2010B Bonds in accordance with the Series 2010B Bond Indenture pursuant to an Optional Tender, the Stated amount shall be reinstated to the extent such Series 2010B Bonds are released by the Series 2010B Bank pursuant to the Series 2010B Reimbursement Agreement as confirmed by the Series 2010B Bank in a certificate to the Bond Trustee. Reductions in the Stated Amount pursuant to a Mandatory Tender shall not be subject to reinstatement.

The Series 2010B Letter of Credit will expire on the earliest of (i) [ ], 2013 ("Stated Termination Date"); (ii) the date on which the Series 2010B Bank receives notice from the Bond Trustee that the principal amount of and interest on all of the Series 2010B Bonds has been paid in full or deemed paid in full in accordance with the Series 2010B Bond Indenture; (iii) the date on which all of the Series 2010B Bonds have been converted to an interest rate that is not a Covered Interest Rate under the Series 2010B Bond Indenture and (1) all Series 2010B Tendered Bonds have been remarketed or

(2) the Series 2010B Bank has honored a drawing made in accordance with the terms of the Series 2010B Letter of Credit in connection with the conversion of the interest rate on the Series 2010B Bonds from a Covered Interest Rate to another interest rate period as provided in the Series 2010B Bond Indenture; (iv) the date on which an Alternate Credit Facility has become effective under the Series 2010B Bond Indenture in substitution for the Series 2010B Letter of Credit and (1) all Series 2010B Tendered Bonds have been remarketed or (2) the Series 2010B Bank has honored a drawing made in accordance with the terms of the Series 2010B Letter of Credit in connection with the substitution; or (v) the first to occur of (1) the date which is seven (7) calendar days after the Bond Trustee has received a Termination Event of Default Notice for the Series 2010B Letter of Credit or (2) the date, following receipt of such Termination Event of Default Notice, upon which the Bond Trustee has drawn upon the Series 2010B Letter of Credit the amount required thereby and as permitted under the Series 2010B Letter of Credit and the proceeds of the drawing have been distributed to the Bond Trustee.

### **THE SERIES 2010C LETTER OF CREDIT**

*The following summarizes certain provisions of the Series 2010C Letter of Credit. Reference is made to the Series 2010C Letter of Credit for the details and provisions thereof. Capitalized terms used in this section but not otherwise defined herein shall have the meaning set forth in the Series 2010C Letter of Credit.*

#### ***[BANK COUNSEL TO REVISE/COMPLETE AS APPROPRIATE]***

The Series 2010C Letter of Credit irrevocably authorizes draws in accordance with its terms in an aggregate amount not exceeding \$[ ] (as reduced and reinstated from time to time in accordance with the provisions of each such Letter of Credit, the “Stated Amount”), consisting of (i) the amount of \$[ ], which may be drawn upon with respect to payment of the unpaid principal amount of, or portion of the purchase price corresponding to the principal of, the related Bonds and (ii) the amount of \$[ ], which may be drawn upon with respect to the payment of up to 41 days’ accrued interest on the Series 2010C Bonds, in each case assuming a maximum interest rate of 12% per annum and computed on the basis of the actual number of days elapsed over a year of 365 days.

Subject to the provisions contained in the immediately following paragraph, each drawing under the Series 2010C Letter of Credit shall reduce the Stated Amount by the amount of such drawing.

Upon a drawing to pay interest on the Series 2010C Bonds when required under the Series 2010C Bond Indenture, the Stated Amount will be, on the eleventh (11<sup>th</sup>) day following the date such drawing is honored (provided that if such day is not a Business Day, then on the next succeeding Business Day), automatically reinstated by an amount equal to the amount of such drawing, unless the Bond Trustee receives from the Series 2010C Bank on or before the close of business on the tenth (10<sup>th</sup>) day (or, if not a Business Day, on the next succeeding Business Day) after such drawing was honored by the Series 2010C Bank (i) a notice stating that such amount is not so reinstated because a drawing has been made under the Series 2010C Letter of Credit for which the Series 2010C Bank has not been reimbursed in full when due by the Obligated Group or (ii) a Termination Event of Default Notice (as defined in the Letters of Credit). After a drawing in connection with a purchase of Series 2010C Bonds in accordance with the Series 2010C Bond Indenture pursuant to an Optional Tender, the Stated amount shall be reinstated to the extent such Series 2010C Bonds are released by the Series 2010C Bank pursuant to the Series 2010C Reimbursement Agreement as confirmed by the Series 2010C Bank in a certificate to the Bond Trustee. Reductions in the Stated Amount pursuant to a Mandatory Tender shall not be subject to reinstatement.

The Series 2010C Letter of Credit will expire on the earliest of (i) [ ], 2013 (“Stated Termination Date”); (ii) the date on which the Series 2010C Bank receives notice from the Bond Trustee that the principal amount of and interest on all of the Series 2010C Bonds has been paid in full or deemed paid in full in accordance with the Series 2010C Bond Indenture; (iii) the date on which all of the Series 2010C Bonds have been converted to an interest rate that is not a Covered Interest Rate under

the Series 2010C Bond Indenture and (1) all Series 2010C Tendered Bonds have been remarketed or (2) the Series 2010C Bank has honored a drawing made in accordance with the terms of the Series 2010C Letter of Credit in connection with the conversion of the interest rate on the Series 2010C Bonds from a Covered Interest Rate to another interest rate period as provided in the Series 2010C Bond Indenture; (iv) the date on which an Alternate Credit Facility has become effective under the Series 2010C Bond Indenture in substitution for the Series 2010C Letter of Credit and (1) all Series 2010C Tendered Bonds have been remarketed or (2) the Series 2010C Bank has honored a drawing made in accordance with the terms of the Series 2010C Letter of Credit in connection with the substitution; or (v) the first to occur of (1) the date which is seven (7) calendar days after the Bond Trustee has received a Termination Event of Default Notice for the Series 2010C Letter of Credit or (2) the date, following receipt of such Termination Event of Default Notice, upon which the Bond Trustee has drawn upon the Series 2010C Letter of Credit the amount required thereby and as permitted under the Series 2010C Letter of Credit and the proceeds of the drawing have been distributed to the Bond Trustee.

### **THE SERIES 2010B REIMBURSEMENT AGREEMENT**

*The following summarizes certain provisions of the Series 2010B Reimbursement Agreement between the Series 2010B Bank and the Corporation, pursuant to which the Series 2010B Letter of Credit is being issued with respect to the Series 2010B Bonds. Reference is made to the Series 2010B Reimbursement Agreement for the details of the provisions thereof. Capitalized terms used in this section but not otherwise defined herein shall have the meaning set forth in the Series 2010B Reimbursement Agreement.*

***[TO BE PROVIDED BY BANKS' COUNSEL].***

### **THE SERIES 2010C REIMBURSEMENT AGREEMENT**

*The following summarizes certain provisions of the Series 2010C Reimbursement Agreement between the Series 2010C Bank and the Corporation, pursuant to which the Series 2010C Letter of Credit is being issued with respect to the Series 2010C Bonds. Reference is made to the Series 2010C Reimbursement Agreement for the details of the provisions thereof. Capitalized terms used in this section but not otherwise defined herein shall have the meaning set forth in the Series 2010C Reimbursement Agreement.*

***[TO BE PROVIDED BY BANKS' COUNSEL].***

### **THE SERIES 2010B BANK**

*The information under this heading has been provided solely by the Series 2010B Bank and is believed to be reliable. This information has not been verified independently by the City, the Underwriters or the Corporation. None of the City, the Underwriters or the Corporation make any representation whatsoever as to the accuracy, adequacy or completeness of such information.*

#### **The Series 2010B Bank**

***[TO BE PROVIDED BY THE CITIBANK]***

### **THE SERIES 2010C BANK**

*The information under this heading has been provided solely by the Series 2010C Bank and is believed to be reliable. This information has not been verified independently by the City, the Underwriters or the Corporation. None of the City, the Underwriters or the Corporation make any representation whatsoever as to the accuracy, adequacy or completeness of such information.*

## The Series 2010C Bank

*[TO BE PROVIDED BY JPM]*

### SECURITY FOR THE BONDS

#### General

The principal of and premium, if any, and interest on the Bonds are limited obligations of the City and payable solely from Revenues (as defined in the Bond Indentures), which consist primarily of payments required to be paid by the Corporation to the City under the Loan Agreements (the “Loan Repayments”), and from certain funds held under the Bond Indentures (other than the Rebate Funds). In the Loan Agreements, the Corporation agrees to make payments to the City which, in the aggregate, are required to be in an amount sufficient for the payment of the principal of and premium, if any, and interest on the Bonds, when due. Under the Bond Indentures, the City will assign its right, title and interest in the Loan Agreements (except for the right to receive any Administrative Fees and Expenses payable to the City). The obligation of the Corporation to pay the principal of and premium, if any, and interest on the Series 2010B Bonds and the Series 2010C Bonds is also secured by Obligation No. 3 and Obligation No. 5, respectively, issued under the Master Indenture, as described below.

THE SERIES 2010B BONDS AND THE SERIES 2010C BONDS, WHICH ARE ISSUED IN ACCORDANCE WITH THE BOND LAW, ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE RESPECTIVE LOAN AGREEMENT, OBLIGATION NO.3 AND OBLIGATION NO.5, RESPECTIVELY, AND RESPECTIVE THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS, NOR WILL THE BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

#### The Master Indenture

*Consent to Amendments to Original Master Indenture by Purchase of the Bonds. Holders and Beneficial Owners of the Bonds are deemed by their purchase of the Bonds: (i) to have consented to certain amendments to the Original Master Indenture, which are contained in the Amended and Restated Master Indenture and which are summarized in APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE” and (ii) to have directed the Bond Trustee, as holder of Obligation No. 3 and Obligation No. 5, to consent to the Amended and Restated Master Indenture. The Amended and Restated Master Indenture will become effective upon issuance of the Bonds.*

**General.** The Master Indenture imposes certain covenants and restrictions on the Members of the Obligated Group for the benefit of the holders of all Obligations, including the Bond Trustee as holder of Obligation No. 3 and Obligation No. 5 securing the Series 2010B Bonds and the Series 2010C Bonds, respectively. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.” These covenants include, among others, the following.

**Joint and Several Obligations.** Obligation No. 3 and Obligation No. 5 will be issued at the time of delivery of the Bonds under and pursuant to the Master Indenture and will be secured under the Master Indenture on a parity with the Obligation No. 1, the Obligation No. 2, the 2010 Bank Obligations and any additional Obligations subsequently issued thereunder by any Member of the Obligated Group. All Members of the Obligated Group are required to make payments on Obligation No. 3 and Obligation

No. 5 in amounts sufficient to pay the principal of and premium, if any, and interest on the Series 2010B Bonds and the Series 2010C Bonds, respectively. Under the Master Indenture, the Corporation, as the Obligated Group Representative and acting on behalf of the Obligated Group, may execute and deliver additional Obligations to evidence or secure additional Indebtedness or for other purposes.

Under the Master Indenture, each Member of the Obligated Group is jointly and severally liable to pay all Obligations, including Obligation No. 3 and Obligation No. 5, Obligation No. 1, Obligation No. 2, the 2010 Bank Obligations and any additional Obligations issued under the Master Indenture. There may be limitations on enforceability of the joint and several obligations of Members of the Obligated Group to pay Obligations, as discussed under “BONDHOLDERS’ RISKS—Limitations on Enforceability of the Master Indenture and the Bond Indenture” herein. For a discussion of admission to or withdrawal from the Obligated Group, see APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—Membership in Obligated Group.” Currently the Corporation is the only Member of the Obligated Group.

***Security Interest in Gross Receivables.*** To secure their obligation to make Required Payments (as defined in the Master Indenture) under the Master Indenture and their other obligations, agreements and covenants to be performed and observed under the Master Indenter, the Corporation has granted (and any additional Members of the Obligated Group will grant) to the Master Trustee security interests in its Gross Receivables. “Gross Receivables” means all of the accounts, chattel paper, instruments and general intangibles (all as defined in the Uniform Commercial Code (the “UCC”)) of each Obligated Group Member, as are now in existence or as may be hereafter acquired, and the proceeds thereof; excluding, however, all receivables representing donor restricted gifts, grants, bequests, donations, legacies, pledges and contributions heretofore or hereafter acquired by any Obligated Group Member. The enforceability, priority and perfection of the security interest in Gross Receivables may be limited by a number of factors, or may be subordinated to Permitted Encumbrances and to the interests and claims of others in certain circumstances, as discussed under “BONDHOLDERS RISKS—Limitations on Enforceability of the Master Indenture and the Bond Indenture.” The Master Indenture shall be deemed a “security agreement” for purposes of the UCC. The Master Trustee’s security interest in the Gross Receivables shall be perfected, to the extent that such security interests may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. Each Member is required to execute (if required by the UCC) and cause to be filed, in accordance with the requirements of the UCC, financing statements in form and substance satisfactory to the Master Trustee; and, from time to time thereafter, is required to execute and deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain perfected such security interests or give public notice thereof.

Upon written request from the Obligated Group Representative, the Master Trustee shall take all procedural steps necessary to effect the subordination of its security interest in the Gross Receivables granted under the Master Indenture to security interests constituting Permitted Encumbrances.

For information with respect to the Obligated Group and the Gross Receivables generated by the Obligated Group, see APPENDIX A and APPENDIX B hereto.

**Except for this security interest granted to the Master Trustee by the Obligated Group in Gross Receivables, the Bonds are not secured by a reserve fund or a mortgage of or security interest in any real or personal property of any Members of the Obligated Group.**

If an Event of Default occurs under the Master Indenture, it is uncertain whether the Bond Trustee could obtain a remedy under the Bond Indentures or the Master Indenture on behalf of the Holders of the Obligations adequate to provide full and timely payment of the Bonds. See

“BONDHOLDERS RISKS—Limitations on Enforceability of the Master Indenture and the Bond Indentures.”

***Obligation No. 1, Obligation No. 2, the 2010 Bank Obligations, and Other Indebtedness.*** Simultaneously with the issuance of the Bonds, the City is issuing the Series 2010A Bonds. The Series 2010A Bonds will be secured by Obligation No. 2, to be issued and secured under the Master Indenture. In addition, the Corporation’s reimbursement obligations to the Series 2010B Letter of Credit Bank and the Series 2010C Letter of Credit Bank will be secured by the separate 2010 Bank Obligations, in each case such Obligation to be issued and secured under the Master Indenture. The Series 2010A Bonds are being issued for the purposes discussed herein under the heading “PLAN OF FINANCING.” In addition, the City has previously issued the Series 2001A Bonds, which are currently outstanding in the principal amount of \$[ ] and which are secured by Obligation No. 1 issued under the Master Indenture.

Following the issuance of the Series 2010 Bonds and the refunding of the Series 1992 Bonds, the Corporation will have \$[ ] of Long-Term Indebtedness Outstanding, which is the sum of the aggregate principal amount of the Series 2010 Bonds and the outstanding principal of the Series 2001A Bonds.

***Additional Indebtedness and Obligations.*** Additional Obligations on a parity with Obligation No. 3, Obligation No. 5, Obligation No. 1, Obligation No. 2 and the 2010 Bank Obligations may be issued by the Members of the Obligated Group for the purposes, upon the terms and subject to the conditions, all as provided in the Master Indenture. Subject to the conditions contained therein, the Master Indenture also permits the Members of the Obligated Group to incur additional secured and unsecured indebtedness in addition to any Obligations issued thereunder and to enter into Guaranties. The Obligated Group may (but need not) secure Indebtedness and other obligations by additional Obligations issued under the Master Indenture. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE— AUTHORIZATION, ISSUANCE AND FORM OF OBLIGATIONS—Conditions to the Issuance of a Series of Obligations.”

***Covenant Against Encumbrances.*** Pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not create, assume or suffer to exist, any Lien upon its Property, including its Gross Receivables, other than Permitted Encumbrances, unless all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—PARTICULAR COVENANTS OF THE CORPORATION AND EACH MEMBER—Against Encumbrances.”

***Consolidation, Merger, Sale or Conveyance.*** Under the Master Indenture, a Member of the Obligated Group may merge or consolidate with, or sell or convey all or substantially all of its assets to any Person who is not a Member of the Obligated Group upon compliance with the provisions of the Master Indenture summarized under APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE— PARTICULAR COVENANTS OF THE CORPORATION AND EACH MEMBER— Consolidation, Merger, Sale or Conveyance.” These transactions could, in certain circumstances, result in substantial changes in the effect of covenant restrictions on the Obligated Group in the Master Indenture or the substitution of different security for the Bonds, and the successor entity could have substantial debt outstanding that is entitled to security in addition to that provided for the benefit of the Bonds.

***Sale, Lease or Other Disposition of Property.*** The Master Indenture also imposes certain limits upon the sale or other disposition by any Member of the Obligated Group of its Property, as described in APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—

PARTICULAR COVENANTS OF THE CORPORATION AND EACH MEMBER—Sale, Lease or Other Disposition of Property.”

***Credit Provider Covenants.*** The Master Indenture contains certain additional covenants and restrictions solely for the benefit of the Credit Providers on the Corporation’s outstanding indebtedness, including the Banks. These Credit Provider Covenants and restrictions may be waived, modified or amended by the applicable Credit Provider(s) in their sole discretion and without notice to or consent by the bond trustee of any outstanding bonds, the Bond Trustee, the Master Trustee, the holders of outstanding bonds, including the Bonds, the holders of any Obligations or any other Person. Violation of any of such covenants may result in an Event of Default under the Master Indenture which could result in acceleration of all of the Obligations, including Obligation No. 3 and Obligation No. 5.

**Bonds Not General Obligations**

THE SERIES 2010B BONDS AND THE SERIES 2010C BONDS, WHICH ARE ISSUED IN ACCORDANCE WITH THE BOND LAW, ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE RESPECTIVE LOAN AGREEMENT, OBLIGATION NO.3 AND OBLIGATION NO.5, RESPECTIVELY, AND RESPECTIVE THE BOND INDENTURE AND PLEDGED AS SECURITY THEREFOR. NEITHER THE GENERAL CREDIT NOR THE TAXING POWER OF THE CITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS, NOR WILL THE BONDS BE OR BE DEEMED TO BE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF.

## BONDHOLDERS' RISKS

*The following is a discussion of certain risks that could affect payments to be made by the Corporation and future Members of the Obligated Group with respect to the Bonds. Such discussion is not exhaustive and should be read in conjunction with all other parts of this Official Statement, and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the APPENDICES hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described under "INTRODUCTION—Availability of Documents."*

### General

The Bonds will be payable by the City solely from amounts payable by the Corporation under the Loan Agreement. The principal of and premium, if any, and interest on the Bonds is also payable by the Corporation and any future Members of the Obligated Group under Obligation No. 3 and Obligation No. 5 issued to the Bond Trustee. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" above. The ability of the Corporation to realize revenues in amounts sufficient to pay the principal of and premium, if any, and interest on the Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that revenues will be realized by the Corporation in amounts sufficient to pay the principal of and premium, if any, and interest, when due, on the Bonds and the other obligations of the Corporation. None of the provisions of the Loan Agreements or the Master Indenture provide any assurance that the obligations of the Corporation will be paid as and when due if the Corporation becomes unable to pay its debts as they come due or the Corporation otherwise becomes insolvent.

The Obligated Group is subject to a wide variety of federal and State of California (the "State") regulatory actions and to legislative and policy changes by those governmental agencies and private entities that administer the Medicare and Medi-Cal (Medicaid) programs and by private entities that administer other health care payment arrangements. The Obligated Group is subject to actions by, among others, the federal Centers for Medicare and Medicaid Services ("CMS"), the U.S. Department of Health and Human Services ("DHHS"), the National Labor Relations Board, The Joint Commission and other federal, State and local governmental agencies.

The future financial condition of the Obligated Group could be adversely affected by, among other things: changes in the method and amount of payments to the Obligated Group by governmental payors and nongovernmental payors, changes in the structure of how health care is delivered and paid for as a result of the recently enacted national health care reform legislation, the financial viability of health care payors, increased competition from other health care entities, the costs associated with responding to governmental regulations, inquiries and investigations, demand by patients for health and medical care, changes in the methods by which employers purchase health care for employees, the capability of management of the Obligated Group, volatility of income of the Obligated Group from investments and contributions, future changes in the economy, demographic changes, availability of physicians and nurses and malpractice claims and other litigation. These factors and others may adversely affect payments by the Corporation under the Loan Agreements and by the Obligated Group pursuant to Obligation

No. 3 and Obligation No. 5 and, consequently, payment of the principal of and premium, if any, and interest on the Bonds.

### **Letters of Credit and the Banks**

While the Bonds bear interest at a Weekly Interest Rate, Holders of the Bonds may tender their Bonds for purchase. See “THE BONDS—Tender of Bonds—Optional Tender” herein. So long as the Bonds bear interest at a Weekly Interest Rate, it is expected that the primary security for the Bonds will be the related Letters of Credit delivered by the related Bank to the Bond Trustee in order to pay the principal and purchase price of and interest on the related Bonds. In the event of insolvency of the related Bank or the occurrence of some other event precluding the related Bank from honoring its obligations to make payments pursuant to the Letters of Credit, Holders of the Bonds may become general unsecured creditors of the related Bank. Under such circumstances, the financial resources of the Obligated Group may be the only source of timely payment on the Bonds on a scheduled interest payment date or upon a Holder’s optional tender for purchase. There can be no assurance that, under such circumstances, the financial resources of the Obligated Group would be sufficient to pay the principal or purchase price of, premium, if any, or interest on the Bonds in the event the Bond Trustee seeks recourse against the Obligated Group.

There can be no assurance that the credit ratings of the related Bank will continue at their current level. A decline in the credit ratings of the related Bank or the issuer of an Alternate Credit Facility could result in a decline in the ratings that may be assigned to the Bonds from time to time. Such a decline could in turn affect the market price and marketability of the Bonds. For information concerning the Banks, see “THE SERIES 2010B BANK” and “THE SERIES 2010C BANK” herein.

### **Enforceability of the Letters of Credit**

Section 105 of the Federal Bankruptcy Code empowers a bankruptcy court to issue such orders as are necessary or appropriate to carry out the provisions of the Bankruptcy Code. Court decisions discussing the enforceability of letters of credit indicate that it is possible that a bankruptcy court acting pursuant to Section 105 or other equitable powers under the Bankruptcy Code could enjoin a drawing by the Bond Trustee to Bondholders of amounts drawn under the Letters of Credit under various circumstances, including the bankruptcy of insolvency of, or of a similar event with respect to, the Obligated Group. The Letters of Credit do not, and are not intended to, protect Bondholders from events affecting the Banks or their creditworthiness including, without limitation, the bankruptcy or insolvency of the Banks.

### **Recently Enacted Health Care Reform Legislation**

Congress recently enacted the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Reform Act”). The Health Reform Act mandates substantial changes in how and to whom government and private health insurance is provided and in payments to providers of health care services to government beneficiaries. The implementation of the Health Reform Act is phased in over several years and requires adoption by federal and state governments of substantial new regulations and policies, the effect of which cannot be predicted.

The Health Reform Act seeks to substantially expand health insurance coverage, generally beginning in 2014, by:

- **Medicaid Expansion:** *substantially increasing the federally and state-funded Medicaid (Medi-Cal) insurance program, and authorizing states to establish federally subsidized non-Medicaid (Medi-Cal) health plans for low-income residents not eligible for Medicaid (Medi-Cal);*
- **Private Insurance Mandate:** *requiring that most adults secure private health insurance, if not eligible for the Medicaid (Medi-Cal) or other federally-funded insurance programs or covered by employer-provided insurance, and providing graduated subsidies to assist in purchasing insurance;*
- **Employer Insurance Expansion:** *requiring most employers with more than 50 employees to provide health insurance to employees or pay a federal fee; and*
- **Regulating Health Insurance Coverage:** *mandating private health insurance benefits and expansion of coverage for dependents, and preventing private health insurers from limiting annual benefits, denying coverage due to pre-existing conditions (effective immediately for children), or rescinding coverage, among other provisions.*

These provisions, when and if implemented, are generally expected to decrease the uninsured population and decrease expenses for bad debt and charity care, but to an extent that cannot be predicted.

The Health Reform Act also seeks to pay providers less for health care services provided under federally-funded health insurance programs by:

- **Reducing Payments:** *reducing increases in Medicare “market baskets” used to determine compensation rates (as described below) by amounts estimated to total \$150 billion over 10 years, reducing Medicaid disproportionate share funding by \$4 billion over 10 years, denying payment for services after certain readmissions, further decreasing diagnosis related groups (“DRG”) payments generally and adjusting payments to incentivize the delivery of quality care (and the achievement of positive outcomes for patients), and requiring that Medicare’s contingent fee third-party audit program be extended to Medicaid payments; and*
- **Innovation:** *establishing a federal Center for Medicare and Medicaid Innovation to develop new payment models that are expected to further reduce payments for services to Medicare-beneficiaries, implementing a Medicare “bundled payment” pilot program for the same purpose, increasingly linking payments to patient outcomes, and establishing a federal Independent Payment Advisory Board to propose further reductions in Medicare payments (which become effective unless overridden by Congress).*

[**TMMC TO CONFIRM** - Corporation management expects these provisions to materially reduce or limit future increases in the payments that the Corporation receives for providing services to government beneficiaries.]

The Health Reform Act seeks to increase competition among private health insurers by providing for state health insurance exchanges. The Health Reform Act also prevents private

insurers from adjusting insurance premiums based on health status, gender, or other specified factors. The Corporation expects these provisions could adversely affect the ability of private insurers to pay the Corporation for services provided to patients with private health insurance.

The Health Reform Act reduces payments for services to Medicare beneficiaries because Congress expected that hospitals will realize savings in bad debt and charity care expenses, since they are expected to provide care to fewer uninsured patients as a result of mandated increases in insurance coverage. However, the constitutionality of Health Reform Act provisions designed to expand health insurance coverage has been challenged, certain Members of Congress have proposed a repeal or amendment of the provisions, and there is no assurance that they will be implemented. In addition, health care insurance premium assistance will not be available for undocumented patients, so the Health Reform Act is not expected to reduce the number of uninsured undocumented patients. Accordingly, even if the Health Reform Act's provisions are fully implemented, there can be no assurance that the Corporation will realize sufficient savings in bad debt and charity care expenses to offset reductions in payments for services to Medicare-beneficiaries. If the revenue received by the Corporation for providing services to Medicare-beneficiaries is insufficient to cover the costs of furnishing the services, and if the Corporation does not realize offsetting reductions in bad debt and charity care expenses, the Health Reform Act could have a substantial adverse affect on the Corporation's financial condition.

It is difficult to predict the impact of the Health Reform Act due to the law's complexity, lack of implementing regulations or interpretive guidance, implementation over several years, and possible future amendments, repeal, or judicial invalidation of portions of the Health Reform Act, as well as an inability to foresee how individuals and businesses will respond to the choices afforded them by the Health Reform Act. Management of the Corporation is therefore unable to predict the impact of the Health Reform Act on the Corporation at this time.

The financial and other results of operation included in APPENDICES A and B were realized prior to enactment of the Health Reform Act. No assurance can be given that they are indicative of results of operations that the Corporation will be able to achieve after implementation of the Health Reform Act.

### **General Economic Conditions; Bad Debt and Indigent Care; Investment Losses**

Hospitals are economically influenced by the environment in which they operate. To the extent that (1) employers reduce their workforces, (2) employers reduce their budgets for employee health care coverage or (3) private and public health insurers seek to reduce payments to or utilization of hospital services, hospitals may experience decreases in insured patient volume and payments for services. In addition, to the extent that state, county or city governments are unable to provide a "safety net" of medical services to patients without health insurance, pressure is applied to local hospitals to increase free care.

Continued and future economic downturns and/or lower funding of federal Medicare and State Medi-Cal (Medicaid) and other State health care programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. An increase in unemployment or continuation of high unemployment may result in a significant number of patients no longer having health insurance coverage, which may result in decreased payments to hospitals or loss of payment for services provided. These conditions may give rise to increased bad debt and higher levels of indigent care utilization.

In the current economic environment, nonoperating revenue from investments may be reduced or eliminated. Investment losses (even if unrealized) may cause financial covenants to be violated and may jeopardize a hospital's financial condition. Losses in pension and benefit funds may result in increased funding requirements by hospitals. Potential failure of lenders, insurers or vendors may negatively impact a hospital's financial condition and philanthropic support may decrease. These factors may have a material adverse impact on hospitals and the health care system.

### **Significant Risk Areas**

Certain of the primary risks associated with the operations of the Corporation are briefly highlighted in general terms below, and are discussed in greater detail in subsequent sections. The occurrence of one or more of these and other risks could have a material adverse effect on the financial condition and result of operations of the Corporation, and in turn, the ability of the Corporation and the Obligated Group to make payments under the Loan Agreements, Obligation No. 3 and Obligation No. 5.

***Reliance on Payments from Government.*** Hospitals and health care systems rely to a high degree on revenues from Medicare and Medicaid, which is called Medi-Cal in the State. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Implementation of the Health Reform Act, discussed above, and any future changes in the law and regulations governing these governmental programs, as well as in payment policy and timing, create uncertainty and could have a material adverse impact on hospitals' payments from Medicare and Medicaid (Medi-Cal). Such State and federal programs are a significant source of revenues to many hospitals. These programs often pay hospitals and physicians at levels that may be below the actual cost of the care. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare and Medicaid (Medi-Cal) outlays for hospitals. This could have a material adverse impact on hospitals. Because Medi-Cal is partially funded by the State, the continuing adverse fiscal condition of the State may result in lower funding levels and/or payment delays. See “—Patient Service Revenues—State Budget” herein below.

***Rate Pressure from Insurers and Major Purchasers.*** Certain hospital markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over hospital rates, utilization and competition. Rate pressure imposed by health insurers or other major purchasers may have a material adverse impact on hospitals, particularly if major purchasers put increasing pressure on payors to restrict rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals in the form of payment shortfalls or delays, and/or continuing obligations to care for managed care patients without receiving payment.

***Nonoperating Revenues.*** Nonoperating revenue derived from investments can be significant to hospitals. Investment income may be reduced, eliminated or impacted by incurred losses as a result of general market conditions or specific investment losses, even when such losses are unrealized.

***Nonprofit Health Care Environment.*** Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements that apply to nonprofit tax-exempt organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, “excess benefit transactions” with insiders and exemption of property from real property taxation. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the “IRS”), labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation. The challenges and examinations and any resulting legislation, regulations, judgments or penalties could have a material adverse effect on nonprofit hospitals and other nonprofit health care providers.

***Capital Needs vs. Capital Capacity.*** Hospital operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State require that many hospital facilities be substantially modified, replaced or closed. See “—Earthquakes” below. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of construction may exceed estimates. Total capital needs may exceed capital capacity. Furthermore, availability of capital for hospitals and health systems may be reduced as a result of recent credit market dislocations. It is uncertain how long those conditions may persist and it is possible that capital availability may be negatively affected over the long term for reasons related to the credit markets.

***Construction Risks.*** Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of skilled trade labor, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds. See APPENDIX A—“INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—FACILITIES.”

***Government “Fraud” Enforcement.*** To ensure the integrity of the Federal health care programs, CMS, DHHS, the Office of Inspector General (“OIG”), and the Department of Justice (“DOJ”) have paid close attention to the business practices and conduct of health care providers. The federal and state governments, including California, impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of fraud in the Medicare and Medicaid (Medi-Cal) programs, as well as other state and federally-funded health care programs. This body of laws and regulations impact a broad spectrum of hospital commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials, and discounts, among other functions and transactions.

Enforcement actions may pertain to not only deliberate violations, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Enforcement actions may extend to conduct that occurred in the past. The government

periodically conducts widespread investigations covering categories of services, or certain accounting or billing practices.

Violations and alleged violations carry significant sanctions, which may be aggressively pursued by the government. The government may seek a wide array of civil, administrative, criminal, and monetary penalties, including withholding essential hospital payments under the Medicare or Medicaid programs, or exclusion from those programs. Negative publicity and large settlements and/or adverse results of litigation could result in payment of substantial fines and prospective restrictions that may have a materially adverse impact on hospital operations, financial condition, results of operations and reputation, and generally are not covered by insurance.

***Personnel Shortages.*** Currently, a shortage of physicians and nursing and other technical personnel exists which may have its primary impact on hospitals. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In California, State regulation of nurse staff ratios will likely intensify the shortage of nursing personnel. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals.

***Labor Costs and Disruption.*** Hospitals are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital operations and financial condition. Hospital employees are increasingly organized in collective bargaining units, and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation.

***Technical and Clinical Developments.*** New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher hospital costs, reductions in patient populations and/or new sources of competition for hospitals.

***Costs and Restrictions from Governmental Regulation.*** Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of government. The level and complexity of regulation is increasing, bringing with it operational limitations, enforcement and liability risks, and significant and sometimes unanticipated cost impacts.

***Proliferation of Competition.*** Hospitals increasingly face competition from specialty providers of care. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations. These new sources of competition may have a material adverse impact on hospitals, particularly where a group of a hospital's principal physician admitters may curtail their use of a hospital service in favor of competing facilities.

**California Medi-Cal Program.** The State of California selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients. The State is obligated to make contractual payments only to the extent the legislature appropriates adequate funding. Except in areas of the State that have been excluded from contracting, a general acute care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate such contracts on 120 days' notice and the State may terminate without notice under certain circumstances. The Corporation currently participates in the Medi-Cal program. No assurances can be made that the Corporation will be awarded future Medi-Cal contracts or that any such contracts will reimburse the Corporation for the cost of delivering services. Attempts to balance or reduce the federal budget and/or California's budget will likely negatively impact Medi-Cal spending. See "—Patient Service Revenues—State Budget" herein below.

**Pension and Benefit Funds.** As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes.

**Medical Liability Litigation and Insurance.** Medical liability litigation is subject to public policy determinations and legal and procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resulting liabilities, may increase in the future. Hospitals may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

**Facility Damage.** Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, other natural causes, fire, deliberate acts of destruction, or various facilities system failures may have material adverse impact on hospital operations, financial conditions and results of operations.

### **Nonprofit Health Care Environment**

As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex business transactions [**TMMC TO CONFIRM** - and is a major employer in its geographic area]. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are in compliance with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medi-Cal (Medicaid) compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation, and others. These

challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

***Congressional Hearings/Legislation.*** In recent years, three Congressional Committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health care providers. Among legislation proposed or discussed as a result of these hearings and proceedings are: (1) establishment of minimum required levels of charity care to be provided by nonprofit health care providers; (2) periodic review of hospitals' tax-exempt status by the IRS; and (3) greater and more uniform reporting of charitable and community benefit activities.

***IRS Examination of Compensation Practices.*** In February 2009, the IRS issued its hospital Compliance Project Final Report (the "IRS Final Report") that examined tax-exempt organizations practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicates that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures and (2) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

***California Attorney General.*** California nonprofit corporations, including the Corporation, are subject at all times to examination by the California Attorney General (the "AG") to ensure that the purposes of the nonprofit corporations are being carried out. The AG has, in recent years, made inquiries regarding the billing practices of nonprofit hospitals. It is unclear whether these inquiries represent an increased interest or scrutiny by the AG of hospital billing practices generally, or whether the AG will extend its inquiry to other nonprofit hospital issues. The AG also increased its scrutiny of California nonprofit corporations with the passage of the California Nonprofit Integrity Act, which became effective in 2005.

***Litigation Relating to Billing and Collection Practices.*** Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Some of these cases have been dismissed by the courts, and some hospitals have entered into substantial settlements. A number of cases are still pending in various courts around the country.

***Challenges to Real Property Tax Exemptions.*** Recently, the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

***Action by Purchasers of Hospital Services and Consumers.*** Major purchasers of hospital services could take action to restrict hospital charges or charge increases. In California, the California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a

result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted.

**Form 990.** In December 2007, the IRS released a new Form 990, which is applicable to tax years beginning after January 1, 2008. The new Form 990 imposes significant additional compliance and reporting requirements by nonprofit institutions with respect to outstanding tax-exempt obligations. These reporting and recordkeeping requirements go beyond what many health care institutions have done historically and will require substantial additional effort on the parts of health care institutions with outstanding tax-exempt obligations.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse impact on the financial condition of the Corporation and, in turn, its ability to make payments under the Loan Agreements, Obligation No. 3 and Obligation No. 5.

### **Patient Service Revenues**

**The Medicare Program.** Medicare is the federal health insurance system under which hospitals are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state and/or The Joint Commission. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, and services. The Medicare program will be affected by the federal Health Reform Act, discussed above.

For the fiscal years ended December 31, 2008 and 2009, Medicare payments represented approximately 29.1% and 29.3%, respectively, of the Corporation's gross patient service revenue, excluding Medicare managed care, which was approximately 22.7% and 23.5%, respectively. See APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—SUMMARY OF FINANCIAL POSITION—Sources of Revenue."

Components of the American Recovery and Reinvestment Act of 2009 (the "ARRA") provide for Medicare incentive payments beginning in 2011 to hospital providers meeting designated deadlines for the installation and use of electronic health information systems. For those hospital providers failing to meet a 2016 deadline, Medicare payments may be significantly reduced.

**Hospital Inpatient Reimbursement.** Hospitals are generally paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as DRGs. The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates are subject to adjustment by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

**Other Medicare Service Payments.** Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

**Reimbursement of Hospital Capital Costs.** Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of the Corporation's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

**[TMMC to advise if applicable - Medical Education Payments.** Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination.]

**Medi-Cal Program.** Medicaid is the joint state-federal assistance program for certain qualifying individuals and their dependants operated by individual states with the financial participation of the federal government. Medi-Cal is the California program of medical assistance, funded jointly by the federal government and the State. The federal government provides substantial funding to the Medi-Cal program, so long as it meets federal standards.

For the fiscal years ended December 31, 2008 and 2009, the Corporation received approximately 3.9% and 4.0%, respectively of gross patient service revenues each year from State Medi-Cal programs. APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—SUMMARY OF FINANCIAL POSITION— Sources of Revenue."

**State Budget.** The State continues to face severe financial challenges resulting from an excess of expenditures over revenues. The financial challenges facing the State may negatively affect hospitals in a number of ways, including, but not limited to, reductions in Medi-Cal payment rates, a greater number of indigent patients who are unable to pay for their care and/or a greater number of individuals who qualify for Medi-Cal.

The 2010-11 State Budget proposed by the Governor is pending in the State legislature. **[TMMC TO CONFIRM** - Based on existing contracts with the California Medical Assistance Commission, management of the Obligated Group does not currently expect the 2010-11 State Budget proposed by the Governor to have any material adverse affect on the financial condition or results of operations of the Corporation, and the proposed outpatient Medi-Cal reductions, if adopted, in management's opinion, would not have a material adverse affect on the results of operations of the Corporation.] However, it is not possible to predict how the final budget that will be adopted by the State legislature may impact the Obligated Group.

**Health Plans and Managed Care.** Private health insurance will be affected by the federal Health Reform Act discussed above.

Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations ("HMOs") and preferred provider

organizations (“PPOs”), that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Medicare and Medicaid (Medi-Cal) also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider’s ability to manage this component of revenue and cost.

Some HMOs employ a “capitation” payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is “assigned” or otherwise directed to receive care at a particular hospital. The hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital’s actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay the hospital. Hospitals from time to time have disputes with managed care payors concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing the Corporation’s market share and net patient services revenues. Conversely, participation may result in lower net income if participating the Corporation is unable to adequately contain its costs. Thus, managed care poses a significant business risk (and opportunity) that hospitals face.

[*TMMC TO PROVIDE* - For the fiscal years ended December 31, 2008 and 2009, managed care payments (including Medicaid and Medi-Cal contracts and all capitated and non-capitated managed care) constituted approximately [ ]% and [ ]%, respectively, of gross patient service revenues of the Corporation. APPENDIX A—“INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—SUMMARY OF FINANCIAL POSITION— Sources of Revenue.”

**Technological Changes.** Medical research and resulting discoveries have grown exponentially in the last decade. These new discoveries may add greatly to the Corporation’s cost of providing services with no or little offsetting increase in federal reimbursement and may also render obsolete certain of the Corporation’s health services. New drugs and devices may increase hospitals’ expense because, for the most part, the costs of new drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care and are often not covered for outpatient services.

### **Future Federal Legislation**

In addition to the Health Reform Act, future legislation, regulation or other actions by the federal government are expected to continue the trend toward greater limitations on reimbursement for health care services. Future changes to the Medicare or Medi-Cal programs

could result in substantial reductions in the amounts of governmental payments to health care providers, which in turn could have a material adverse affect on the revenues of the Corporation.

### **Regulatory Matters**

Complex health care laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims and receiving reimbursement for such services. Implementation of the Health Reform Act will require the federal and State governments to adopt new regulations. A substantial portion of these laws target fraud and abuse, and address a broad range of unlawful conduct, including, but not limited to, submitting claims for services that are not in fact provided, billing in a manner that does not comply with government requirements or including inaccurate billing information, billing for medically unnecessary services, or billings accompanied by an illegal inducement to utilize or recommend utilization of a service or product. Laws governing fraud and abuse have broad application to hospitals and their financial relationships.

Violation of federal and state fraud and abuse laws may result in a broad range of criminal, civil and administrative sanctions, including the exclusion of a hospital from participation in the Medicare/Medicaid (Medi-Cal) programs, civil monetary penalties, and suspension of Medicare/Medicaid (Medi-Cal) payments, among others. Fraud and abuse cases may be prosecuted by one or more government entities (in many cases as a result of private “whistleblower” actions), and more than one of the available sanctions may be, and often are, imposed for each violation.

Fraud and abuse laws are numerous, highly technical in nature, and frequently changing. Hospitals devote substantial resources to ensure effective compliance with these laws and regulations. Fraud investigations, prosecutions, adjudications, settlements and related publicity resulting from these legal proceedings could have a material adverse effect on the future operations or financial condition of the Corporation. See “—Enforcement Activity” below. Major elements of these complex laws and regulations are generally summarized below.

***False Claims Act.*** The criminal False Claims Act, or Criminal FCA, prohibits anyone from knowingly submitting a false, fictitious or fraudulent claim to the federal government. There are numerous specific rules that a health care provider must follow with respect to the submission of claims. Violation of the Criminal FCA can result in imprisonment and/or potentially substantial fines for an individual or an organization.

The civil False Claims Act, or Civil FCA, makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. Civil FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the Civil FCA can result in settlements that require multi-million dollar payments and compliance agreements. The Civil FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The Civil FCA has become one of the government’s primary weapons against health care fraud. Civil FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital or other health care

provider. In May 2009, President Obama signed the “Fraud Enforcement and Recovery Act” into law, which expands the number of actions for which contractors may be held liable under the Civil FCA and gives federal authorities more funding and broader enforcement powers.

***Anti-Kickback Statute.*** The federal “Anti-Kickback Statute” is a criminal statute that, in part, prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is paid by any federal or state health care program. Because terms such as “any remuneration,” “directly or indirectly,” and “in cash or in kind” are extremely broad, the Anti-Kickback Statute is susceptible to expansive interpretation. At a minimum, the Anti-Kickback Statute is implicated by many common health care transactions in which a hospital may engage, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions.

Violation or alleged violation of the Anti-Kickback Statute can result in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Statute can be prosecuted either criminally or civilly. Each violation is a felony, subject to potentially substantial fines, imprisonment and/or exclusion from the Medicare and Medi-Cal (Medicaid) programs, any of which could have a material adverse impact on the financial condition of a hospital or health care system.

***“Stark” Self-Referral Prohibitions.*** To prevent perceived abuses of over-utilization, the Stark Law prohibits certain physician self-referral arrangements. Under the Stark Law, if a physician has a financial relationship with an entity, the physician may not refer patients to that entity for the furnishing of “designated health services” (“DHS”) for which payment may be made under the Medicare program, and the entity may not submit claims to Medicare for DHS provided pursuant to a prohibited referral, unless a Stark Law exception applies. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark Law violation. Many ordinary business practices and economically desirable arrangements between physicians and hospitals or other health care providers arguably constitute “financial relationships” within the meaning of the Stark Law. The prohibition on referrals and billing would be triggered by the financial relationship unless the relationship fully complied with one of several exceptions. Most providers of DHS with physician relationships have some exposure to liability under the Stark statute.

Medicare may deny payment for all services related to a prohibited referral and a hospital or other health care provider that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate the Stark Law, a hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital or other health care provider may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medi-Cal programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital or other health care provider.

***HIPAA.*** The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) criminalized a wide array of conduct involving public and private health care benefits by creating

new offenses of health care fraud and applying pre-existing prohibitions to health plans and contracts. HIPAA dramatically increased the applicable civil monetary penalties, added offenses that trigger exclusion from Medicare, and broadened the group of individuals who could be sanctioned. In addition, HIPAA includes administrative simplification provisions that require standardization of electronic transactions, specific security protections for medical information and processes, privacy protections for patient medical records, and establishment of national employer and provider identifiers. DHHS and CMS have promulgated rules related to electronic transactions, national employer identifiers, national provider identifiers, security, and medical records privacy. Rules regarding national health plan identifiers, claims attachments standards and first report of injury standards have been published in proposed form or are under development.

ARRA alters certain rules regarding the use and disclosure of protected health information, extends certain HIPAA provisions to business associates and creates new security breach notification requirements. Under ARRA, DHHS is required to conduct periodic compliance audits of HIPAA-covered entities and their business associates. The Obligated Group may incur significant costs in implementing the policies and systems required to bring itself into compliance with these new requirements.

ARRA also broadens the scope of the federal privacy and security regulatory landscape, including significantly expanding the reach of HIPAA. Among other things, ARRA strengthens the HIPAA enforcement provisions, which may result in increased enforcement activity. ARRA broadens the applicability of the criminal penalty provisions under HIPAA to employees of covered entities and requires DHHS to impose penalties on violations resulting from willful neglect. ARRA also significantly increases the amount of civil penalties under HIPAA. In addition, ARRA authorizes state attorneys general to bring civil actions seeking either injunction or damages in response to violations of HIPAA privacy and security regulations that threaten state residents.

***Exclusions from Medicare or Medi-Cal Participation.*** The government may exclude a hospital from federal health care program participation in instances of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government may also exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from a federal health care program means that a hospital would be decertified under that program and no program payments can be made.

***Compliance with Conditions of Participation.*** CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

***Enforcement Activity.*** Enforcement activity against health care providers has increased, and enforcement authorities may aggressively pursue perceived violations of health care laws. In

the current regulatory climate, it is anticipated that many hospitals and physician groups may be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above. The cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could also be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance.

***Liability Under State “Fraud” and “False Claims” Laws.*** Hospital providers in California also are subject to a variety of state laws, related to false claims (similar to the FCA or that are generally applicable false claims laws) and anti-kickback (similar to the federal Anti-Kickback Statute or that are generally applicable anti-kickback or fraud laws). These prohibitions are similar in public policy and scope to the federal laws, and could pose the possibility of material adverse impact for the same reasons as the federal statutes.

***Enforcement Affecting Clinical Research.*** In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also heightened enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protections, one of the agencies with responsibilities for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration (“FDA”) also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. The FDA’s inspection of facilities increased significantly in recent years. These agencies’ enforcement powers range from substantial fines and penalties to exclusions of researchers and suspension or termination of entire research programs.

***EMTALA.*** The Emergency Medical Treatment and Active Labor Act (“EMTALA”) is a federal civil statute that generally requires hospitals to treat or conduct a medical screening for emergency conditions and to stabilize a patient’s emergency medical condition before releasing, discharging or transferring the patient. A hospital that violates EMTALA is subject to civil penalties per offense and possible exclusion from the Medicare and Medicaid (Medi-Cal) programs. In addition, the hospital may be liable under a civil claim brought by an individual who has suffered harm as a result of the actions surrounding the EMTALA violation.

***Licensing, Surveys, Investigations and Audits.*** Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses could reduce hospital utilization or revenues, or a hospital’s ability to operate all or a portion of its facilities.

**Investments.** [*TMMC TO PROVIDE ANY UPDATES* - Investment income has during certain fiscal years constituted a significant portion of the net income of the Corporation. No assurance can be given that the investments of the Corporation will produce positive returns or that losses on investments will not occur in the future.] To the extent investment returns are lower than anticipated or losses on investments occur, the Corporation may also be required to make additional deposits in connection with pension fund liabilities.

**Environmental Laws and Regulations.** Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

**Medicare Recovery Audit Contractor Reviews (“RAC Audits”).** In March 2005, CMS announced a three-year demonstration project using recovery audit contractors to audit claims made by hospitals in California, Florida and New York. Since that time, hospitals in each of these states, [*CORPORATION TO REVIEW/CONFIRM/REVISE* - including the hospital operated by the Corporation, have received RAC Audit requests on an on-going basis and in the normal course of business. In some cases, the audits may lead to repayment demands, while in other cases the audit results may indicate additional moneys due to the hospitals being audited. Corporation has responded directly to the RAC Audit requests and, as of the date hereof, has made repayments to the Medicare program to the extent claims were determined to be valid in the amount of \$[\_\_\_\_\_]. The permanent RAC Audit program became effective on July 1, 2009. The RAC auditors are preparing their audit programs and it is anticipated that audits will commence during the first quarter of calendar year 2010. It is unknown if Corporation’s outcomes during the demonstration project will be replicated in the permanent program.

## **Business Relationships and Other Business Matters**

**Integrated Physician Groups.** Hospitals often own, control or have affiliations with relatively large physician groups. Generally, the sponsoring hospital will be the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the

community and/or to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital or health system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization.

***Hospital Pricing.*** Inflation in hospital costs may evoke action by legislatures, payors or consumers. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services.

***Indigent Care.*** Tax-exempt hospitals often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner-city hospitals may treat significant numbers of indigents. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

***Physician Medical Staff.*** The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

An emerging area of potential risk for all hospitals surrounds the appropriate management of physician conflicts of interest with hospitals that grant practice privileges. Described as "economic credentialing" by physicians who oppose efforts of hospitals to manage the presence of direct competitors within the leadership or boardroom, the issue requires all hospitals to thoughtfully manage these potential conflicts to maintain a healthy, collegial and professional relationship required with the independent medical staff, while ensuring the organization is not suffering irreversible harm from a competitor gaining specific or specialized information not available to the public regarding the Obligated Group's plans. In the worst circumstances, such efforts have led to litigation and potentially material impacts on the practice patterns of physicians at a specific facility. It is not possible to predict the course of such decisions or make any assurance that the Obligated Group will be successful in managing such conflicts without

causing some changes in physician practice patterns, which could have a material adverse effect on the Obligated Group.

**Physician Supply.** Sufficient community-based physician supply is important to hospitals and health systems. A shortage of physicians could become a significant issue for California health providers to face in the coming years. In addition, CMS annually reviews overall physician reimbursement formulas. Changes to physician compensation formulas could lead to physicians locating their practices in communities with lower Medicare populations. Hospitals and health systems may be required to invest additional resources for recruiting and retaining physicians, or may be required to increase the percentage of employed physicians in order to continue serving the growing population base and maintain market share.

**Competition Among Health Care Providers.** Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and/or revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's heart surgeons develop their own specialty heart hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters) taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A moratorium imposed under Stark on physician investment in new specialty hospitals recently expired. A variety of proposals have been advanced recently to permanently prohibit such investments. Nonetheless, specialty hospitals continue to represent a significant competitive challenge for full-service hospitals.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of the hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

**Technology.** Scientific and technological advances, new procedures, drugs and devices, preventive medicine, occupational health and safety, and outpatient health care delivery may reduce utilization and revenues of the Corporation in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and hospitals may have to incur significant costs to acquire the equipment needed to maintain or enhance their competitive position. ARRA allocates \$20 billion to health care information technology, and in February 2009, President Obama called for

the establishment of a nationwide electronic medical records system, such system to be in place by 2014. The costs to acquire and implement an electronic medical records system are significant but it is widely believed that such systems will lead to greater efficiencies in the provision of patient care and improved quality of care. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of the Corporation to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations. DHHS published a safe harbor to the Anti-Kickback Law and an exception to Stark allowing hospitals to provide to physicians certain electronic medical record and electronic prescribing technology below the hospital's cost. This resulting increase in demand for hospitals to provide covered technology could have a material adverse consequence on the financial condition of the Corporation.

***Antitrust.*** Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, and anticompetitive business conduct or practices. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability for hospitals and other health care providers are joint action among providers with respect to payor contracting, medical staff credentialing disputes and anticompetitive business conduct or practices by hospitals and other health care providers with sufficiently large market share.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. Moreover, successful private or governmental litigants may obtain injunctive relief that can affect the defendant's ability to conduct or continue certain business practices or activities.

***Labor Relations and Collective Bargaining.*** Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation.

***Wage and Hour Class Actions and Litigation.*** *[TMMC to advise/update as necessary:* Federal law and many states impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these "wage and hour" issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to the Corporation could have a material adverse impact on its financial condition and result of operations.]

**Health Care Worker Classification.** Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

**Staffing.** In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals.

**Professional Liability Claims and General Liability Insurance.** In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of a hospital if determined or settled adversely.

There is no assurance that hospitals will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against a hospital or that such coverage will be available at a reasonable cost in the future.

## **Joint Ventures**

The OIG has expressed its concern in various advisory bulletins and other guidance that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Statute, since the parties to joint ventures are typically in a position to refer patients of federal health care programs. In its 1989 Special Fraud Alert, the OIG raised concerns about certain physician joint ventures where the intent is not to raise investment capital to start a business but rather to "lock up a stream of referrals from the physician investors and compensate these investors indirectly for these referrals." The OIG listed various features of suspect joint ventures, but noted that its list was not exhaustive. These features include: (i) whether investors are chosen because they are in a position to make referrals; (ii) whether physicians with more potential referrals are given larger investment interests; (iii) whether referrals are tracked and referral sources shared with investing physicians; (iv) whether the overall structure is a "shell"

(i.e., one of the parties is an ongoing entity already engaged in a particular line of business); and (v) whether investors are required to invest a disproportionately small amount or are paid extraordinary returns in comparison with their risk.

In April 2003, the OIG issued a Special Advisory Bulletin indicating that “contractual joint ventures” (where a provider expands into a new line of business by contracting with an entity that already provides the items or services) may violate the Anti-Kickback Statute and expressed skepticism that existing statutory or regulatory safe-harbors would protect suspect contractual joint ventures. In January, 2005, the OIG published its Supplemental Program Guidance for Hospitals and reiterated its concerns regarding joint ventures entered into by hospitals.

In addition, under the federal tax laws governing Section 501(c)(3) organizations, a tax-exempt hospital’s participation in a joint venture with for-profit entities must further the hospital’s exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital’s tax-exemption may be revoked, the hospital’s income from the joint venture may be subject to tax, or the parties may be subject to some other sanction. See “BONDHOLDERS’ RISKS—Tax-Exempt Status of the Corporation and the Series 2010A Bonds” for further discussion of risks related to the tax-exempt status of the Corporation.

Finally, many hospital joint ventures with physicians may also implicate the federal Stark Law.

Any evaluation of compliance with the Anti-Kickback Statute, the Stark Law or tax laws governing Section 501(c)(3) organizations depends on the totality of the facts and circumstances. [**TMMC TO CONFIRM** - While management of the Corporation believes that the joint venture arrangements to which the Corporation is a party are in material compliance with the Anti-Kickback Statute and OIG pronouncements], the Stark Law and the tax laws governing Section 501(c)(3) organizations, any determination that the Corporation is not in compliance could have a material adverse effect on the future financial condition of the Corporation.

### **Limitations on Enforceability of the Master Indenture and Bond Indenture**

**Bankruptcy.** In the event of bankruptcy of the Corporation or any future Member of the Obligated Group, the rights and remedies of the Holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If a Member were to file a petition in bankruptcy, payments made by such Member during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such entity’s liquidation. Security interests and other liens granted to the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or enhance the rights of the Master Trustee. If the bankruptcy court so ordered, the property of such Member, including accounts receivable, other Gross Receivables and proceeds thereof, could be used for the

financial rehabilitation of such Member despite any security interest of the Master Trustee therein. The rights of the Master Trustee to enforce its security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

The Corporation and any future Member of the Obligated Group could file a plan for the adjustment of its debts in any such proceeding, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which conditions are that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, the obligations of the Corporation and any future Members of the Obligated Group to pay the principal of and premium, if any, and interest on the Bonds is not secured by a lien on or security interest in any assets or revenues of the Obligated Group, other than Gross Receivables and the lien on certain funds held by the Bond Trustee under the Bond Indenture. Except with respect to such security interest in Receivables and the pledge of such funds under the Bond Indenture, in the event of a bankruptcy of the Obligated Group, Holders would be unsecured creditors and would be in an inferior position to any secured creditors and on a parity basis with all other unsecured creditors.

In the event of bankruptcy of Obligated Group, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

***Security Interest in Gross Receivables.*** The enforceability, priority and perfection of the security interest granted by the Members of the Obligated Group in Gross Receivables may be limited by a number of factors, or be subordinated to the interest and claims of others. Some examples of such factors and cases of subordination or prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or State bankruptcy or insolvency laws that may affect the enforceability of the Master Indenture or of the security interest of Gross Receivables and (vi) rights of third parties, and in some instances, the Members of the Obligated Group, in Gross Receivables constituting cash or instruments and not in the possession of the Master Trustee or the its agent. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

***Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes.*** It is possible that the joint and several obligations of each Member of the Obligated Group to make payments under Obligations in respect of moneys used by another Member may be avoided in an action brought by creditors of the first Member pursuant to California’s fraudulent conveyance statutes or may be avoided for the benefit of other creditors by a debtor or

trustee in bankruptcy in the event of the bankruptcy of such Member. Depending upon whether the federal Bankruptcy Code or California's fraudulent conveyance statutes are applicable, an obligation may be avoided if (a) the obligation was incurred without receipt by the Member of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the Member "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, the joint and several obligation under the Master Indenture to pay all Obligations issued thereunder, including payments in respect of funds used for the benefit of other Members, may be held to be a "transfer" which makes such Members "insolvent," in the sense that the total amount due under all Obligations could be considered as causing liabilities to exceed its assets. Also, a Member may be deemed to have received less than "fair consideration" for its joint and several obligation because only a portion of the proceeds of the Bonds are to be used to finance facilities occupied or used by a Member. While a Member may benefit generally from facilities financed with proceeds of the Bonds for the other Members, the actual cash value of this benefit may be less than the value of the Member's joint and several obligation.

In addition, Members that are nonprofit corporations may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others. Such a determination may be made if the Member making the payments has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, to the extent that payments (i) are requested to be made with respect to payments on any Obligation which was issued for a purpose which is not consistent with the charitable purposes of the Obligated Group, or which was issued for the benefit of an entity other than a not-for-profit corporation which is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Code and is not a "private foundation" as defined in Section 509(a) of the Code; (ii) are requested to be made from any property of the Obligated Group which is donor restricted or which is subject to a direct or express trust which does not permit the use of such property for such payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Obligated Group; or (iv) are requested to be made pursuant to any loan violating applicable usury laws, other than such laws in the State of California.

***Enforceability of the Bond Indentures, Loan Agreements and the Master Indenture.***

The legal right and practical ability of the Bond Trustee to enforce rights and remedies under the Bond Indentures and the Loan Agreements, and of the Master Trustee to enforce remedies under the Master Indenture, may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights and by application of equitable principles. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, may otherwise not be readily available or may be limited by certain legal principles.

The various legal opinions delivered concurrently with the issuance of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

### **Matters Relating to the Security for the Bonds**

The Bonds are not secured by a mortgage on the facilities of, or any other assets of, the Obligated Group except for the security interest granted under the Master Indenture in Gross Receivables, which secures all Obligations including Obligation No. 3 and Obligation No. 5 securing the Series 2010B Bonds and the Series 2010C Bonds, respectively, Obligation No. 2 securing the Series 2010A Bonds, Obligation No. 1, and the 2010 Bank Obligations.

Pursuant to the terms of the Master Indenture, each Member of the Obligated Group may incur additional Indebtedness (including additional Obligations) which is entitled to the benefits of security which does not extend to any other Indebtedness (including Obligation No. 3 and Obligation No. 5, which secure the Series 2010B Bonds and the Series 2010C Bonds, respectively). Such security may include a depreciation reserve, debt service or interest reserve or similar fund which may secure such other Indebtedness. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

Under the terms of the Master Indenture, the Obligated Group may grant liens that constitute Permitted Encumbrances to secure obligations to other persons, which Permitted Encumbrances may be superior to the security interest in Gross Receivables, which secures all Obligations including Obligation No. 3 and Obligation No. 5. See APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

Pursuant to the provisions of the Master Indenture, certain of the rights and remedies afforded the holders of Obligations under the Master Indenture, including without limitation the right to demand acceleration of Obligations (including Obligation No. 3 and Obligation No. 5), may be initiated by the holders of 25% or more in aggregate principal amount of the Obligations Outstanding, subject to the right of the holders of a majority in aggregate principal amount of Obligations Outstanding to direct all remedies under the Master Indenture.

Certain amendments or supplements may be made to the Master Indenture, the Bond Indentures, the Loan Agreements, Obligation No. 3 or Obligation No. 5 without notice to, or the consent of, any of the Holders of the Bonds. Certain amendments to the Bond Indentures and the Loan Agreements may be made with the consent of the owners of not less than a majority of the principal amount of the Outstanding Bonds. Certain amendments to the Master Indenture may be made with the consent of the holders of not less than a majority in aggregate principal amount of Outstanding Obligations and such majority may be comprised wholly or partially of the holders of Obligations other than Obligation No. 3 and Obligation No. 5, and such amendments may adversely affect the Bondholders. SEE APPENDIX C—“SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE” and “—BOND INDENTURE” and “—LOAN AGREEMENT.”.

### **Tax-Exempt Status of the Corporation and the Bonds**

*[MCDERMOTT AND ORRICK TO REVIEW/REVISE]*

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of such obligations, limitations on the investment earnings of such proceeds prior to expenditure, a requirement that certain investment earnings on such proceeds be paid periodically to the United States Treasury, and a requirement that the

issuer of the obligations file an information report with the IRS. The Corporation has covenanted in the Loan Agreement that it will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of execution and delivery. The City has covenanted in the Bond Indenture that it shall at all times do and perform all acts and things permitted by law that are necessary and desirable in order to assure that interest paid on the Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not be so excluded. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt obligations. The Bonds may be, from time to time, subject to audits by the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See "TAX MATTERS" herein]

### **Consolidation, Merger, Sale or Conveyance**

The Corporation may merge into, or consolidate with, or sell, transfer, assign or otherwise convey all or substantially all of its Property to another Member or to any Person who is not a Member of the Obligated Group, upon compliance with the provisions of the Master Indenture summarized herein under the caption, "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—The Master Indenture—Consolidation, Merger, Sale or Conveyance," and in APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE—PARTICULAR COVENANTS OF THE CORPORATION AND EACH MEMBER—Consolidation, Merger, Sale or Conveyance." These transactions could, in certain circumstances, result in substantial changes in the effect of covenant restrictions on the Obligated Group in the Master Indenture or the substitution of different security for the Bonds, and any successor entity to the Corporation could have substantial debt outstanding that is entitled to security in addition to that provided for the benefit of the Bonds.

### **Construction Risks**

The development, construction and renovation of hospital facilities are susceptible to various risks and uncertainties, such as: inflation of construction costs; general construction risks, including cost overruns, change orders and plan or specification modification, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences; changes and concessions required by governmental or regulatory authorities; delays in obtaining, or inability to obtain, all licenses, permits and authorizations required to complete and/or operate the project; and disruption of existing operations and facilities.

**The Medical Center has negotiated a guaranteed maximum price contract with McCarthy building Company as of August 18, 2010. This contract includes the completion of site work as well as the construction of the New Main Tower. It excludes change orders, which could potentially be made to the approved construction plan. However, the Medical Center has included a \$35 million construction contingency within the budget to**

**accommodate such change orders.** The anticipated costs and construction period for components of the projects comprising Corporation's plans for expansion are based upon budgets, some conceptual design documents and construction schedule estimates prepared by the Corporation in consultation with the Corporation's architects and contractors as more fully described in APPENDIX A. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns cannot be financed on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. The completion dates of any of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that any project will be completed, if at all, on time or within established budgets, or that any project will result in increased earnings. Significant delays, cost overruns, or failures of the construction or renovation projects to achieve market acceptance could have a material adverse effect on the hospitals' business, financial condition and results of operations. Furthermore, the projects, including the projects financed and refinanced by the Bonds, may not help the Corporation compete with new or increased competition and may not result in increased net income.

Certain permits, licenses and approvals necessary for some of the Corporation's current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development or renovation projects can be extensive and may include state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. The Corporation may not receive the necessary permits, licenses and approvals or obtain the necessary permits, licenses and approvals within the anticipated time frame.

The failure to complete any construction or renovation project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have an adverse effect on the Corporation's business, financial condition and results of operations. Further, the magnitude and scope of construction and renovation projects, and the management of multiple construction and renovation projects at the same time, may divert management resources from ongoing operations and/or construction and/or opening of any one project. Corporation management's inability to devote sufficient time and attention to ongoing operations and/or any one project may have an adverse affect on the ongoing operations of the hospitals or delay the construction or opening of any or all of the projects. Any delay caused by such circumstances could have a negative effect on business and operations.

In addition, although hospital construction and renovation is generally planned to have minimal impact on ongoing operations, no assurances can be given that the construction and renovation at the Corporation's facilities will not disrupt the ongoing operations of its hospital or that it will be implemented as planned. Therefore, the construction and renovation of hospital facilities may adversely impact the business, operations and revenues of the Corporation.

### **Trading Market for the Bonds**

There can be no assurance that there will be a secondary market for the purchase and sale of the Bonds. Any secondary market will depend on prevailing market conditions, the evaluation of the Corporation's resources and the financial condition and results of operations of the Corporation and any future Members of the Obligated Group.

## Earthquakes

The Corporation's facilities are situated in an active earthquake zone. A significant earthquake in the region could have a material adverse effect on the Corporation and could result in material damage and temporary or permanent cessation of operations at one or more of the Corporation's facilities. [*TMMC to confirm* - The Corporation does not have earthquake insurance, other than a limited earthquake benefit of \$10 million after a 5% deductible under its comprehensive blanket Property Insurance policy.]

[*TMMC to confirm/update* - Legislation adopted in California in 1994 requires all urgent care facilities in the State to survive earthquakes without collapsing or posing a treat of significant loss of life as of January 1, 2008. All hospitals must be seismically evaluated and retrofitted, if needed, to be in substantial compliance with the Hospital Facilities Seismic Safety Act by January 1, 2030. Delays in compliance with the January 1, 2008 deadline were permitted if a hospital owner showed that capacity lost in the closure of a facility could not be provided by another facility in the area or if a hospital owner agreed that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards. The 2013 deadline may be extended up to two years to January 1, 2015 if the hospital demonstrates certain requirements, including that it is under construction at the time of the request for the extension, it has made reasonable progress in meeting the deadline, and it cannot meet the deadline due to reasons beyond its control. For information on the Corporation's compliance with the seismic safety standards, see APPENDIX A—"INFORMATION CONCERNING TORRANCE MEMORIAL MEDICAL CENTER—FACILITIES—Expansion and Modernization Program."]

## Bond Ratings

There is no assurance that the ratings assigned to the Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of such Bonds.

## Additional Risk Factors

The following factors, among others, may also adversely affect the operation of health care facilities, including the Corporation's facilities, to an extent that cannot be determined at this time:

1. Any termination or alteration of existing agreements between the Corporation and individual physicians and physician groups who render services to the patients of the Corporation or any termination or alteration of referral patterns by individual physicians and physician groups who render services to the patients of the Corporation with whom the Corporation does not have contractual arrangements.
2. An inflationary economy and difficulty of the Corporation to increase charges and fees for services may adversely affect the Corporation's operating margins.
3. The cost and effect of any future unionization of employees of the Corporation.

4. An inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Corporation.
5. Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s.
6. Increased unemployment or other adverse economic conditions in the Corporation's service area which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the Corporation's service area or by the closing of operations of one or more major employers in such service areas may result in a significant change in the demographics of such service areas, such as a reduction in the population.
7. Acts of terrorism in the Corporation's service area, against the Corporation or others.

In the future, other events may adversely affect the operations of the Corporation, as well as other health care facilities, in a manner and to an extent that cannot be determined at this time.

#### **RELATIONSHIPS AMONG PARTIES**

The Bank of New York Mellon Trust Company, N.A. ("BNY") is acting in the dual role of Bond Trustee and Master Trustee. The Master Trustee is required under the Master Indenture to act for the benefit of the holders of all Obligations issued thereunder and the Bond Trustee is the holder of Obligation No. 3 issued to secure the Series 2010B Bonds and Obligation No. 5 issued to secure the Series 2010C Bonds. A conflict of interest might arise with BNY serving in such dual capacities.

[The Assistant City Manager of the City is also a member of the Board of Trustees of the Corporation. A conflict of interest might arise in connection with the City's role as issuer of the Series 2010A Bonds.]

***[OTHER PARTIES TO ADVISE AS TO OTHER RELATIONSHIPS TO DISCLOSE]***

#### **ABSENCE OF MATERIAL LITIGATION**

##### **The City**

[***THE CITY TO CONFIRM*** - There is not now pending nor, to the knowledge of the City, threatened any litigation or other proceedings: restraining or enjoining the issuance or delivery of the Series 2010 Bonds or affecting the validity of the Series 2010 Bonds or the proceedings or authority under which the Series 2010 Bonds are to be issued; questioning the creation, organization nor existence of the City or the title of any of the present members or other officers of the City to their respective offices; nor which in any manner questions the authority or right of the City to enter into the Bond Indentures or the Loan Agreements, or to issue or secure the Series 2010 Bonds in the manner provided in the Bond Indentures.]

## The Corporation

[*TMMC TO CONFIRM* - There is not now pending nor, to the knowledge of the Corporation, threatened, any litigation or other proceedings: restraining or enjoining the issuance or delivery of the Bonds or affecting the validity of the Bonds, the Loan Agreements, the Master Indentures, Obligation No. 2, Obligation No. 3, Obligation No. 5 or the 2010 Bank Obligations; nor which in any manner questions the authority or right of the Corporation to enter into the Loan Agreements, or to issue or secure Obligation No. 2, Obligation No. 3, Obligation No. 5 or the 2010 Bank Obligations in the manner provided in the Master Indenture.

In addition, no litigation or proceedings are pending or, to the knowledge of the Corporation, threatened against the Corporation except (i) litigation in which the probable ultimate recoveries and the estimated costs and expenses of defense, in the opinion of counsel to the Corporation, will be entirely within the applicable insurance policy limits (subject to applicable deductibles), and (ii) litigation in which, in the opinion of such counsel, an adverse determination would not have a material adverse effect on the operations or condition, financial or otherwise, of the Corporation.]

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel expresses no opinion regarding whether such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such

Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City and the Corporation have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of McDermott Will & Emery, LLP, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and

extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City, the Corporation or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City, the Corporation and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City or the Corporation legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City, the Corporation or the Beneficial Owners to incur significant expense.

### **CONTINUING DISCLOSURE**

The City has determined that no financial or operating data concerning the City is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the City will not provide any such information. Pursuant to the Continuing Disclosure Agreements, the Corporation has undertaken all responsibilities for any continuing disclosure to holders of the Bonds, and the City shall have no liability to the holders of the Bonds or any other person with respect to the Rule. Pursuant to the Continuing Disclosure Agreements, the Corporation has agreed to provide certain quarterly and annual financial information and notification of material events to the Municipal Securities Rulemaking Board. The form of the Continuing Disclosure Agreements containing the covenants made by the Corporation thereunder for the benefit of the Beneficial Owners of the Bonds is attached in APPENDIX E—

“FORM OF CONTINUING DISCLOSURE AGREEMENT.” [*TMMC TO CONFIRM* - The Corporation has never failed to comply in any material respect with any previous undertaking with respect to the Rule to provide annual reports or notices of material events.]

Failure by the Corporation to comply with the Continuing Disclosure Agreements will not constitute an event of default under the Master Indenture, the Loan Agreements or the Bond Indentures. The holders of the Bonds are limited to the remedies described in the Continuing Disclosure Agreements. Failure by the Corporation to comply with the Continuing Disclosure Agreements must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, any such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

### RATINGS

The Series 2010B Bonds have been rated “[ ]” by Standard & Poor’s, a division of the McGraw-Hill Companies, Inc. (“S&P”) and “[ ]” by Moody’s Investors Service (“Moody’s”) [based on the Series 2010B Letter of Credit; the Series 2010B Bonds have been issued underlying ratings of “[ ]” by S&P and “[ ]” by Moody’s]. The Series 2010C Bonds have been rated “[ ]” by S&P and “[ ]” by Moody’s [based on the Series 2010C Letter of Credit; the Series 2010C Bonds have been issued underlying ratings of “[ ]” by S&P and “[ ]” by Moody’s]. These ratings reflect only the views of S&P and Moody’s, and any explanation of the significance of such ratings should be obtained from S&P and Moody’s from the following addresses: Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., Public Finance Department, 55 Water Street, New York, New York 10041 or from Moody’s at the following address: Moody’s Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, NY 10007. In order to obtain such ratings, the Corporation furnished certain information and materials to S&P and Moody’s, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions. There is no assurance that either of the ratings will be maintained for any given period of time or that they will not be revised downward, suspended or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. The Corporation undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained or other actions by a rating agency relating to its rating may have an adverse effect on the market price of the Bonds.

The Corporation expects to furnish each rating agency such information and materials as it may request. The Corporation, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of the rating on the Bonds.

### LEGAL MATTERS

The validity of the Bonds and certain other are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D hereto. Bond Counsel undertakes

no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain other legal matters will be passed upon for the City by its special counsel, [\_\_\_\_\_,], California, for the Corporation by its special counsel, McDermott Will & Emery LLP, and for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P., California.

### **INDEPENDENT PUBLIC ACCOUNTANTS**

[***KPMG TO CONFIRM LANGUAGE*** - The financial statements of Torrance Memorial Medical Center as of December 31, 2009 and 2008, and for the years then ended, included in APPENDIX B to this Official Statement, have been audited by KPMG LLP, independent public accountants, as stated in their report appearing herein.]

### **FINANCIAL ADVISOR**

Kaufman, Hall & Associates, Inc. (“Kaufman Hall”), El Segundo, California, was engaged by the Corporation to provide financial advisory services in connection with the issuance and delivery of the Bonds. Kaufman Hall is a national consulting firm which acts as capital advisor to health care organizations.

### **UNDERWRITING**

The Series 2010B Bonds are being purchased by Citigroup Global Markets Inc. (together, the “Series 2010B Underwriter”) pursuant to a Bond Purchase Agreement relating to the Series 2010B Bonds (the “Series 2010B Bond Purchase Agreement”). The Series 2010B Underwriter has agreed to purchase the Series 2010B Bonds at an aggregate price of \$ \_\_\_\_\_ (being the principal amount of the Series 2010B Bonds of \$ \_\_\_\_\_, less an Underwriter’s discount of \$ \_\_\_\_\_, which includes certain expenses of the Underwriter). The Series 2010C Bonds are being purchased by Citigroup Global Markets Inc. (the “Series 2010C Underwriter” and, together with the Series 2010B Underwriter, the “Underwriters”) pursuant to a Bond Purchase Agreement relating to the Series 2010C Bonds (the “Series 2010C Bond Purchase Agreement” and, together with the Series 2010B Bond Purchase Agreement, the “Bond Purchase Agreements”). The Series 2010C Underwriter has agreed to purchase the Series 2010C Bonds at an aggregate price of \$ \_\_\_\_\_ (being the principal amount of the Series 2010C Bonds of \$ \_\_\_\_\_, less an Underwriter’s discount of \$ \_\_\_\_\_, which includes certain expenses of the Underwriter). The Bond Purchase Agreements each provide that the Underwriters will purchase all of the respective Series of Bonds if any are purchased, subject to certain terms and conditions set forth therein, including the delivery of specified opinions of counsel and of a certificate of the Corporation to the effect that there has been no material adverse change in its condition, financial or otherwise, from that set forth in this Official Statement. However, pursuant to the Bond Purchase Agreements, the sale and issuance of any series of Series 2010 Bonds will not be conditioned upon the sale and issuance of any other series of Series 2010 Bonds. The Corporation has agreed to indemnify the Underwriters, the City and the Bond Trustee against certain liabilities to the extent permitted by law.

The initial public offering prices or yields set forth on the inside front cover hereof may be changed without notice from time to time by the Underwriters, and the Underwriters may offer and sell the Bonds to certain purchasers at prices lower than the public offering prices stated on the inside cover page hereof. The Corporation has been advised by the Underwriters that (i) they presently intend to make a market in the Bonds offered hereby, (ii) they are not,

however, obligated to do so, (iii) any market-making may be discontinued at any time, and (iv) there can be no assurance that an active public market for the Bonds will develop.

**[CITI TO CONFIRM LANGUAGE** - Citigroup Inc., parent company of Citigroup Global Markets Inc., the underwriters of the Series 2010B Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2010B Bonds.]

J.P.Morgan Securities Inc. ("JPMSI"), the underwriter of the Series 2010C Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings [**DELETE FOR POS UNLESS IT IS CERTAIN THAT UBS AND CHARLES SCHWAB WILL PARTICIPATE:** , including the Series 2010C Bonds,] at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase Series 2010C Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells

#### MISCELLANEOUS

The references to and the descriptions of the Bonds, the Master Indenture, Supplemental Indenture No. 3, , Supplemental Indenture No. 5, the Loan Agreements, the Bond Indentures, Obligation No. 3, Obligation No. 5 and the Obligation No. 2, which secures the Series 2010A Bonds, contained herein and in APPENDIX C hereto are brief descriptions of certain provisions thereof. Such descriptions do not purport to be complete. For full and complete statements of such provisions, reference is made to such documents. Copies of such documents are on file in the office of the Underwriters and following delivery of the Bonds will be on file at the principal corporate trust office of the Bond Trustee in Los Angeles, California.

The attached APPENDICES are integral parts of this Official Statement and should be read together with the balance of this Official Statement. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The use and distribution of this Official Statement have been approved by the City. This Official Statement and its use and distribution have been duly approved by the Corporation. This Official Statement is not to be construed as a contract or agreement between the City or the Corporation and the purchasers or Holders of any of the Bonds.

**CITY OF TORRANCE**

By /s/ \_\_\_\_\_  
Name:  
Title:

Approved:

**TORRANCE MEMORIAL MEDICAL CENTER**

By /s/ \_\_\_\_\_  
Name:  
Title:

# Variable Rate Bond Purchase Agreement

**\$(PAR)**  
**City of Torrance**  
**Revenue Bonds**  
**(Torrance Memorial Medical Center)**  
**Series 2010[B/C]**

**BOND PURCHASE AGREEMENT**

September [21], 2010

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503

Torrance Memorial Medical Center  
3330 West Lomita Boulevard  
Torrance, California 90505

Ladies and Gentlemen:

The undersigned, [Citigroup Global Markets Inc./J.P. Morgan Securities Inc.] (the "Underwriter"), offers enter into this bond purchase agreement (this bond purchase agreement, together with the letter of representations attached hereto as Exhibit B (the "Letter of Representations"), is hereinafter referred to as the "Purchase Agreement") with the City of Torrance (the "City") on the condition that Torrance Memorial Medical Center, a California nonprofit public benefit corporation ("Corporation") also approves this Purchase Agreement. Upon acceptance and agreement hereof by the City and approval by the Corporation, this offer will become binding upon the City, the Corporation and the Underwriter. This offer is made subject to acceptance by delivery of an executed counterpart hereof at or prior to 5:00 p.m., Pacific time, on this date or on such later date as shall have been consented to by the parties hereto with the approval of the Corporation.

Capitalized terms used in this Purchase Agreement and not otherwise defined herein shall have the meaning ascribed to such terms in the Bond Indenture, dated as of September 1, 2010 (the "Bond Indenture") by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bond Trustee").

**1. Purchase, Sale and Delivery of the Bonds.**

(a) Upon the basis of the representations, warranties and agreements herein set forth and subject to the terms and conditions contained herein and in the Letter of Representations, the Underwriter hereby agrees to purchase from the City, and the City hereby agrees to sell to the Underwriter, all (but not less than all) of the City's \$(PAR) aggregate principal amount of Revenue Bonds (Torrance Memorial Medical Center), Series 2010[B/C] (the "Bonds"). The Underwriter shall purchase the Bonds at an aggregate price of \$[ ] (being the principal amount of the Bonds (\$[B/C PAR]), less an Underwriter's discount of \$[ ]). The Bonds shall initially bear interest at a Weekly Interest Rate. The maturity schedule for the Bonds and the initial Weekly Interest Rate for the Bonds is set forth on Exhibit A hereto.

The Bonds shall be substantially in the form described in, shall be issued and secured under and pursuant to the provisions of and shall be payable as provided in the Bond Indenture. The Bonds will be payable from Loan Repayments made by the Corporation under a Loan Agreement, dated as of September 1, 2010 (the "Loan Agreement"), between the City and the Corporation, and from certain funds held under the Bond Indenture. To provide assurance that interest received by the Holders of the Bonds will be excluded from gross income for federal income tax purposes, the City and the Corporation will enter into a Tax Agreement, dated as of the issuance of the Bonds (the "Tax Agreement"). The Corporation's obligations under the Loan Agreement will be secured by Obligation No. [3/5] ("Obligation No. [3/5]") issued under and pursuant to the Master Indenture of Trust, dated as of June 1, 2001 (the "Original Master Indenture"), between The Bank of New York Mellon Trust Company, N.A., as successor master trustee (in such capacity, the "Master Trustee") and the Corporation, as amended and restated by the Amended and Restated Master Indenture of Trust, dated as of September 1, 2010, between the Master Trustee and the Corporation and as supplemented by the Supplemental Master Indenture for Obligation No. [3/5], dated as of September 1, 2010 ("Supplement No. [3/5]"), between the Corporation and the Master Trustee.

In addition, the Bonds will be supported initially by an irrevocable letter of credit (the "Letter of Credit") issued by [Citibank, N.A./JPMorgan Chase Bank, National Association] (the "Bank") pursuant to a Letter of Credit Reimbursement Agreement, dated as of September 1, 2010 (the "Reimbursement Agreement"), by and between the Bank and the Corporation. The Corporation's reimbursement obligations to the Bank with respect to the Letter of Credit will also be secured by a separate obligation issued and secured under the Master Indenture ("Obligation No. [4/6]") pursuant to the Supplemental Master Indenture for Obligation No. [4/6], dated as of September 1, 2010 ("Supplement No. [4/6]"), between the Corporation and the Master Trustee.

The Original Master Indenture, as amended and restated by the Amended and Restated Master Indenture, as supplemented by Supplement No. [3/5], Supplement No. [4/6] and as heretofore supplemented is collectively referred to as the "Master Indenture." The Corporation is the sole member of an Obligated Group (the "Obligated Group") created pursuant to the Master Indenture. The Corporation and any future member(s) of the Obligated Group are referred to herein as "Members" and each as a "Member." Each Member of the Obligated Group is jointly and severally obligated to make payments on Obligation No. [3/5] and Obligation No. [4/6].

The City is issuing the Bonds pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California (the "State") and Article II, Section 6 of the City's Charter, and the City's adoption of the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (collectively, the "Bond Law"), and a resolution adopted by the City Council of the City on [\_\_\_\_], 2010 (the "City Resolution"), authorizing the execution and delivery of the City Documents (as defined herein) and the issuance and delivery of the Bonds. The City shall not be obligated to pay the principal of, premium, if any, or interest on the Bonds, except from payments received under the Loan Agreement, under Obligation No. [3/5], Obligation No. [4/6] and other Revenues. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to the payment of the principal of, premium or interest on the Bonds and the issuance of the Bonds shall not, directly, indirectly, or contingently, obligate the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment.

Simultaneously with the issuance of the Bonds, the Corporation has asked the City to issue its [\$(64,610,000) Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010B (the "Series 2010B Bonds")/ its \$(35,390,000) Variable Rate Revenue Bonds (Torrance Memorial Medical Center), Series 2010C (the "Series 2010C Bonds")] and its [\$(135,000,000) Revenue Bonds (Torrance Memorial Medical Center), Series 2010A (the "Series 2010A Bonds"). The Series [2010C/2010B] Bonds

and the Series 2010A Bonds will each be sold pursuant to a separate bond purchase agreement. The sale and issuance of the Bonds is not conditioned upon the sale and issuance of the Series [2010C/2010B] Bonds or the Series 2010A Bonds, and the sale and issuance of the Series [2010C/2010B] Bonds and the Series 2010A Bonds is not conditioned upon the sale and issuance of the Bonds.

(b) Simultaneously with the delivery of the Bonds, the Corporation will enter into a Remarketing Agreement, dated as of September 1, 2010 (the "Remarketing Agreement") with [Citigroup Global Markets Inc./J.P. Morgan Securities Inc.].

(c) The Bonds are initially exempt from the rules of the Securities and Exchange Commission relating to continuing disclosure of annual financial information and certain material events. The City will cooperate in the preparation and delivery to the Underwriter of, and approve the distribution of the Official Statement, dated the date hereof (including the cover page and all supplements, appendices and exhibits, the "Official Statement"), approved on behalf of the Corporation by an authorized representative of the Corporation, in such quantities as the Underwriter shall request.

(d) The Underwriter's obligations under this Purchase Agreement are and shall be subject, in addition to the conditions set forth in Section 3 below to the receipt, on the business day prior to the mailing of the Official Statement of (i) an Agreed Upon Procedures Letter, acceptable to the Underwriter, dated the business day prior to the mailing of the Official Statement, addressed to the Corporation and the Underwriter and including a statement to the effect that they are independent certified public accountants as defined in Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants with respect to the Corporation and (ii) a letter stating they agree to the inclusion of their report dated April 29, 2010 on the financial statements of the Corporation in the Official Statement.

(e) At 8:00 a.m., Pacific time, on September [ ], 2010 or at such other time or on such earlier or later date as we may mutually agree upon (the "Closing Date"), the City will deliver or cause to be delivered (i) the Bonds in definitive form to The Depository Trust Company ("DTC") for the account of the Underwriter, bearing proper CUSIP numbers, duly executed and delivered, such Bonds to be delivered to the Bond Trustee as agent of DTC under the FAST Automated Securities Transfer System, and (ii) at the offices of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") in San Francisco, California the other documents hereinafter mentioned. Subject to the conditions of this Purchase Agreement, the Underwriter will accept such delivery and pay the price set forth in paragraph (a) of this Section 1 by wire transfer (which payment in any event shall be in immediately available funds) payable to the order of the Bond Trustee (such delivery and payment being herein referred to as the "Closing"). Upon initial issuance and delivery, the ownership of the Bonds will be registered in the name of Cede & Co., as nominee of DTC, and will be in the form of a separate single fully-registered Bond for each maturity.

(f) The Underwriter has entered into this Purchase Agreement in reliance upon the representations and warranties of the City contained herein, the representations and warranties of the Corporation contained in the Letter of Representations and to be contained in the Loan Agreement and Master Indenture, the certificates of the City, the Corporation, the Bond Trustee, the Master Trustee and others to be delivered pursuant hereto and the Loan Agreement and Master Indenture, and the opinions of Bond Counsel, counsel to the City, counsel to the Bond Trustee and Master Trustee, counsel to the Bank and special to the Corporation required to be delivered hereby.

**2. Representations, Warranties and Agreements of the City.** The City represents and warrants to and agrees with the Underwriter and the Corporation that:

(a) The City is, and will be at the Closing Date, a municipal corporation and charter city duly organized and existing under a freeholders' charter pursuant to which the City has the right and power to make and enforce all laws and regulations in respect to municipal affairs and certain other matters in accordance with and as more particularly provided in the Bond Law, had full power and authority to adopt the City of Torrance Health Facility Revenue Bond Law, Ordinance No. 2972 (the "Ordinance"), to adopt the City Resolution, to authorize the issuance and delivery of the Bonds, to execute and deliver the Bond Indenture, the Loan Agreement, the Tax Agreement, and this Purchase Agreement (collectively, the "City Documents") and to perform its obligations under the City Documents, and when executed and delivered by the respective parties thereto, each of the City Documents will constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights generally, by the application of equitable principles if equitable remedies are sought, judicial discretion in appropriate cases, and limitations on legal remedies against charter cities in the State;

(b) When delivered to and paid for by the Underwriter at the Closing in accordance with the provisions of this Purchase Agreement, the City Documents will constitute valid and binding limited obligations of the City, enforceable in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally, by the application of equitable principles if equitable remedies are sought, judicial discretion in appropriate cases, and limitations on legal remedies against charter cities in the State;

(c) The City hereby authorizes the Underwriter to use, in connection with the offer and sale of the Bonds, copies of the City Documents and all information contained herein and therein and all of the documents, certificates and statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Agreement (except as such other documents otherwise provide);

(d) By official action of the City prior to or concurrently with the acceptance hereof, the City has authorized and approved the distribution of the Official Statement, and authorized and approved (i) the issuance and delivery of the Bonds, (ii) the execution and delivery of and the performance by the City of the obligations on its part contained in the City Documents and (iii) the consummation by the City of all other transactions contemplated by the Official Statement and this Purchase Agreement;

(e) To the knowledge of the City, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or known to the City to be threatened against the City seeking to restrain or enjoin the execution, sale or delivery of the Bonds, or in any way contesting or affecting any proceedings of the City taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Bonds, or any of the City Documents or contesting in any way the completeness or accuracy of the Official Statement, as amended or supplemented, or the existence or powers of the City relating to the delivery of the Bonds;

(f) Both at the time of acceptance hereof by the City and at the Closing Date, the statements and information contained in the Official Statement under the captions "THE CITY OF TORRANCE" and "ABSENCE OF MATERIAL LITIGATION—The City" are and will be true and

correct in all material respects, and the information contained in the Official Statement under the captions “THE CITY OF TORRANCE” and “ABSENCE OF MATERIAL LITIGATION—The City” does not and will not contain an untrue statement of a material fact or omit to state a material fact concerning the City necessary to make such statements and information therein, in the light of the circumstances under which they were made, not misleading in any material respect;

(g) The execution and delivery of this Purchase Agreement by the City shall constitute a representation by the City to the Underwriter that the representations and agreements contained in this Section are true as of the date hereof; provided, however, that as to information furnished by the Corporation pursuant to this Purchase Agreement, the City is relying solely on such information in making the City’s representations and agreements, and as to all matters of law the City is relying on the advice of Bond Counsel or other counsel to the City; and provided further, that no officer, agent or employee of the City shall be individually liable for the breach of any representation, warranty or agreement contained herein;

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in endeavoring (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and subject to the provisions of Section 5, will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds; provided, however, that in no event shall the City be required to take any action which would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject;

(i) The issuance and delivery of the Bonds and the execution and delivery by the City of the City Documents, and compliance with the provisions on the City’s part contained therein, to the best knowledge of the City, will not conflict with or constitute a material breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the City Documents;

(j) The City, to the extent within its control, has obtained all consents, permissions and authorizations necessary in connection with the execution and delivery by the City of this Purchase Agreement, the execution and delivery by the City of the other City Documents at the Closing and the consummation of the transactions herein and therein contemplated by the City;

(k) If between the date of this Purchase Agreement and up to and including the 25th day following the end of the underwriting period (as such term is defined in Rule 15c2-12, provided that the City may assume that the Closing Date is the end of the underwriting period unless otherwise notified by the Underwriter at the closing) (i) an event occurs, of which the City has actual knowledge, which might or would cause the information under the caption “THE CITY OF TORRANCE” and “ABSENCE OF MATERIAL LITIGATION—The City” contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, or (ii) if the City is notified by the Corporation pursuant to the provisions of the Letter of Representations or is otherwise requested to amend, supplement or otherwise change the Official Statement, the City will notify the Underwriter and the Corporation, and if in the

reasonable opinion of the Underwriter or Underwriter's counsel such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will amend or supplement the Official Statement in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid by the Corporation pursuant to agreement between the City and the Corporation;

(l) For 25 days from the date of the end of the underwriting period (as such term is defined in Rule 15c2-12, provided that the City may assume that the Closing Date is the end of the underwriting period unless otherwise notified by the Underwriter at the Closing), (i) the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Corporation or the Underwriter shall reasonably object in writing or which shall be disapproved by any of their respective counsel and (ii) if any event relating to or affecting the City shall occur as a result of which it is necessary, in the opinion of counsel for the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the City will cooperate with the Corporation and the Underwriter to prepare and furnish to the Underwriter and the Corporation (at the expense of the Corporation) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. For purposes of this subsection, the City will furnish such information with respect to itself for inclusion under the heading "THE CITY OF TORRANCE" and "ABSENCE OF MATERIAL LITIGATION—The City" as the Underwriter may from time to time reasonably request; and

(m) The City acknowledges and agrees (i) that the Underwriter is acting as a principal and not as an agent or fiduciary to the City, (ii) that the Underwriter's engagement is as independent contractors and that the Underwriter is not serving in any other capacity; and (iii) that the City is solely responsible for making its own judgments in connection with the offering of the Bonds, regardless of whether the Underwriter has or is currently advising the City on related or other matters.

**3. Conditions to the Obligations of the Underwriter.** The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations, warranties and agreements on the part of the City contained herein and on the part of the Corporation contained in the Letter of Representations, in each case, as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the City and of the officers and other representatives of the Corporation made in any certificates or other documents furnished pursuant to the provisions hereof, and to the performance by the City and the Corporation of their respective obligations to be performed hereunder and under the Letter of Representations at or prior to the Closing Date and to the following additional conditions:

(a) At the time of Closing, each of the City Documents, the Remarketing Agreement, the Reimbursement Agreement, Obligation No. [3/5], Obligation No. [4/6], the Master Indenture and the Bonds shall be in full force and effect as valid, binding and enforceable agreements between or among the various parties thereto, and the City Documents, the Remarketing Agreement, the Reimbursement Agreement, Obligation No. [3/5], Obligation No. [4/6], the Master Indenture and the Official Statement shall not have been amended, modified or supplemented from the forms thereof furnished to the Underwriter prior to the date of this Purchase Agreement, except as may otherwise have been agreed to in writing by the Underwriter, and there shall have been taken in connection with the execution and delivery

of the Bonds and with the transactions contemplated thereby and by this Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

(b) The Underwriter shall have the right to terminate this Purchase Agreement by notification to the City and the Corporation from the Underwriter of the election of the Underwriter to do so if, after the execution hereof and prior to the Closing Date:

(1) an event shall occur which makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Official Statement or which is not reflected in the Official Statement but should be reflected therein in order to make the statements contained therein not misleading in any material respect and requires an amendment of or supplement to the Official Statement and the effect of which, in the judgment of the Underwriter, would materially adversely affect the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriter of the Bonds; or

(2) legislation shall be introduced in, enacted by, reported out of committee, or recommended for passage by the State, either House of the Congress, or recommended to the Congress or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is proposed for consideration by either such committee by any member thereof or presented as an option for consideration by either such committee by the staff or such committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Code (which, if enacted, would be effective as of a date prior to the Closing) shall be filed in either House, or a decision by a court of competent jurisdiction shall be rendered, or a regulation or filing shall be issued or proposed by or on behalf of the Department of the Treasury or the Internal Revenue Service of the United States, or other agency of the federal government, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States, in any such case with respect to or affecting (directly or indirectly) the taxation of interest received on obligations of the general character of the Bonds which, in the opinion of the Underwriter, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriter of the Bonds; or

(3) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering, sale or distribution of obligations of the general character of the Bonds is in violation or would be in violation of any provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended or the Trust Indenture Act of 1939, as amended; or

(4) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended (the "Securities Act"), or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all

underlying arrangements, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect;

(5) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the reasonable judgment of the Underwriter, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

(6) there shall have occurred a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges or prices for securities shall have been required on the New York Stock Exchange or other national stock exchange whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other governmental agency having jurisdiction or any national securities exchange shall have: (i) imposed additional material restrictions not in force as of the date hereof with respect to trading in securities generally, or to the Bonds or similar obligations; or (ii) materially increased restrictions now in force with respect to the extension of credit by or the charge to the net capital requirements of underwriters or broker-dealers such as to make it, in the judgment of the Underwriter, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

(7) a general banking moratorium shall have been declared by federal or New York or Massachusetts state authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred such as to make it, in the judgment of the Underwriter, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement; or

(8) a downgrading or suspension of any rating by a national rating service of any debt obligations of the Corporation (without regard to credit enhancement), or (ii) there shall have been any official statement as to a possible downgrading (such as being placed on "credit watch" or "negative outlook" or any similar qualification) of any rating by a national rating service of debt obligations of the Corporation, including the Bonds, the Series 2010A Bonds or the Series 2010[B/C] Bonds; or

(9) there occurs any other event which, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds at the rates set forth in Exhibit A hereto.

(c) At or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) The City Documents, the Remarketing Agreement, the Reimbursement Agreement, each duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(2) A certified copy of the Master Indenture duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(3) Supplement No. [3/5], duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(4) Supplement No. [4/6], duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(5) A specimen Obligation No. [3/5] and a specimen Obligation No. [4/6] (the originals of which shall have been duly executed and delivered to the Bond Trustee or the Bank, as applicable, by the respective parties thereto), with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(6) A specimen of the Letter of Credit and evidence satisfactory to the Underwriter that the original Letter of Credit has been delivered to the beneficiary thereof, a certificate, dated the date of the Closing and signed by an authorized officer of the Bank, regarding the accuracy of the statements contained in the Official Statement under the caption "THE BANK" and regarding certain tax matters, and an opinion of counsel to the Bank regarding the enforceability of the Letter of Credit and the accuracy of the statements contained in the Official Statement under the caption "LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT," in form reasonably satisfactory to the City, the Corporation, Bond Counsel and the Underwriter;

(7) The Official Statement, duly executed on behalf of the Corporation;

(8) An approving opinion of Bond Counsel, dated the Closing Date and addressed to the City, substantially in the form attached to the Official Statement as Appendix D, and a supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter in form and substance reasonably satisfactory to the Underwriter to the effect that the Underwriter may rely on the approving opinion of Bond Counsel, and also to the effect that:

(A) the statements contained in the Official Statement with respect to the Bonds in the sections thereof entitled "THE BONDS," "SECURITY FOR THE BONDS" and "TAX MATTERS," and the statements contained in Appendix C — "SUMMARY OF PRINCIPAL DOCUMENTS" thereof, excluding any material that may be treated as included under such captions by cross reference, insofar as such statements expressly summarize certain provisions of the Bonds, the Master Indenture, Obligation No. [3/5], Obligation No. [4/6], the Bond Indenture, and the Purchase Agreement and the form and content of the opinion of Bond Counsel attached to the Official Statement as Appendix D, are accurate in all material respects;

(B) the Bonds are not subject to the registration requirements of the Securities Act, and the Bond Indenture is exempt from qualification pursuant to the Trust Indenture Act;

(C) the Purchase Agreement has been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by and validity against the Underwriter and approval by the Corporation, is valid and binding upon the City, subject to the laws relating to bankruptcy, insolvency, reorganization or creditors' rights generally, to the application of equitable principles if equitable remedies are sought, to judicial discretion in appropriate cases and to the limitations on legal remedies against charter cities in the State;

(9) An opinion of [\_\_\_\_\_], special counsel to the City, dated the Closing Date and addressed to the City and the Underwriter, in form and substance reasonably satisfactory to the City and the Underwriter and substantially in the form attached hereto as Exhibit C;

(10) An opinion of McDermott Will & Emery LLP, special counsel to the Corporation, dated the Closing Date and addressed to the City and the Underwriter, in form and substance

reasonably satisfactory to the City and the Underwriter and substantially in the form attached hereto as Exhibit D;

(11) An opinion of counsel to the Bond Trustee and the Master Trustee and, dated the Closing Date and addressed to the City and the Underwriter, in form and substance reasonably satisfactory to the Underwriter;

(12) An opinion and negative assurance letter of Squire, Sanders & Dempsey L.L.P., counsel to the Underwriter, dated the Closing Date and addressed to the Underwriter, in form and substance satisfactory to the Underwriter;

(13) A certificate of an authorized official of the City in such form as is acceptable to the Underwriter, dated the Closing Date, to the effect that:

(A) to the best of such official's actual knowledge after due inquiry, no litigation is pending or threatened (1) to restrain or enjoin the execution or delivery of any of the Bonds or the collection of Revenues pledged under the Bond Indenture; (2) in any way contesting or affecting the authority for the delivery of the Bonds or the validity or enforceability of the Bonds or the City Documents; or (3) in any way contesting the existence or powers of the City;

(B) no event affecting the City has occurred since the date of the Official Statement that would cause as of the Closing Date any statement or information concerning the City made under the captions "THE CITY OF TORRANCE" or "ABSENCE OF MATERIAL LITIGATION—The City" in the Official Statement to contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements concerning the City made under the captions "THE CITY OF TORRANCE" or "ABSENCE OF MATERIAL LITIGATION—The City" in the light of the circumstances under which they were made, not misleading;

(C) the City has fulfilled or performed each of its obligations contained in the City Documents required to be fulfilled or performed by it as of the Closing Date; and

(D) to the best of such official's knowledge, the representations and warranties made by the City in the City Documents are true and correct in all material respects on the Closing Date, with the same effect as if made on and with respect to the facts as of the Closing Date;

(14) A certificate of the Chief Financial Officer of the Corporation, or such other officer of the Corporation as is acceptable to the Underwriter, dated the Closing Date, to the effect that:

(A) the representations and warranties made by the Corporation in the Letter of Representations and the Financing Documents (as defined in the Letter of Representations) are true and correct as of the Closing Date;

(B) the Corporation has not since December 31, 2009 offered or issued any bonds, notes or other obligations for borrowed money or incurred any material liabilities, direct or contingent, other than in the ordinary course of business, that are not described in or contemplated by the Official Statement;

(C) since December 31, 2009, no material and adverse change has occurred in the financial position or results of operation of the Corporation that is not described in or contemplated by the Official Statement;

(D) the Corporation has reviewed the Official Statement and certifies that the Official Statement, excluding the Excepted Portions (as defined in the Letter of Representations), does not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;

(E) no event has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement thereto, but should be disclosed in order to make the statements in the Official Statement, in light of the circumstances in which they were made, not misleading;

(F) each of the Financing Documents (as defined in the Letter of Representations) and the Official Statement have been duly executed and delivered by a representative of the Corporation authorized to execute each such document;

(G) the Corporation has complied with all applicable terms of the Financing Documents, which are necessary to be complied with prior to or before the Closing Date, and the Financing Documents are in full force and effect;

(H) the Bonds being delivered on the Closing Date to the Underwriter under this Purchase Agreement substantially conform to the descriptions thereof contained in the Bond Indenture and Official Statement;

(I) as of the Closing Date, the Corporation has taken all actions necessary under California law to create under the Master Indenture a first priority perfected security interest in Gross Receivables (as defined in the Master Indenture).

(J) within the past ten years, no warnings have been given and no administrative actions or proceedings have been undertaken by the California Department of Health Services ("CDHS") to rescind acute care licenses of the Medical Center (as defined in the Official Statement) or by The Joint Commission to rescind accreditations of the Medical Center;

(15) Evidence that the Corporation has satisfied the legal requirements of the Master Indenture for the incurrence of debt represented by Obligation No. [3/5], Obligation No. [4/6];

(16) The Articles of Incorporation of the Corporation certified by the Secretary of State of the State, a Certificate of Status of the Corporation issued by the Secretary of State of the State and a Certificate of Status of the Corporation issued by the Franchise Tax Board of the State, each of recent date to the Closing;

(17) Certified copies of the Ordinance and of the City Resolution;

(18) A copy of the Corporation's bylaws and the resolution adopted by the Corporation's Board of Trustees, authorizing the execution and delivery of the Financing Documents, the issuance of the Bonds, approving the Official Statement and authorizing the execution and distribution of the Official Statement;

(19) Evidence that the Corporation is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law and is exempt from taxation under State law;

(20) Evidence that the Corporation is exempt from state income and franchise taxes;

(21) The Tax Agreement, duly executed by the parties thereto, and an Internal Revenue Service Form 8038 executed by the City, in forms satisfactory to Bond Counsel;

(22) A certificate of the Bond Trustee and the Master Trustee, in such form as is acceptable to the Underwriter, dated the Closing Date, to the effect that:

(A) The Bank of New York Mellon Trust Company, N.A. (the "Bank") is a national banking corporation duly organized and existing under the laws of the United States with the full power and authority: (i) to enter into and perform its duties under the Bond Indenture, the Master Indenture, including Supplement No. [3/5], Supplement No. [4/6] and the Remarketing Agreement, the Reimbursement Agreement (collectively, the "Bank Documents"); (ii) to authenticate the Bonds; (iii) to authenticate Obligation No. [3/5] and Obligation No. [4/6]; and (iv) to carry out and consummate the transactions contemplated by the Bank Documents;

(B) the authentication of the Bonds, Obligation No. [3/5] and Obligation No. [4/6], and the execution and delivery of the Bank Documents have been duly authorized by all necessary action of the Bank;

(C) the Bank has duly accepted the trusts created pursuant to the Bond Indenture and the Master Indenture and each of the Bank Documents and the Bonds have been duly executed and delivered on behalf of the Bank, and Obligation No. [3/5] and Obligation No. [4/6] have been duly authenticated on behalf of the Bank;

(D) acceptance and performance by the Bank of its obligations in accordance with the Bank Documents will not contravene the Articles of Association or Bylaws of the Bank or, to the best knowledge of the Bank, conflict with or constitute a breach of or a default under any law, administrative or governmental regulation, consent, decree, order, indenture, contract or other agreement or instrument to which the Bank is subject or bound or by which any of its assets is bound;

(E) to the best knowledge of the Bank, all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter, receipt of which would constitute a condition precedent to the performance by the Bank of its obligations under the Bank Documents have been obtained and are in full force and effect; and

(F) to the best knowledge of the Bank, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened in any way contesting or affecting the existence or trust powers of the Bank or the ability of the Bank to fulfill its obligations under the Bank Documents or seeking to prohibit, restrain or enjoin the issuance and delivery of the Bonds or the collection of Revenues or Gross Receivables, as applicable pledged or to be pledged to pay the principal of, prepayment premium, if any, and interest represented by the Bonds, Obligation No. [3/5] or Obligation No. [4/6] or the pledge thereof or the pledge of Gross Receivables, or in any way contesting or affecting the validity or enforceability of the Bonds, Obligation No. [3/5], Obligation No. [4/6] or the Bank Documents or contesting the powers of the Bank or its authority to enter into and perform its obligations under any of the foregoing, wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Bonds, Obligation No. [3/5], Obligation No. [4/6] or the Bank Documents;

(23) Evidence (i) that Standard and Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investor Service, Inc. ("Moody's") have assigned ratings of "[ ]" and "[ ]" to the Bonds, respectively with the understanding that upon delivery of the Bonds, the Letter of Credit will be issued by the Bank; and (ii) that S&P and Moody's have also assigned underlying ratings on the Bonds of "[ ]" and "[ ]," respectively based solely on the credit of the Corporation.

(24) A bring down letter of KPMG LLP, dated the Closing Date, of the letter described in Section 1(d)(i);

(25) All filings required under State law with the California Debt and Investment Advisory Commission;

(26) A specimen Bond;

(27) The Blanket Issuer Letter of Representation of the City;

(28) UCC searches with respect to the Property and Gross Receivables of the Members of the Obligated Group and an opinion of special counsel to the Obligated Group, addressed to the Underwriter in form and substance reasonably satisfactory to the Underwriter, to the effect that all liens and encumbrances shown in such UCC searches constitute Permitted Encumbrances pursuant to the Master Indenture;

(29) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter, its counsel or Bond Counsel may reasonably request to evidence compliance by the City and the Corporation with legal requirements, the truth and accuracy, as of the Closing Date, of the representations of the City contained herein and of the Corporation contained in the Letter of Representations and the Financing Documents, and the due performance or satisfaction by the City and the Corporation at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City and the Corporation.

**4. Conditions to the Obligations of the City.** The obligations of the City shall be subject to the performance by the Underwriter of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) The City Documents and the Financing Documents shall have been executed by the other parties thereto;

(b) No order, decree, injunction, ruling or regulation of any court, regulatory agency, public board or body shall have been issued, nor shall any legislation have been enacted, with the purpose or effect, directly or indirectly, of prohibiting the offering, sale, execution or delivery of the Bonds as contemplated hereby or by the Official Statement;

(c) The documents and opinions contemplated by Section 3(c), the forms of which are set forth herein, shall have been delivered substantially in the forms set forth herein, and the other documents and opinions contemplated by Section 3(c) shall have been delivered to the City in form and substance satisfactory to Bond Counsel, the City and the Underwriter; and

(d) The City Issuance Fee shall have been paid by wire or in other immediately available funds or arrangements reasonably satisfactory to the City shall have been made to pay such City Issuance Fee from the proceeds delivered from the sale of the Bonds.

## 5. Expenses.

(a) The Corporation shall pay all expenses of the Corporation and the City incident to the performance of their obligations in connection with the authorization, sale, execution and delivery of the Bonds to the Underwriter, including without limitation: fees and expenses of the Corporation's financial advisor, auditors and any other consultants retained by the Corporation or by Authority; fees and expenses of the Bond Trustee and the Master Trustee; fees of DTC; fees and expenses of rating agencies; and fees and expenses of [ ] special counsel to the City, of Bond Counsel, of McDermott Will & Emery LLP, special counsel to the Corporation, and of Squire, Sanders & Dempsey L.L.P., counsel to the Underwriter. All fees and expenses to be paid by the Corporation pursuant to this Purchase Agreement may be paid from Bond proceeds to the extent permitted by the Bond Indenture and the Tax Agreement.

(b) All expenses of selling the Bonds, all out-of-pocket expenses of the Underwriter, including travel and other expenses, CUSIP Service Bureau charges, California Debt and Investment Advisory Commission fees, any fees charged by the MSRB and fees and expenses of printing, publishing and electronic distribution costs related to the preparation and distribution of the Official Statement shall be paid by the Underwriter.

(c) The Corporation shall also pay for expenses (included in the expense component of the spread) incurred on behalf of the Corporation's employees that are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees, and the Corporation shall reimburse the Underwriter if the Underwriter pay for any such expenses on behalf of the Corporation.

(d) The obligations under this Section 5 shall survive any termination of this Purchase Agreement.

**6. Termination.** This Purchase Agreement may be terminated by the Underwriter upon written notice of such termination to the City and the Corporation, if any of the conditions specified in Section 3 herein shall not have been fulfilled by the Closing or waived in writing by the Underwriter. This Purchase Agreement may be terminated by the City, with written concurrence of the Corporation, upon written notice of such termination to the Underwriter if any of the conditions specified in Section 4 herein shall not have been fulfilled by the Closing or waived in writing by the City. Any notice of termination pursuant to this Section 6 shall be given in the manner provided in Section 7 hereof. If this Purchase Agreement shall be terminated as provided in this Section 6, none of the Underwriter, the City or the Corporation shall have any further obligation or liability hereunder, except as provided in Section 5 hereof.

**7. Notices.** Any notice or other communication to be given under this Purchase Agreement may be given by delivering the same in writing at the following notice addresses or facsimile numbers or such other addresses or facsimile numbers as any of the following may designate in writing to the others:

If to the City:

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503  
Attention: [ ]  
Fax: [ ]

If to the Underwriter:

[Citigroup Global Markets Inc./J.P. Morgan Securities Inc.]

If to the Corporation:                   Torrance Memorial Medical Center  
3330 West Lomita Boulevard  
Torrance, California 90505  
Attention: Chief Financial Officer  
Fax:   (310) 784-4801

8.       **Miscellaneous.** This Purchase Agreement is made solely for the benefit of the City, the Corporation and the Underwriter, and no other person shall acquire or have any right hereunder or by virtue hereof except as expressly provided herein. All representations, warranties and agreements of the City and the Corporation in this Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of and payment for the Bonds. This Purchase Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same agreement. If any provision of this Purchase Agreement is, or is held to be invalid or unenforceable as applied in any particular case in any jurisdiction because it conflicts with any provision(s) of any constitution, rule of public policy, statute or any other reason, such circumstances shall not make the provision in question invalid or unenforceable in any other case or circumstance, or make any other provision(s) or this Purchase Agreement invalid or unenforceable. This Purchase Agreement shall be governed by and interpreted under the laws of the State of New York without regard to conflict of laws and principles. Notwithstanding anything to the contrary contained in this Purchase Agreement or any document referred to herein, the City shall have no liability to the Underwriter or any other party except to the extent payable from moneys received therefor from proceeds of the sale of the Bonds or from the Corporation.

[Remainder of Page Intentionally Left Blank]

If the foregoing is in accordance with your understanding of our agreement under this Purchase Agreement, please sign and return to the Underwriter the enclosed counterparts hereof whereupon it will become a binding agreement among the City, the Corporation and the Underwriter.

**[CITIGROUP GLOBAL MARKETS  
INC./J.P. MORGAN SECURITIES INC.]**

By: \_\_\_\_\_  
Managing Director

**Accepted and Agreed:**

**CITY OF TORRANCE**

By: \_\_\_\_\_  
City Administrator

**Approved:**

**TORRANCE MEMORIAL MEDICAL CENTER**

By: \_\_\_\_\_  
Senior Vice President of Finance and  
Chief Financial Officer

EXHIBIT A

**\$(PAR)**  
**City of Torrance**  
**Revenue Bonds**  
**(Torrance Memorial Medical Center)**  
**Series 2010[B/C]**

Maturity Date: [ ]  
Initial Interest Rate: [ ]%  
Underwriter's Discount: \$[ ]

**EXHIBIT B****LETTER OF REPRESENTATIONS**

August [ ], 2010

City of Torrance  
3031 Torrance Boulevard  
Torrance, California 90503

Citigroup Global Markets Inc.  
One Sansome Street, 28<sup>th</sup> Floor  
San Francisco, California 94104

**§[B/C PAR]  
City of Torrance  
Revenue Bonds  
(Torrance Memorial Medical Center)  
Series 2010[B/C]**

Ladies and Gentlemen:

Torrance Memorial Medical Center (the “Corporation”) makes the following representations to and offers to make the following warranties and agreements with you, in order to induce you to enter into the Purchase Agreement defined below.

Pursuant to a bond purchase agreement dated the date hereof (the “Purchase Agreement”) between [Citigroup Global Markets Inc./J.P. Morgan Securities Inc.] (the “Underwriter”) and the City of Torrance, California (the “City”), which Torrance Memorial Medical Center (the “Corporation”) has approved, the City proposes to issue the City proposes to sell §[PAR] aggregate principal amount of the above-referenced bonds (the “Bonds”). The offering of the Bonds is described in an official statement dated September [ ], (the “Official Statement”). Terms having their initial letters capitalized which are not otherwise defined herein shall have the meanings ascribed to them in the Purchase Agreement or the in the Bond Indenture, dated as of September 1, 2010 (the “Bond Indenture”) by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Bond Trustee”).

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of and shall be payable as provided in the Bond Indenture. The Bonds will be payable from Loan Repayments made by the Corporation under a Loan Agreement, dated as of September 1, 2010 (the “Loan Agreement”), between the City and the Corporation, and from certain funds held under the Bond Indenture. To provide assurance that interest received by the Holders of the Bonds will be excluded from gross income for federal income tax purposes, the City and the Corporation will enter into a Tax Agreement, dated as of the issuance of the Bonds (the “Tax Agreement”). The Corporation’s obligations

under the Loan Agreement will be secured by Obligation No. [3/5] (“Obligation No. [3/5]”) issued under and pursuant to the Master Indenture of Trust, dated as of June 1, 2001 (the “Original Master Indenture”), between The Bank of New York Mellon Trust Company, N.A., as successor master trustee (in such capacity, the “Master Trustee”) and the Corporation, as amended and restated by the Amended and Restated Master Indenture of Trust, dated as of September 1, 2010, between the Master Trustee and the Corporation and as supplemented by the Supplemental Master Indenture for Obligation No. [3/5], dated as of September 1, 2010 (“Supplement No. [3/5]”), between the Corporation and the Master Trustee.

In addition, the Bonds will be supported initially by an irrevocable letter of credit (the “Letter of Credit”) issued by [Citibank, N.A./JPMorgan Chase Bank, National Association] (the “Bank”) pursuant to a Letter of Credit Reimbursement Agreement, dated as of September 1, 2010 (the “Reimbursement Agreement”), by and between the Bank and the Corporation. The Corporation’s reimbursement obligations to the Bank with respect to the Letter of Credit will also be secured by a separate obligation issued and secured under the Master Indenture (“Obligation No. [4/6]”) pursuant to the Supplemental Master Indenture for Obligation No. [4/6], dated as of September 1, 2010 (“Supplement No. [4/6]”), between the Corporation and the Master Trustee.

The Original Master Indenture, as amended and restated by the Amended and Restated Master Indenture, as supplemented by Supplement No. [3/5], Supplement No. [4/6] and as heretofore supplemented is collectively referred to as the “Master Indenture.” The Corporation is the sole member of an Obligated Group (the “Obligated Group”) created pursuant to the Master Indenture. The Corporation and any future member(s) of the Obligated Group are referred to herein as “Members” and each as a “Member.” Each Member of the Obligated Group is jointly and severally obligated to make payments on Obligation No. [3/5] and Obligation No. [4/6]. The Corporation is the sole member of an Obligated Group (the “Obligated Group”) created pursuant to the Master Indenture. The Corporation and any future member(s) of the Obligated Group are referred to herein as “Members” and each as a “Member.” Each Member of the Obligated Group is jointly and severally obligated to make payments on Obligation No. [3/5] and Obligation No. [4/6].

In order to induce you to enter into the Purchase Agreement and to make the sale and purchase and reoffering of the Bonds therein contemplated, the Corporation hereby represents, warrants and agrees with each of you as of the date hereof as follows:

1. The Corporation is a nonprofit public benefit corporations duly organized, validly existing and in good standing under the laws of the State of California (the “State”). The Corporation has, and at the Closing Date will have, the requisite legal right, power and authority to enter and deliver, as applicable, into this Letter of Representations (this “Letter of Representations”), the Loan Agreement, the Remarketing Agreement, the Reimbursement Agreement, the Amended and Restated Master Indenture, Supplement No. [3/5], Supplement No. [4/6], Obligation No. [3/5], Obligation No. [4/6] and the Tax Agreement (collectively, the “Financing Documents”), to approve, execute and deliver, as applicable, the Purchase Agreement and the Official Statement and to carry out and consummate, as applicable, all transactions contemplated by the Financing Documents, the Master Indenture, the Purchase Agreement and the Official Statement to be carried out and consummated by it and by proper corporate action has duly authorized, as applicable, the execution and delivery of the Financing Documents, the Purchase Agreement and the Official Statement and the distribution of the Official Statement.

2. The Corporation does not restrict entry to any of its facilities on racial or religious grounds. No portion of the proceeds of the Bonds will be used to finance any facility used or to be used for sectarian instruction or as a place for religious worship or any facility used or to be used primarily in connection with any part of the program of a school or department of divinity.

3. The Corporation hereby approves, ratifies and authorizes the Underwriter to use, in connection with the offer and sale of the Bonds, copies of the Financing Documents and all information contained herein and therein and all the documents, certificates and statements furnished by the Corporation or the City to the Underwriter in connection with the transactions contemplated by the Purchase Agreement except as such other documents otherwise provide.

4. The representative of the Corporation (an "Authorized Representative") executing the Financing Documents, the Purchase Agreement and the Official Statement is duly, properly and fully authorized to execute and approve the same on behalf of the Corporation.

5. (i) The Purchase Agreement and this Letter of Representations have been duly authorized, executed and delivered by an Authorized Representative as of the date hereof, on behalf of the Corporation; the other Financing Documents and the Official Statement have been duly authorized by the Corporation and at the Closing will be, or will have been, as applicable, duly executed and delivered by an Authorized Representative, on behalf of the Corporation; and (ii) Obligation No. [3/5] and Obligation No. [4/6], when assigned to the Bond Trustee pursuant to the Bond Indenture, will each constitute the legal, valid and binding obligations of the Corporation to the Bond Trustee enforceable against the Corporation in accordance with its terms for the benefit of the holders of the Bonds; and (iii) this Letter of Representations and any rights of the City and the Underwriter and obligations of the Corporation under the Financing Documents, as applicable, will constitute, and the Master Indenture constitutes, the legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their respective terms; except in the case of both (ii) and (iii) above as enforcement of each of the above-named documents in this Section 5 may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles.

6. The Corporation is not (i) in violation of any applicable law or administrative regulation of the State or the United States or any applicable judgment or decree, which violation would materially adversely affect the financial condition, assets, properties or operations of the Corporation or (ii) in breach of or default under the Financing Documents or any other any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instruments, which breach or default would materially adversely affect the financial condition, assets, properties or operations of the Corporation.

7. The execution and delivery of the Financing Documents by the Corporation, the Corporation' approval of the Purchase Agreement and the Official Statement, the consummation by the Corporation of the transactions herein, therein and in the Official Statement contemplated, and the Members' fulfillment of or compliance with the terms and conditions hereof and thereof do not or will not, as applicable, (a) conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under (i) the Articles of Incorporation of the Corporation, (ii) the bylaws of the Corporation, (iii) any indenture, mortgage, deed of trust, loan agreement, contract, lease or other agreement or instrument to which the Corporation is a party or by which the Corporation or its properties are otherwise subject or bound, or (iv) any law or administrative rule or regulation or any court or administrative decree or order applicable to the Corporation, or (b) result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Financing Documents, the Purchase Agreement or the Official Statement, or the financial condition, assets, properties or operations of the Corporation.

8. The Corporation will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter if and as the Underwriter may reasonably request in order to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and jurisdictions as the Underwriter shall request, provided, however that the Corporation shall not be required to consent to service of process in any jurisdiction in which it is not so subject as of the date hereof.

9. No consent or approval of any trustee or holder of any indebtedness of the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except in connection with Blue Sky proceedings and except for such licenses, certificates, approvals, variances and permits as may be necessary and required subsequent to the Closing Date for the development and operation of the Project, as such term is defined in the Loan Agreement) is necessary in connection with the execution and delivery of this Letter of Representations, the execution and delivery of the other Financing Documents at the Closing, the approval of the Purchase Agreement or the Official Statement, or the consummation of any transaction herein or therein contemplated, except in all such cases as have been obtained or made and as are in full force and effect (or, in the case of the Financing Documents to be executed on the Closing Date, will be obtained or made and will be in full force and effect at the Closing).

10. There are no actions, suits or proceedings which have been served on the Corporation, or, to the knowledge of the Corporation after due inquiry, are otherwise pending or threatened against the Corporation:

(a) to restrain or enjoin the sale, execution or delivery of any of the Bonds or the collection of Loan Repayments (as such term is defined in the Loan Agreement) pledged under the Bond Indenture or any payments to be made by the Corporation pursuant to the Sale Agreement, the Purchase Agreement, Obligation No. [3/5] or Obligation No. [4/6];

(b) in any way contesting or affecting the authority for the sale, execution or delivery of the Bonds, the validity when executed and delivered of the Bonds, Supplement No. [3/5], Supplement No. [4/6], Obligation No. [3/5], Obligation No. [4/6], the Purchase Agreement, the Amended and Restated Master Indenture, or the Financing Documents or the validity of the Original Master Indenture or any supplements or amendments thereto heretofore executed and delivered;

(c) in any way contesting the corporate existence or powers of the Corporation;

(d) which, if determined adversely to the Corporation, might materially adversely affect the consummation of the transactions contemplated by the Financing Documents, the Project or the financial condition, assets, properties or operations of any Corporation;

(e) contesting or affecting the status of the Corporation as an organization described in Section 501(c)(3) of the Code or which would subject any income of the Corporation to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under Section 103 of the Code; or

(f) to withdraw, suspend, or terminate any license, permit or accreditation required to operate the Corporation.

11. The Corporation is an organization described in Section 501(c)(3) of the Code; and the Corporation is exempt from federal income tax under Section 501(a) of the Code, except with respect to any unrelated business income of the Corporation, which income is not expected to result from the

consummation of any transaction contemplated by the Financing Documents. Such status is based on the original determination letter from the Internal Revenue Service for the Corporation, and on letter confirming such determination from the Internal Revenue Service to Corporation dated March 30, 1982; such determination letter has not been modified, limited or revoked; and there is no action, suit, proceeding, inquiry or investigation before or by any court or other governmental authority or agency pending or, to the knowledge of the Corporation, threatened, which could affect the Corporations' status as an organization described in Section 501(c)(3) of the Code. The Corporation is not a private foundation within the meaning of Section 509(a) of the Code; and the Corporation at all times will maintain its status as an organization described in Section 501(c)(3) of the Code and its exemption from federal income tax under Section 501(a) of the Code or corresponding provisions of future federal income tax laws. The Corporation is in compliance with the terms, conditions and limitations set forth in the above-referenced determination letter, and the facts and circumstances which formed the basis of the Corporation's status as an organization described in Section 501(c)(3) of the Code as represented to the Internal Revenue Service continue substantially to exist.

12. The financial statements of Torrance Memorial Medical Center as of December 31, 2009 and 2008, and for the years then ended (copies of which, signed by KPMG LLP, have been furnished to the City and the Underwriter), present fairly, in all material respects, the financial position, activities and cash flows of the Corporation at December 31, 2009 and 2008 in conformity with generally accepted accounting principles, and since December 31, 2009, there has been no material adverse change in the assets, operations or financial condition of the Corporation other than any such change which the Corporation has disclosed in writing to the City and the Underwriter and is described in the Official Statement. Since December 31, 2009, the Corporation has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations, or conditions, financial or otherwise, of the Corporation that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business.

13. To the best knowledge of the Corporation after due investigation, no event affecting the Corporation has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the date hereof and as of the Closing Date any statement or information contained in the Official Statement concerning the Corporation or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein concerning the Corporation not misleading in any material respect.

14. Prior to the Closing Date, the Corporation will not, without the prior written consent of the Underwriter, except as described in or contemplated by the Official Statement, incur any material liabilities, direct or contingent, other than in the ordinary course of business.

15. The Corporation will deliver, or cause to be delivered, to the Underwriter, within seven business days after acceptance hereof, copies of the Official Statement, dated the date hereof, signed on behalf of the Corporation by the Authorized Representative, in such quantities as the Underwriter shall request. The Corporation has reviewed the Official Statement and certifies that (except for the Excepted Portions, as to which the Corporation makes no representation), as it may be amended or supplemented pursuant to the Purchase Agreement or this Letter of Representations, if applicable, does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to be stated therein to make the statements therein, in the light of the circumstances under which they were made, not misleading.

## 16. The Corporation:

(a) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and that are material to its properties, operations, finances or status as an organization described in Section 501(c)(3) of the Code;

(b) has obtained all licenses, permits, franchises or other governmental authorizations necessary and material to the ownership of its property or to the conduct of its activities, and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for its operations in all cases where failure to obtain such licenses, permits, franchises or other governmental authorizations could reasonably be expected to materially and adversely affect the condition (financial or otherwise) of the Corporation or its ability to perform its obligations under the Financing Documents;

(c) has obtained, or in a timely manner will obtain, all licenses, permits, franchises or other governmental authorizations necessary for the construction and operation of the Project; and

(d) has fee title or leasehold interest in all its Property, which is free and clear of all Liens except for Permitted Encumbrances (as such terms are defined in the Master Indenture).

17. The ERISA Plan of the Corporation has been established and heretofore maintained by the Corporation in compliance in all material respects with the applicable provisions of ERISA and the Code. To the knowledge of the Corporation, no ERISA Plan has engaged in a prohibited transaction, and compliance by the Corporation with the provisions of the Financing Documents will not involve any prohibited transaction that would subject the Corporation to a tax or penalty on prohibited transactions. No ERISA Plan that is subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code has had an accumulated funding deficiency, whether or not waived as of the last day of the most recent plan year of such ERISA Plan ended prior to the date hereof. No liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Corporation to be, incurred by the Corporation with respect to any ERISA Plan subject to Title IV of ERISA, other than for premium payments. There has been no material Reportable Event with respect to any ERISA Plan subject to Section 4043 of ERISA since the effective date of said Section 4043, and since such date no event or condition has occurred that presents a material risk of termination of any such ERISA Plan by the Pension Benefit Guaranty Corporation. As of the most recent valuation date, the present value of all vested accrued benefits under each ERISA Plan subject to Title IV of ERISA as determined by each ERISA Plan's enrolled actuary within the meaning of Section 103 of ERISA under actuarial assumptions used in connection with the actuarial valuation of each such ERISA Plan did not exceed the value of such ERISA Plan's assets (less all liabilities other than those attributable to accrued benefits), as determined by each such enrolled actuary, allocable to such vested accrued benefits by more than \$1,000,000. Neither the Corporation nor any Common Control Entity has incurred any withdrawal liability in connection with a Multi-employer Plan. As used in this Section 17, the terms "Common Control Entity" and "Multi-employer Plan" shall have the respective meanings ascribed thereto in ERISA.

18. The Medical Center is accredited by The Joint Commission and is licensed as an acute care hospital by the California Department of Health Services.

19. The Corporation has not received a Notice of Program Reimbursement under the Medicare payment program or any similar notice under any other third party reimbursement or payment program, where the claim associated therewith, if proven, would have a material adverse impact on the Corporation's financial position or results of operation.

20. The Corporation will not, while any Bonds are unpaid, take or permit to be taken any action which would result in the interest component represented by any of the Bonds being included in gross income for federal income tax purposes.

21. The Corporation is eligible to receive payments, and currently participates as a hospital provider or skilled nursing facility, as applicable, for purposes of receiving payments, under Medicare and Medi-Cal and other health care programs described in Appendix A to the Official Statement.

22. If between the date hereof and up to and including the 25th day following the “end of the underwriting period” (as such term is defined in Rule 15c2-12), any event shall occur or information shall become known which might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Corporation shall promptly notify the City and the Underwriter and if in the opinion of the Corporation, the City or the Underwriter such event or information requires the preparation and publication of a supplement or amendment to the Official Statement, the Corporation will request the City to cause the Official Statement to be amended or supplemented in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid by the Corporation pursuant to agreement between the City and the Corporation. If the information contained in the Official Statement is amended or supplemented pursuant to this Section 22, at the time of each supplement or amendment thereto (unless subsequently again supplemented or amended pursuant to such paragraph) at all time subsequent thereto, up to and including the 25<sup>th</sup> day following the “end of the underwriting period,” the Official Statement as so supplemented and amended, excluding the Excepted Portions, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in light of the circumstances under which it was presented, not misleading.

23. For 25 days from the date of the end of the underwriting period (as defined in Rule 15c2-12), (a) the Corporation will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, either the Underwriter or the City shall reasonably object in writing or which shall be disapproved by your respective counsel and (b) if any event relating to or affecting the City or the Corporation or its present or proposed facilities shall occur as a result of which it is necessary, in the opinion of counsel for the Underwriter or the City, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Corporation will forthwith prepare and furnish to the Underwriter and the City (at the expense of the Corporation) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter and counsel to the City) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. For the purposes of this subsection, the Corporation will furnish such information with respect to themselves, and the present and proposed facilities of the Corporation as the Underwriter or the City may from time to time reasonably request.

24. (a) The Corporation hereby agrees to indemnify and hold harmless the City, the City’s officers, employees, attorneys and agents, the Underwriter and each person, if any, who is an officer or employee of the Underwriter or who controls the Underwriter within the meaning of the Securities Act of 1933 (the “1933 Act”) or the Securities and Exchange Act of 1934 (the “1934 Act”) (collectively, the “Indemnified Parties”) against any and all losses, claims, damages, liabilities and expenses (or actions in respect thereof) that arise out of or are based upon any untrue statement or alleged untrue statement of any material fact set forth in the Official Statement or the Preliminary Official

Statement (or in any supplement or amendment thereto), or arise out of or are based upon the omission or alleged omission therefrom of any statement or information set forth in the Official Statement (or in any supplement or amendment thereto) necessary to make the statements therein, in light of the circumstances under which they were given, not misleading in any material respect and, to the extent of the aggregate amount paid in settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or alleged untrue statement or omission or alleged omission, if such settlement is effected with the written consent of the Corporation Representative, and further agrees to reimburse any legal or other expenses reasonably incurred by any such Indemnified Party in connection with investigating or defending any such loss, claim, damage, liability or action.

(b) The Corporation further agrees to indemnify and hold harmless the City its officers, attorneys and agents and each person, if any, who controls the City within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any and all losses, claims, damages, liabilities or expenses whatsoever caused by or in any way related to (1) the use of the proceeds of the Bonds, and (2) the execution and performance of the Purchase Agreement and this Letter of Representations, the issuance and delivery of the Bonds, the sale by the City of the Bonds, actions taken under the Bond Indenture or any other cause whatsoever pertaining to the use of the Bond proceeds and approval thereof under the Act.

(c) The Corporation will assume the defense of any action against any Indemnified Party based upon allegations of any such loss, claim, damage, liability or action, including the retaining of counsel reasonably satisfactory to the Indemnified Party and the payment of counsel fees and all other expenses relating to such defense; provided, however, that any Indemnified Party may retain separate counsel in any such action and may participate in the defense thereof at the expense of such Indemnified Party unless such retaining of separate counsel has been specifically authorized by Corporation; provided further, that if any Indemnified Party shall have been advised by counsel experienced in such matters that there may be legal defenses available to such Indemnified Party which are inconsistent with those available to Corporation, then Corporation shall not have the right to assume the defense of such action on behalf of such Indemnified Party, and in such event the reasonable fees and expenses of the Indemnified Party in defending such action shall be borne by Corporation; provided, further, that the Corporation will not be liable in any such case to the extent that any such loss, claim, damage, liability and expense arise out of or are based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any such documents in reliance upon and in conformity with written information furnished by any Indemnified Party specifically for use therein. The indemnity agreement contained in this Section 24 will be in addition to any liability which Corporation may otherwise have and shall survive any termination of the Purchase Agreement or this Letter of Representations, the offering and sale of the Bonds and the payment or provision for payment of the Bonds.

(d) Promptly after receipt by an Indemnified Party of notice of the commencement of any action, such Indemnified Party will, if a claim in respect thereof is to be made against the Corporation under this Section 24, notify Corporation of the commencement thereof, and thereupon Corporation, for and on behalf of all Corporation, (i) will assume the defense thereof if and as required under this Section 24 or (ii) if not required to assume such defense, will be entitled to participate in, and to the extent that it may wish, to assume the defense thereof, with counsel satisfactory to such Indemnified Party, except as otherwise provided in the preceding subsection (c). After notice from Corporation to such Indemnified Party of its assumption of the defense thereof, the Corporation will not be liable to such Indemnified Party under this Section 24 for any legal or other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof other than reasonable costs of investigation and except as otherwise provided in the preceding subsection (c).

25. As between the Corporation and the Underwriter, in order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 24 hereof is applicable but for any reason is held to be unavailable from the Corporation, the Corporation and the Underwriter shall contribute to the aggregate losses, claims, damages and liabilities (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting any contribution received by the Corporation from persons who control the Corporation within the meaning of the 1933 Act, as amended, or otherwise) to which the Corporation and the Underwriter may be subject in such proportions that the Underwriter is responsible for that portion represented by the percentage that the underwriting discount set forth in the Official Statement bears to the offering price of the Bonds appearing therein and the Corporation is responsible for the balance; provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act, as amended) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 25, each person, if any, who controls an underwriter within the meaning of the 1933 Act or the 1934 Act shall have the same rights to contribution as the Underwriter, each person, if any, who controls the Corporation within the meaning of such securities acts and each officer of the Corporation who shall have signed the Official Statement shall have the same rights to contribution as the Corporation, subject in each case to the other provisions of this Section 25. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section 25, notify such party or parties from whom contribution may be sought, but the omission to so notify such party from whom contribution may be sought shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this Section 25. No party shall be liable for contribution with respect to any action or claim settled without its content. Notwithstanding anything in this paragraph to the contrary, in no case shall the Underwriter be responsible under this paragraph for any amount in excess of the underwriting discount earned by the Underwriter in connection with the sale of the Bonds.

The representations, warranties, agreements and indemnities of this Letter of Representations shall survive the Closing and any investigation made by or on behalf of any of you, or any Person who controls any of you, of any matters described in or related to the transactions contemplated hereby and by the Purchase Agreement or the Financing Documents.

26. The Corporation hereby agrees to pay the expenses described as payable by it in the Purchase Agreement and any expenses incurred by the City or the Underwriter in amending or supplementing the Official Statement pursuant to the Purchase Agreement or this Letter of Representations.

27. The Corporation has provided or made available to each of Squire, Sanders & Dempsey L.L.P., Orrick, Herrington & Sutcliffe LLP and McDermott Will & Emery LLP copies of all material documents requested in the diligence request from Squire, Sanders & Dempsey L.L.P. dated May 31, 2010.

28. The Corporation acknowledges and agrees (i) that the Underwriter are acting as principals and not as agents or fiduciaries to the Corporation, (ii) that the Underwriter's engagement is as an independent contractor and that the Underwriter are not serving in any other capacity; and (iii) that the Corporation is solely responsible for making its own judgments in connection with the offering of the Bonds, regardless of whether the Underwriter has or is currently advising the Corporation on related or other matters.

The representations, warranties, agreements and indemnities herein shall survive the Closing under the Purchase Agreement and any investigation made by or on behalf of any of you, or by any Person who controls any of you, into any matters described in or related to the transactions contemplated hereby and by the Purchase Agreement, the Official Statement and the Financing Documents.

This Letter of Representations shall be binding upon and inure solely to the benefit of each of you and the Corporation and, to the extent set forth herein, persons controlling any of you, and their respective officers, employees, agents and personal representatives, successors and assigns, and no other person or firm shall acquire or have any right under or by virtue of this Letter of Representations except as provided in Section 24 or Section 25 hereof. No recourse under or upon any obligation, covenant or agreement contained in this Letter of Representations shall, under any circumstances, exist or be had against any officer, agent, employee or director of any of the Corporation as individuals.

This Letter of Representations may be executed in any number of counterparts and all such counterparts shall together constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

If the foregoing is in accordance with your understanding of the agreement among us, kindly sign and return the duplicates of this Letter of Representations whereupon this will constitute a binding agreement among us in accordance with the terms hereof.

**Approved:**

**TORRANCE MEMORIAL MEDICAL  
CENTER**

By: \_\_\_\_\_  
Senior Vice President of Finance and  
Chief Financial Officer

Accepted and Agreed:

**CITY OF TORRANCE**

By: \_\_\_\_\_  
City Administrator

**CITIGROUP GLOBAL MARKETS INC.,**

By: \_\_\_\_\_  
Managing Director

**J.P. MORGAN SECURITIES INC.**

By: \_\_\_\_\_  
Managing Director

**EXHIBIT C**  
**FORM OF OPINION OF SPECIAL COUNSEL TO THE CITY**

[TO COME]

**EXHIBIT D**

*[Form of opinion to be provided by McDermott Will & Emery LLP to cover substantially the opinions listed herein]*

1. The Corporation is a nonprofit public benefit corporation duly incorporated, validly existing and in good standing under the laws of the State of California, with full legal right, power and authority to enter into the Financing Documents (as defined in the Letter of Representations), approve the Purchase Agreement and the Official Statement, deem final and approve the Preliminary Official Statement, and carry out and consummate all transactions contemplated by the foregoing and otherwise carry on its activities and own its property.

2. The execution, delivery and performance of the Financing Documents; the approval of the Purchase Agreement; the approval, execution and distribution of the Official Statement; and the deeming final, approval and distribution of the Preliminary Official Statement have been duly authorized by all necessary corporate action of the Corporation, and the Financing Documents and the Official Statement have been duly executed and delivered by the Corporation.

3. Each of the Financing Documents constitutes a legally valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms.

4. The Master Indenture creates a valid security interest in the Gross Receivables to secure the payment of the Required Payments (as defined in the Master Indenture) and the performance of the other obligations of the Obligated Group under the Master Indenture, subject to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Indenture.

5. The Corporation has duly approved the Purchase Contract and the Official Statement and has authorized the distribution of the Preliminary Official Statement and the Official Statement.

6. The approval, execution and distribution of the Official Statement, the approval of the Purchase Agreement, the execution and delivery of the Financing Documents by the Obligated Group and the consummation of the transactions and the performance of the obligations under each of the foregoing documents do not (i) to the best of our knowledge after a reasonable inquiry, violate any federal or California statute, rule or regulation applicable to the Corporation, (ii) violate the provisions of the governing documents of the Corporation, (iii) result in a breach of or a default (with due notice or the passage of time or both) under any bond, debenture, note or other evidence of indebtedness, or any material contract, agreement or lease to which the Corporation is a party or by which it or its properties are otherwise subject or bound and identified to us by an officer for the Corporation as material or of which we are otherwise aware after reasonable investigation or (iv) to the best of our knowledge after reasonable inquiry require any consents, approvals, authorizations, registrations, declarations or filings by the Corporation under any federal or California statute, rule or regulation applicable to the Corporation other than those that have been obtained or made, or (v) violate any existing obligation of or restriction on the Corporation under any order, judgment or decree of any California or federal court or governmental authority binding on the Corporation or (vi) violate, breach, or result in a default under, any existing obligation of or restriction on the Corporation under any other agreement.

7. No order, consent, permit or approval of any California or federal governmental authority that we have, in exercise of customary professional diligence, recognized as applicable to the Corporation

or to the transactions contemplated by the Financing Documents, the Purchase Agreement and the Official Statement is required on the part of any Member for the execution and delivery of and performance of its obligations under the Financing Documents or for the approval of the Purchase Agreement or the Official Statement, except for such as have been obtained or made and as are in full force and effect.

8 Other than as disclosed in the Official Statement, to the best of our knowledge after reasonable investigation (a) there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, threatened against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Bonds, the Purchase Agreement, the Financing Documents, or the Official Statement or upon the financial condition, assets, properties or operations of the Corporation and (b) the Corporation is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Purchase Agreement, the Official Statement or the Financing Documents, or the financial condition, assets, properties or operations of the Corporation.

9 To the best of our knowledge, the Corporation is not in any way in breach of or in default of any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any material loan agreement, indenture, bond, note, resolution, agreement, or other instrument to which the Corporation is a party or is otherwise subject, and we are aware of no event which has occurred or is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instrument which breach or default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Financing Documents, the Purchase Agreement, the Official Statement or the financial condition, assets, or operations of the Corporation or its properties.

10. The Corporation is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is exempt from federal income taxes under Section 501(a) of the Code, except for unrelated business income subject to taxation under Section 511 of the Code. No Member is a "private foundation" as defined in Section 509(a) of the Code.

11. The Corporation is a corporation organized and operated exclusively for charitable purposes (within the meaning of Section 3(a)(4) of the Securities Act of 1933, as amended), not for pecuniary profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual, all within the meaning of subsection 3(a)(4) of the Securities Act of 1933, as amended, and of subsection 12(g)(2)(D) of the Securities Exchange Act of 1934, as amended.

12. The Corporation is an organization described in Section 23701(d) of the California Revenue and Taxation Code (the "California Code") and is exempt from all California income and franchise taxes to the extent provided in Section 23701 of the California Code, except for unrelated business income subject to taxation under Section 23701 of the California Code.

13. The Corporation has all licenses and permits necessary to operate and maintain its healthcare facilities and has all corporate power and authority to conduct its business as described in the Official Statement.

14. To the best of our knowledge after reasonable investigation, the Corporation has taken all steps legally required as of the date hereof to permit the commencement of the facilities to be financed or

refinanced with the proceeds of the Bonds, has made all submissions to governmental authorities and has obtained, and there are currently in full force and effect, all consents, approvals, authorizations, accreditations, licenses, permits and orders of any governmental or regulatory authority that are required to be obtained and are presently obtainable by the corporation to enable commencement in accordance with the plans and specifications therefor. Based upon inquiry of appropriate officers of the Corporation, we have no reason to believe that any approvals and permits hereafter required will not be granted.

15. Based upon the information made available to us in the course of our participation in the preparation of the Official Statement as special counsel to the Corporation, and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to our attention which would lead us to believe that the statements and information contained in the Official Statement as of the date thereof or hereof (except for the financial and statistical data included in the Official Statement as to which we express no opinion), contained or contain any untrue statement of a material fact or omitted or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

16. It is not necessary in connection with the primary offering and sale of the Bonds to the public to register Obligation No. 2 under the Securities Act or to qualify the Master Indenture under the Trust Indenture Act.

17. There has been a valid assignment to the Bond Trustee of the right, title and interest of the City in the Loan Agreement (as and to the extent set forth in the Bond Indenture).

18. The UCC-1 Financing Statements have been filed with the Office of the Secretary of State of the State of California and all notices have been given in the manner required by law to create, perfect or maintain, as applicable, the security interests granted by the Obligated Group to the Master Trustee under the Master Indenture. It will not be necessary to re-record any such financing statements except that (a) continuation statements must be filed within the six-month period ending on the fifth anniversary of the date the financing statements were filed as required by the California Uniform Commercial Code, and (b) amended financing statements must be filed within 120 days from the date that any Member changes its name, identity or corporate structure such that the financing statement naming such Member as debtor becomes seriously misleading.

19. Neither the Property nor Gross Receivables (as defined in the Master Indenture) is subject to any Liens or other encumbrances, other than Permitted Encumbrances (as defined in the Master Indenture).

[Additional opinions to be added regarding Letter of Credit and Reimbursement Agreement]