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KCT 43315

EXECUTION COPY

AFTER RECORDING RETURN TO:
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AMENDED AND RESTATED LEASE

between

KLAMATH FALLS INTERCOMMUNITY
HOSPITAL AUTHORITY

"Lessor"

and

MERLE WEST MEDICAL CENTER
(FORMERLY PRESBYTERIAN INTERCOMMUNITY HOSPITAL, INC.)

"Lessee"

Dated as of September 1, 1977
as Amended and Restated as of July 1, 1991

Relating To The Issuance Of
\$8,500,000
Klamath Falls Intercommunity Hospital Authority
Gross Revenue Bonds, Series 1991
(Merle West Medical Center Project)

The right, title and interest of Klamath Falls Intercommunity Hospital Authority (the "Authority") under this Amended and Restated Lease with certain exceptions is assigned to First Interstate Bank of Oregon, N.A., as trustee (the "Trustee") under the Amended and Restated Trust Indenture dated as of July 1, 1991, between the Authority and the Trustee.

Dated as of July 1, 1991

ATER WYNNE HEWITT DODSON & SKERRITT

43315

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(The Index is not a part of the Amended and Restated Lease
but for convenience of reference only.)

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AMENDED AND RESTATED LEASE

13112

Between

KLAMATH FALLS INTERCOMMUNITY HOSPITAL AUTHORITY

and

MERLE WEST MEDICAL CENTER

This Amended and Restated Lease dated as of July 1, 1991, amends and restates the Lease dated as of September 1, 1977 (herein called "Lease"), between Klamath Falls Intercommunity Hospital Authority, (which together with its successors is herein called "Lessor"), a municipal corporation organized and existing under the laws of the State of Oregon, and Merle West Medical Center (formerly Presbyterian Intercommunity Hospital, Inc.) (the "Lessee"), a nonprofit corporation organized under the laws of the State of Oregon, no part of the net earnings of which inure to the benefit of any private shareholder or individual and which has authority to own and operate a hospital facility as that term is defined in Oregon Revised Statutes 441.525 to 441.595 inclusive as amended (the "Act").

WITNESSETH:

That in consideration of the mutual covenants herein contained and in order for the Lessor to provide and Lessee to obtain additional hospital facilities which are needed, the parties hereto covenant, agree and bind themselves as follows:

ARTICLE I

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Incorporation of Indenture; Definitions

Section 1.1. Indenture Incorporated Herein. This Lease is made and executed contemporaneously with a document entitled Amended and Restated Trust Indenture dated as of July 1, 1991, which amends and restates the Trust Indenture dated as of September 1, 1977 (herein called the "Indenture"), to which the Lessor is a party. It is hereby expressly agreed and understood that each term and provision of the Indenture is incorporated in this Lease the same as if fully set forth herein. It is further understood and agreed that the terms of this Lease shall automatically and immediately be amended upon the making of and to reflect the terms of any amendment of or supplement to the Indenture without any further act of the parties, provided that Lessor shall not consent to any such amendment or supplement without first obtaining Lessee's consent. Lessee hereby agrees to comply with all terms, conditions and requirements of the Bond Documents.

Section 1.2. Definitions. Any capitalized terms, not otherwise defined herein, shall have the meanings assigned to them in the Indenture.

Representations

Section 2.1. Representations by the Lessor. Lessor makes the following representations as the basis for its undertakings herein:

- (a) Lessor agrees that it will do or cause to be done all things necessary to preserve and keep in full force and effect its existence. Lessor is not in default under the laws of the State and has been duly authorized to execute and deliver this Lease.
- (b) Lessor has acquired good and marketable fee simple title to the Hospital Facilities, subject to Permitted Encumbrances, previously has caused the completion of the 1977 Project and will cause the completion, as herein provided, of the construction, acquisition and installation of the 1991 Project, as may be necessary and hereby leases the Hospital Facilities to Lessee and proposes to sell the Hospital Facilities to Lessee as hereinafter provided. Lessor agrees to use its best efforts to procure from the appropriate state, county, municipal and other authorities and corporations connection and discharge arrangements for the supply of water, gas, electricity and other utilities and sewage and waste disposal for the operation of the Hospital Facilities throughout the Lease Term.
- (c) Lessor has furnished to Lessee evidence as to the status of the title of the Hospital Facilities and both Lessor and Lessee agree that all defects, irregularities, encumbrances, easements, rights-of-way and clouds on title set forth in such evidence of title fall within the definition of Permitted Encumbrances.
- (d) Lessor has previously issued the 1977 Bonds and proposes to issue its 1991 Bonds as provided in the Indenture and the Bond Resolution. Lessor's 1991 Bonds shall be in the aggregate principal amount of \$8,500,000, will be scheduled to be retired by payment according to their stated maturity, will bear interest payable at maturity at the rate per annum stated in the Indenture and will be subject to redemption all as set forth in the Indenture.
- (e) The Bonds are issued under and secured by the Indenture, pursuant to which the Lessor's interest in this Lease and the Gross Revenues are assigned and pledged to the Trustee as security for payment of the principal of and interest on the Bonds. The 1991 Bonds are issued as Additional Bonds under the 1977 Indenture and are secured under the Indenture on a parity basis with the 1977 Bonds.
- (f) Lessor will permit moneys in the Special Funds to be used only in accordance with the provisions of this Lease and the Indenture.
- (g) Lessor will cause to be maintained separate accounts and supporting records of the costs of the 1977 Project and the 1991 Project.

Section 2.2. Representations and Covenants by Lessee. Lessee makes the following representations and covenants as the basis for the undertaking on its part herein contained:

- (a) Lessee is a nonprofit corporation duly incorporated under the laws of the State of Oregon, no part of the net earnings of which inure or may lawfully inure to the benefit of any member or private individual. Lessee is existing under the laws of the State of Oregon and has power to enter into this Lease and by proper corporate action has been duly authorized to execute and deliver this Lease.
- (b) Lessee will operate the Project as a "hospital" as that term is defined in the Act until the expiration or sooner termination of the Lease Term as provided herein.
- (c) For so long as the 1977 Bonds are Outstanding and unpaid, Lessee shall not: (i) use the Gross Revenues other than for payment of rentals and other payments under this Lease, the operating expenses, maintenance, repair and improvement of the Hospital Facilities or for some other purpose essential to the proper conduct of Hospital Facilities as a "hospital" as that term is defined in the act; (ii) except as provided in the Indenture and the Bond Resolution, without the approval of the Lessor, issue any bonds, notes, debentures or other similar indebtedness of a fixed character or enter into any lease or rental payment obligations secured by a pledge or other hypothecation of the Hospital Facilities, which pledge or other hypothecation is prior to or on a parity with the obligation of Lessee to pay Rental Amounts under this Lease, or (iii) without the approval of Lessor, and subject to the provisions of Article VII hereof, sell, give, spin-off, or otherwise transfer or encumber any material portion of the Hospital Facilities now or hereafter owned by Lessee which are or could be the source of Gross Revenues.
- (d) The Hospital Facilities which have been or hereafter will be constructed, acquired and installed in connection with the 1977 Project and 1991 Project, have been and will be constructed, acquired or installed as the case may be, in such manner as to conform with all applicable zoning, planning, environmental and building regulations of the governmental authorities having jurisdiction of the 1977 Project and the 1991 Project.
- (e) Lessee's articles of incorporation and its code of regulations, if any, and its operations conform, and Lessee covenants and agrees that the same will conform at all times during the Lease Term, to those acceptable:
 - (1) for exemption from income taxes as a nonprofit organization under federal and state income tax legislation and regulations;
 - (2) to the American Hospital Association for registration;
 - (3) to the Joint Commission on Accreditation of Health Care Organizations, (or other organization which is nationally recognized as

performing comparable functions to those now performed by such Commission), for accreditation; and

(4) for a duly constituted and empowered Oregon corporation, organized for charitable hospital purposes and not for profit and eligible to be a lessee under the Act.

Lessee shall not be required to amend its articles of incorporation or bylaws or to change its operations except as such amendment or change is required by this Lease.

(f) Lessee shall at all times throughout the Lease Term operate or cause to be operated the Hospital Facilities in a manner acceptable to local, state and federal licensing authorities.

(g) Lessee shall throughout the Lease Term, administer, operate, maintain and repair the Hospital Facilities in accordance with the terms of this Lease; shall as its obligation and at its expense, during the Lease Term, use and occupy the Hospital Facilities exclusively for such purposes, and shall faithfully, efficiently and exclusively administer, operate, maintain and repair the same and shall abide by all present and future applicable laws, ordinances, rules, regulations, requirements and orders of all governmental authorities or agencies having jurisdiction over the Hospital Facilities or the operations of the Lessee.

(h) Lessee shall employ and maintain in its employ an administrator, manager, executive director, or other chief executive of the Hospital Facilities, qualified by training and experience in hospital or industrial management.

(i) At least 95 percent of the sum of the net proceeds of the 1991 Bonds plus income from the investment thereof will be used to pay the costs of acquiring, equipping, renovating or constructing the 1991 Project, or otherwise paying the capital costs of Lessee.

(j) Any real or personal property acquired, equipped, renovated, improved or otherwise financed with the proceeds of the Bonds shall be owned by an organization described in Section 501(c)(3) of the Code.

(k) Not more than 2 percent of the proceeds of the 1991 Bonds will be used to pay the costs of issuance of the 1991 Bonds including, without limitation, the fees and expenses of Bond Counsel or the underwriter's spread incurred in connection with the sale of the 1991 Bonds.

(l) The Lessee will comply with, and make all filings required by, all effective rules, rulings or regulations promulgated by the Department of the Treasury or the Internal Revenue Service with respect to obligations described in Section 103 of the Internal Revenue Code of 1954 and 145 of the Code, such as the Bonds.

(m) The Lessee will continue to conduct its operations in a manner that will result in its continuing to qualify as an organization described in Section 501(c)(3) of the Code, including but not limited to the timely filing of all returns, reports and requests for determination with the Internal Revenue Service and the timely notification of the Internal Revenue Service of all changes in its organization and purposes from the organization and purposes previously disclosed to the Internal Revenue Service.

(n) The proceeds of the 1991 Bonds and any investment earnings thereon will be expended for the purposes set forth in this Lease and in the Indenture and no portion thereof will be used in any "unrelated trade or business" of the Lessee within the meaning of Section 513(a) of the Code.

(o) The Lessee will not use or cause any portion of the 1991 Project to be used or invest the proceeds of the 1991 Bonds or any other amounts held by the Trustee under the Indenture or any investment earnings thereon, in a manner that will cause the 1991 Bonds to be private activity bonds (other than qualified 501(c)(3) bonds) within the meaning of Sections 141 and 145 of the Code.

(p) The Lessee will not cause the 1991 Bonds to be treated as "federally guaranteed" obligations for purposes of Section 149(b) of the Code, as may be modified in any applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service with respect to "federally guaranteed" obligations described in Section 149(b) of the Code. For purposes of this paragraph, the 1991 Bonds shall be treated as "federally guaranteed" if: (i) all or any portion of the principal or interest is or will be guaranteed directly or indirectly by the United States of America or any agency or instrumentality thereof, or (ii) 5% or more of the proceeds of the 1991 Bonds will be (A) used in making loans the payment of principal or interest with respect to which is to be guaranteed in whole or in part by the United States of America or any agency or instrumentality thereof, or (B) invested directly or indirectly in federally insured deposits or accounts, and (iii) none of the exceptions described in Section 149(b)(3) of the Code apply.

(q) The Lessee will not use or invest the proceeds of the Bonds or any other amounts held by the Trustee under the Indenture or any investment earnings thereon in a manner that will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(r) The weighted average maturity of the 1991 Bonds will not exceed 120% of the reasonably expected remaining economic life of the 1991 Project, taking into account the respective cost of each item comprising the 1991 Project. For purposes of the preceding sentence, the reasonably expected remaining economic life of each component of the 1991 Project shall be determined as of the date on which the 1991 Bonds are issued. In addition, land shall not be taken into account in determining the reasonably expected remaining economic life of the 1991 Project, except that, in the event 25% or more of the proceeds of the 1991 Bonds originally

issued to finance the 1991 Project have been expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected remaining economic life of the 1991 Project.

(s) The Lessee will not use, or permit to be used, less than 95% of the net proceeds of the 1991 Bonds with respect to a "hospital," within the meaning of Section 145(c) of the Code.

(t) No amount of net proceeds of the 1991 Bonds will be used, directly or indirectly, to provide any airplane, sky-box or other luxury box, facility primarily used for gambling, store the principal business of which is the sale of alcoholic beverages for consumption off premises or any health club facility unless the health club facility is directly used for the purpose of qualifying the Lessee for tax exemption under Section 510(c)(3) of the Code.

(u) None of the proceeds of the 1991 Bonds will be used directly or indirectly to provide residential rental property for family units within the meaning of Section 145(d)(1) of the Code unless the requirements of Section 145(d)(2) of the Code are satisfied.

(v) The Lessee is not in violation of any provision of its articles of incorporation, as amended, has the corporate power to enter into this Lease, and has duly authorized the execution and delivery of this Lease.

(w) The Lessee has not placed any lien on or pledged the Gross Revenues other than with respect to the 1977 Bonds and the 1991 Bonds and as provided in the Indenture.

(x) The execution and delivery of this Lease, the Indenture, the Loan Agreement, and the Guaranty Agreement and the consummation of the transactions contemplated hereby and thereby, and the fulfillment of or compliance with the terms and conditions hereof or thereof do not conflict with or result in a breach of the terms, conditions or provisions of any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Lessee under the terms of any such instrument or agreement.

(y) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, known to be pending or threatened against or affecting the Lessee or any of its officers, nor to the best knowledge of the Lessee is there any basis therefor, wherein an unfavorable decision, ruling, or finding would materially adversely affect the transactions contemplated by this Lease or which would adversely affect, in any way, the validity or enforceability of the Bonds, this Lease, the Indenture, the Loan Agreement, or the Guaranty

Agreement or any agreement or instrument to which the Lessee is a party, used or contemplated for use in the consummation of the transactions contemplated hereby.

Section 2.2. Environmental Representation, Warranties, Covenants and Indemnification. For purposes of this Section, the following terms shall have the following meanings:

"Environmental Laws" means any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment.

"Hazardous Substances" is used in its very broadest sense and refers to materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. "Hazardous Substances" shall include, without limitation, petroleum produces or crude oil or any fraction thereof and any and all hazardous or toxic substances, materials or waste as defined by or listed under the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Comprehensive Environmental Response, Compensation and Reliability Act, or any other of the Environmental Laws.

The Lessee represents, warrants and covenants as follows:

(a) To the best of Lessee's knowledge, after due inquiry and investigation, all Hazardous Substances on or in the Hospital Facilities have been used, generated, manufactured, refined, transported, treated, stored, handled and disposed of only in strict compliance with all Environmental Laws. Lessee has no knowledge of any action, citation, directive, letter or other communication from any person or governmental authority concerning any intentional or unintentional action or omission which has resulted in the releasing, spilling, leaking, pumping, pouring, omitting, emptying or dumping of Hazardous Substances on the Hospital Facilities or from the Hospital Facilities to other property.

(b) Lessee shall exercise extreme care in handling Hazardous Substances and shall undertake any and all preventive, investigatory or remedial action (including, without limitation, emergency response, removal, containment and other remedial action):

(i) required by any applicable Environmental Laws or orders by any governmental authority having jurisdiction under Environmental Laws; or

(ii) necessary to prevent or minimize property damage (including, without limitation, damage to the Lessee's own property), personal injury or damage to the environment or threat of any such damage or injury, by releases of or exposure to Hazardous Substances in connection with the Hospital Facilities or operations on the Hospital Facilities. In the event the Lessee fails to perform any of its obligations under this Section, the Authority or the Trustee may perform (but shall not be required to perform) such obligations at the Lessee's expense. In performing any such obligations of the Lessee, the Authority and the Trustee shall at all times be deemed to be the agent of the Lessee and shall not by reason of

any such performance be deemed to be assuming any responsibility of the Lessee under any Environmental Laws or to any other person.

(c) The Lessee shall indemnify and hold harmless the following (collectively the "Indemnitees"): the Authority and the Trustee and their officers, directors, employees, agents, and all of their successors and assigns against any and all claims, demands, losses, liabilities, costs and expenses (including, without limitation, attorney fees at trial and on any appeal or petition for review) incurred by any of the Indemnitees:

(i) arising out of or relating to any investigatory or remedial action involving the Hospital Facilities or the operations conducted on the Hospital Facilities and required by Environmental Laws or by orders of any governmental authority having jurisdiction under any Environmental Laws; or

(ii) on account of injury to any person or damage to any property arising out of or in connection with or in any way relating to:

(a) any applicable laws or regulations, including, without limitation, Environmental Laws; or

(b) the use, treatment, storage, generation, manufacture, transport, release, spill, disposal or other handling of Hazardous Substances on the Hospital Facilities or in connection with operations conducted on the Hospital Facilities; or

(c) the contamination of any of the Hospital Facilities by Hazardous Substances.

(d) The covenants contained in this Section shall survive any termination of the Lease and any delivery of a deed in lieu of foreclosure to the Authority, the Trustee or any of their successors or assigns, and shall survive any foreclosure, whether judicial or nonjudicial, of the Hospital Facilities pursuant to the terms of the Indenture and shall be for the benefit of the Authority, the Trustee and their successors and assigns.

Commencement and Completion of the Project
Issuance of the Bonds

Section 3.1. Agreement to Complete Construction, Acquisition and Equipping of the Projects. Lessor and Lessee agree that they previously have caused the completion of construction, acquisition and equipping of the 1977 Project and that they will cause completion of construction, acquisition and equipping of the 1991 Project in accordance with the plans therefor now on file with the Lessor, as such plans and specifications are from time to time amended and approved by Lessor and Lessee.

Lessor and Lessee have now agreed on the aforesaid plans and specifications and therefore Lessor agrees that only such changes will be made in said plans and specifications as are agreed to by Lessee. Lessor agrees that, to the extent permitted by law, it will enter into, or accept the assignment of, such contracts as the Lessee may request in order to effectuate the purposes of this Section 3.1.

Lessor and Lessee hereby agree (a) to make, execute, acknowledge and deliver any contracts, orders, receipts, writings and instructions, and in general to do all things which may be requisite or proper to complete the construction, acquiring and installing of the 1977 Project and the 1991 Project, (b) pursuant to the provisions of this Lease, to pay or cause the payment of all fees, costs and expenses incurred in completing the construction, acquisition and installation of the 1977 Project and the 1991 Project from funds made available therefor in accordance with the Indenture, the Bond Resolution and this Lease, and (c) to ask, demand, sue for, levy, recover and receive all such sums of money, debts, dues and other demands whatsoever which may be due, owing and payable to Lessor under the terms of any contract, order, receipt, writing and instruction in connection with construction, acquisition and installation of the 1977 Project and the 1991 Project, and to enforce the provisions of any contract, agreement, obligation, bond or other performance security.

Lessor and Lessee agree (i) that completion of construction of the structures included in the 1977 Project and the 1991 Project shall proceed with all reasonable dispatch; (ii) that the acquisition and installations of the furnishings, equipment and other personal property shall be effected as promptly as practicable after specification by Lessee of the items to be installed and the installation schedule desired; and (iii) to use their best efforts to cause the said construction, acquisition and installation to be completed by the 1977 Completion Date and the 1991 Completion Date, but if for any reason such construction, acquisition and installation is not completed by said dates there shall be no resulting liability on the part of Lessor and no diminution in or postponement of the Rental Amount required in Section 4.3 hereof to be paid by Lessee.

Section 3.2. Agreement to Issue Bonds; Application of Bond Proceeds. To provide funds for the 1977 Project, Lessor previously has issued the 1977 Bonds and has deposited the proceeds thereof as required in the Indenture. To provide funds for the 1991 Project, Lessor has, concurrently with the execution of this Lease, issued and delivered to the initial purchaser

thereof the 1991 Bonds and Lessor has deposited the proceeds of said Bonds as required by the Indenture.

Section 3.3. Obligation of the Parties to Cooperate in Furnishing Documents to Trustee. Lessor and Lessee shall cooperate in furnishing to the Trustee all documents required by the Indenture and this Lease.

Section 3.4. Lessee's Payments Required to Trustee. In the event the moneys in the Construction Fund available for payment of the costs of the 1977 Project and the 1991 Project should not be sufficient to pay the costs thereof in full, Lessee agrees, for the benefit of Lessor, to complete the 1977 Project and the 1991 Project. Lessee agrees that if after exhaustion of the moneys in the Construction Fund, it should pay any portion of the said costs of the 1977 Project and the 1991 Project pursuant to the provisions of this Section 3.4, it shall not be entitled to any reimbursement therefor from Lessor, the Trustee, or the holders of any of the Bonds nor shall it be entitled to any diminution in or postponement of the Rental Amount payable under Section 4.3 hereof.

Section 3.5. Authorized Officer. At all times during the Lease Term, the Lessee shall designate a responsible person or persons to act as an Authorized Officer, any one of whom shall take and make any and all certificates required to be taken and made by the Lessee or the Authorized Officer and shall provide written notice to the Trustee of any such designation and of any successor Authorized Officer. In the event that all of the persons so designated and their designated successors are unavailable to act, the Lessor or the Trustee may designate a an Authorized Officer who shall be acceptable to the Trustee.

Section 3.6. Remedies to be Pursued Against Contractors and Subcontractors and their Sureties. In the event of default of any contractor or subcontractor under any contract made by it in connection with the 1977 Project and the 1991 Project or in the event of a breach of warranty with respect to any materials, workmanship, or performance guaranty, the Lessor will cause prompt proceedings to be instituted, either separately or in conjunction with others, to exhaust the remedies of Lessor against the contractor or subcontractor so in default and against each surety for the performance of such contract. The Lessor agrees to notify Lessee of the steps it intends to take in connection with any such default.

If Lessee deems it reasonably necessary, and if Lessee shall so notify Lessor, the Lessee may prosecute or defend any action or proceeding or take any other action to which it is a proper party and involving any contractor, subcontractor or surety described in the immediately preceding paragraph, and in such event Lessor hereby agrees to cooperate fully with Lessee.

Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the immediately preceding two paragraphs after deduction of expenses incurred in such recovery, prior to the Completion Date for any Project shall be paid into the Account in the Construction Fund established for such Project or, if recovered after the Completion Date for any Project, shall be paid into the GRO Fund.

Section 3.7. Investment of Special Fund Moneys Permitted. Any moneys held as part of a Special Fund shall be invested as permitted by the Indenture.

(a) **1977 Bonds.** Lessor and each Lessee hereby covenant that it will restrict the use of the 1977 Bond proceeds in such manner and to such extent, if any, as may be necessary, after taking into account reasonable expectations at the time the Bonds are delivered to the initial purchaser thereof, so that they will not constitute "arbitrage bonds" under Section 103(c) of the Internal Revenue Code of 1954 and the regulations prescribed under that Section.

(b) **1991 Bonds.** (1) Lessor and Lessee hereby covenant that they will restrict the use of the 1991 Bond proceeds in such manner and to such extent, if any, as may be necessary, to insure that the 1991 Bonds will not constitute "arbitrage bonds" under Section 148 of the Code.

(2) The Lessee agrees that it will cause to be paid to the United States on behalf of the Authority all penalties, payments or other amounts required pursuant to Section 148(f) of the Code, the Tax Regulatory Agreement and Section 7.4 of the Indenture. The Lessee agrees to provide any instructions to the Trustee that are necessary to satisfy the requirements of Section 148(f) of the Code. The Lessee agrees to pay any expense, costs or fees incurred by or on behalf of the Authority or the Trustee in complying with Section 7.4 of the Indenture.

(3) At the request of the Trustee, the Lessee from time to time shall provide the Trustee any information necessary to satisfy the requirements of Section 148 of the Code or any information necessary to assure the Trustee that the Lessee have or will comply with the requirements of Section 148 of the Code.

Section 3.8. Disbursements from the Construction Fund. In the Indenture, the Lessor has, in the Indenture, authorized and directed the Trustee to make payments from the Construction Fund to pay (or to reimburse the Lessee for the payment of) the Cost of Capital Projects for which the Construction Fund was funded. Each payment of the Cost of Capital Projects shall be made only upon receipt by the Trustee of a requisition signed by an authorized representative of the Lessee stating (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due or was made, (iii) the amount to be paid, (iv) that none of the items for which the payment is proposed to be made has formed the basis for any payment theretofore made from the Construction Fund, (v) the nature of each item for which the payment is proposed to be made and that such item is or was reasonable and necessary in connection with each respective Project for which the Construction Fund was founded and is a proper charge against the Construction Fund, (vi) that upon payment of the amount requested in such requisition, the amount remaining in the Construction Fund, together with other legally available moneys of the Lessee, are sufficient to pay the portion of the Cost of Capital Projects for each such Project then unpaid, (vii) that any item purchased with moneys requisitioned shall be owned and used only by the Lessee, (viii) that the use of the moneys requisitioned by the Lessee will not adversely affect the tax-exempt status of the Bonds, and that (ix) Lessee reaffirm all representations and warranties made as to the 1991 Bonds in the Tax Regulatory Agreement.

Section 3.9. Disbursements from the Bond Issuance Cost Fund. The Lessor has, in the Indenture, authorized and directed the Trustee to make payments from the Bond Issuance Cost Fund for the payment of expenses as provided in this Section 3.9. Payments shall be made from each Account in the Bond Issuance Cost Fund only for paying the costs of legal, accounting, organization, marketing or other special services and other fees and expenses, incurred or to be incurred by or on behalf of the Lessor or the Lessee in connection with the issuance of a particular series of Bonds. The Lessee acknowledges that the moneys in each Account in the Bond Issuance Cost Fund available for payment of the foregoing costs may not be sufficient to pay such costs in full, and agrees to pay that portion of such costs in excess of the amount in the Bond Issuance Cost Fund from any moneys legally available for such purpose. Each payment out of the Bond Issuance Cost Fund shall be made only upon receipt by the Trustee of a requisition signed by an authorized representative of the Lessee and shall certify that the amount of the requisition plus any amounts previously requisitioned will not exceed, as to the 1991 Bonds, the amount of \$169,363.

Upon receipt of a certificate signed by an Authorized Officer of the Lessee stating that all such fees and expenses relating to the issuance of the 1991 Bonds have been paid, the Trustee shall transfer any moneys remaining as to the 1991 Bonds, in the 1991 Bond Issuance Cost Account at the option of the Lessee to the 1991 Bond Principal Account, the 1991 Bond Interest Account, or if such certificate is received prior to the 1991 Completion Date, to the 1991 Construction Account in the Construction Fund.

Section 3.10. Obligation of the Parties to Cooperate in Furnishing Documents to Trustee. The Lessee and the Lessor agree to cooperate with each other in furnishing to the Trustee the requisitions referred to in Sections 3.8 and 3.9 hereof.

Section 3.11. Completion of a Project. The completion of a Project and the deposit of any remaining balances shall be governed by Section 5.2 of the Indenture.

Section 3.12. Establishment of Completion Date. The Completion Date for each Project shall be evidenced to the Trustee by a certificate meeting the requirements of Section 5.3 of the Indenture. The Lessee covenants that the Completion Date (i.e., the filing of the certificate required by this Section 3.12) will occur not later than, as to the 1991 Project, July 1, 1994, unless otherwise agreed to in writing by the Trustee and provided the Lessee provides the Trustee and the Lessor with an opinion of Bond Counsel to the effect that the extension of such date will not adversely affect the tax-exempt status of the Bonds of such series.

Section 3.13. Completion of the Project if Construction Fund Insufficient. The Lessee acknowledges that the moneys in the Construction Fund available for payment of the Cost of Capital Projects may not be sufficient to pay the Cost of Capital Projects for any Project in full, and agrees to complete such Project and to pay that portion of the Cost of Capital Projects in excess of the moneys available therefor in the Construction Fund from any moneys legally available for such purpose. The Lessor does not make any warranty, either express or implied, that the moneys which will be paid into the Construction Fund will be sufficient to pay all the Cost of the Capital Projects for any Project. The Lessee shall not be entitled as a

result of paying a portion of the Cost of Capital Projects for any Project pursuant to this Section 3.13 to any reimbursement therefor from the Lessor, the Trustee or from the Owners of any Bonds, nor shall it be entitled to any diminution in or postponement of the Rental Amounts or other payments required to be paid under Section 4.3 hereof.

ARTICLE IV

Leased Premises--Terms of Lease, Rental and Operations

Section 4.1. Lease of Hospital Facilities. Lessor, in consideration of the covenants and agreements of Lessee and the payment of Rental Amounts as herein stated, agrees to, and does hereby lease to the Lessee, and Lessee agrees to, and does hereby lease from Lessor, subject to the provisions of this Lease, the Hospital Facilities, as defined in the Indenture and as more particularly described in Exhibit A to this Lease, together with all additions, improvements, easements, accretions and appurtenances thereunto belonging or in any wise appertaining whether now or hereafter; together with any hereafter acquired Hospital Facilities located on the real property described in Exhibit A hereto, the Gross Revenues thereof being expressly pledged as additional Gross Revenues as herein defined.

TO HAVE AND TO HOLD, the above described premises and properties until Lessee for the Lease Term as set forth herein, subject to Permitted Encumbrances.

Section 4.2. Lease Term and Possession.

(a) The Lease Term commenced on September 1, 1977 and, subject to earlier termination as provided herein, shall end on the day following the day on which all Bonds and coupons, if any, appertaining thereto are no longer Outstanding and all expenses of the Trustee are deemed to have been paid and discharged under the provisions of the Indenture.

(b) Lessor agrees to deliver to Lessee full possession of the Hospital Facilities (subject to Section 7.2 hereof) at the commencement of the Lease Term and Lessee agrees to accept possession of the Hospital Facilities upon such delivery.

(c) Lessor covenants and agrees that it will not take any action, other than pursuant to Article IX of this Lease, to prevent Lessee from having quiet and peaceable possession and enjoyment of the Hospital Facilities during the Lease Term and will, at the request of Lessee, and at Lessee's cost, cooperate with Lessee in order that Lessee may have quiet and peaceable possession and enjoyment of the Hospital Facilities.

(d) During the Lease Term, and if the Lessee is not in default under this Lease, the Guaranty Agreement or the Indenture, the Lessee shall have sole and exclusive charge of the operation of the Hospital Facilities.

Section 4.3. Rents and Other Amounts Payable. On or before each Rental Payment Date, Lessee agrees to and shall pay as rent for the use of the Hospital Facilities the Rental Amount due and owing on such Rental Payment Date.

In any event, the Rental Amount payable under this Section shall be sufficient to pay the total amount due with respect to the principal of and interest and premium, if any, on the Bonds as such payments become due, and to pay any deficiency in any Special Fund,

provided, that if at any time the amount held by the Trustee in the Special Funds, exclusive of the Construction Fund, should be sufficient to pay at the time required the principal of and interest on the Bonds then Outstanding, Lessee shall not be obligated to pay further Rental Amounts under the provisions of this Section 4.3.

During the Lease Term, Lessee agrees to pay the Trustee as they become due (i) the fees of the Trustee for the Ordinary Services of the Trustee rendered, and its Ordinary Expenses incurred, under the Indenture; (ii) the reasonable fees and charges of the Trustee, as Bond Registrar and paying agent, and of paying agents on the Bonds, as provided in the Indenture; and (iii) the reasonable fees and charges of the Trustee for necessary Extraordinary Services rendered by it and Extraordinary Expenses incurred by it under the Indenture; provided, Lessee may, without creating a default hereunder, contest in good faith the necessity for any such Extraordinary Services and Extraordinary Expenses and the reasonableness of the same.

Lessee also agrees to pay to Lessor or reimburse Lessor for all reasonable expenses of Lessor, including without limitation, the fees and costs of its legal counsel, if any, related to the Hospital Facilities or requested by Lessee, or required by this Lease or the Indenture. Lessee also agrees to pay the fees, costs and expenses of Bond Counsel.

Failure by the Lessee to make any payment required by this Section 4.3 shall constitute a Lease Default, and the required payment shall continue to be an obligation of Lessee, payable in full with interest at the Interest Rate for Advances from the date of such Lease Default.

Section 4.4. Place of Rental Payments. The rent provided for in the first two paragraphs of Section 4.3 hereof shall be paid directly to the Trustee at its corporate trust office for the account of Lessor and will be deposited in the Special Funds as provided in the Indenture. The additional payments to be made to the parties under Section 4.3 hereof shall be paid directly to such parties.

Section 4.5. Obligations of Lessee Hereunder Unconditional. The obligations of Lessee to make the payments required in Section 4.3 hereof and to perform and observe the other agreements on its part contained herein, to the extent permitted by law, shall be absolute and unconditional, and until such time as the principal of and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, Lessee, to the extent permitted by law (i) will not, subject to the provisions of Section 8.6 hereof, suspend or discontinue any payments provided for in Section 4.3 hereof, (ii) will perform and observe all of its other agreements contained in this Lease, and (iii) except as provided in Article X hereof will not terminate this Lease for any cause, including but not limited to, failure to complete any Project, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Hospital Facilities, commercial frustration of purpose, any change in the tax or other laws or administrative actions by the United States of America or the State of Oregon or any political subdivision of either, or any failure of Lessor to perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Bond Documents.

Nothing contained in this Section 4.5 shall be construed to release Lessor from the performance of any of the agreements on its part contained in this Lease; and in the event Lessor shall fail to perform any such agreement on its part, Lessee may institute such action against Lessor as Lessee may deem necessary to compel performance or recover its damages for non-performance so long as such action shall not do violence to the agreements on the part of Lessee contained in the next preceding paragraph. Lessee may, however, at its own cost and expense and in its own name or in the name of Lessor, to the extent permitted by law, prosecute or defend any action or proceeding or take any other action involving third persons which Lessee deems reasonably necessary to secure or protect its rights of possession, occupancy and use hereunder, and in such event Lessor hereby agrees to cooperate fully with Lessee and to take all action necessary to effect the substitution of Lessor for Lessee in any such action or proceeding if Lessee shall so request.

Section 4.6. Gross Revenue Pledge. To secure the prompt payment of the Rental Amount and the performance by Lessee of its obligations hereunder, Lessee hereby pledges to Lessor and hereby grants Lessor a security interest in and agrees and acknowledges that Lessor shall have and shall continue to have a security interest in Gross Revenues.

Section 4.7. Rates, Fees and Charges. Lessee covenants and agrees to operate the Hospital Facilities as a hospital available to the public and upon a revenue-producing basis and to fix, charge and collect such reasonable rates, fees and charges for the services rendered by, and for the use and occupancy of, the Hospital Facilities or any part thereof, so that there shall inure to Lessee gross cash receipts in an amount sufficient to pay currently all of Lessee's expenses of operation, pay all Rental Amounts under this Lease, and pay all other obligations imposed by this Lease upon Lessee.

This Section 4.7 shall not be construed to prohibit Lessee from providing services to indigent patients without charge or at reduced rates, if deemed necessary by Lessee, for retaining their tax exempt status under applicable law or complying with any applicable requirements of law.

The Lessee has also agreed that it shall, from time to time, as often as necessary, revise such rates, fees and charges to the extent required to comply with this provision. Such rates, fees and charges shall in any event be sufficient, so that the Annual Net Income in each fiscal year shall be an amount not less than 125 percent of the amount required for debt service on the Bonds in each such year. If in any fiscal year said Annual Net Income shall be less than as required under this paragraph, Lessee will immediately employ a hospital consultant, which shall be a nationally recognized firm knowledgeable in the operations of hospitals and having a good reputation for skill and experience in such work, to submit a written report and recommendations with respect to such rates, fees and charges and with respect to improvements or changes in the operations of or the services rendered by the Hospital, and Lessee shall revise such rates, fees and charges and otherwise follow the recommendations of such hospital consultant, provided, however, that if Lessee shall revise such rates, fees and charges in conformity with such recommendations and follow any other recommendations and thereafter the Annual Net Income, after said expense, shall not then equal the aforesaid 125 percent, such failure shall not constitute a Lease Default under this

Lease, however, if the Annual Net Income shall not then equal 100 percent, such failure shall constitute a Lease Default under this Lease.

Section 4.8. Income Tax Status. Lessee represents that it has taken and covenants and agrees that it shall take all appropriate measures to assure that it remains exempt from income taxes as a nonprofit organization under federal income tax laws and regulations thereunder of the Internal Revenue Service.

Section 4.9. Governmental Controls. Lessor and Lessee covenant and agree that they shall, either jointly or separately, take all action, if any, that may be required to obtain such consents, exceptions, exemptions or approvals of governmental authorities as may be necessary to permit each of them to comply fully with all covenants, stipulations, obligations and agreements of Lessor and Lessee contained in this Lease.

Maintenance, Liens, Taxes and Insurance

Section 5.1. Maintenance and Modifications of and Liens on the Hospital Facilities. Lessee agrees that during the Lease Term it will faithfully and efficiently administer, maintain and operate the Hospital Facilities, including keeping such facilities in good repair and good operating condition at their own cost, and upon cancellation, expiration or termination of this Lease they will, unless they shall have elected to exercise any option to purchase the Hospital Facilities granted hereunder, surrender the Hospital Facilities to Lessor in as good condition as prevailed at the date of this Lease or, with respect to facilities constructed hereafter, at the date the Hospital took possession of the facilities, loss by fire or other casualty covered by insurance, ordinary wear and tear, obsolescence and acts of God excepted, subject to the provisions of the following paragraph and of Section 5.2 of this Lease.

Lessee shall have the privilege of remodeling or rehabilitating the Hospital Facilities or making additions, modifications and improvements to them from time to time as the Lessee may deem desirable for the operation of the Hospital Facilities, the cost of which shall be paid by Lessee or, to the extent permitted by the Indenture, from the proceeds of Additional Bonds, and the same shall be the property of Lessor and be included under the terms of this Lease and the Indenture as part of the Hospital Facilities.

Neither Lessee nor Lessor will permit any mechanics' or other liens to be established or remain against the Hospital Facilities; provided, that if Lessee shall first notify the Trustee of its intention so to do, it may in good faith contest any mechanics' or other liens filed against the Hospital Facilities, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless Lessor or the Trustee shall notify Lessee that by non-payment of any such items the lien of the Indenture as to any part of the Gross Revenues will be materially endangered or the Hospital Facilities or any part thereof will be subject to loss or forfeiture, in which event the Lessee shall promptly cause such mechanics' or other lien to be released. Lessor will cooperate fully with Lessee in any such contest.

Section 5.2. Removal or Addition of Furnishings or Equipment. Lessor shall not be under any obligation to remodel, rehabilitate, repair or replace any furnishings, equipment or related property included in the Hospital Facilities.

Lessee shall have the privilege from time to time of adding furnishings or substituting furnishings, equipment or related property for any furnishings, equipment or related property included in the Hospital Facilities, provided that any such substitution or removal shall not impair the character or significance of the Hospital Facilities or reduce the total value of the Hospital Facilities. Any such substituted furnishings, equipment or related property shall become the property of Lessor and be included under the terms of this Lease and the Indenture, and the replaced or removed furnishings, equipment or related property shall, to the extent then permitted by law, become the property of Lessee.

In the event any addition or removal of furnishings, equipment or related property under this Section 5.2 causes damage to existing buildings or structures, Lessee shall restore the same or repair such damage at its sole expense.

Lessor agrees to execute and deliver any documents that Lessee may reasonably request in order to give effect to this Section. The removal of any furnishings, equipment or related property included pursuant to the provisions of this Section 5.2 shall not entitle Lessee to any abatement or diminution of the Rental Amounts payable under Section 4.3 hereof.

Section 5.3. Taxes, Other Governmental Charges and Utility Charges. Lessee will pay, as the same respectively become due, all taxes, assessments, whether general or special, and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Hospital Facilities, (including but not limited to, any taxes levied upon or with respect to the receipts, income or profits of Lessor from the Hospital Facilities which, if not paid, may become or be made a lien on the Hospital Facilities or a charge on the Gross Revenues), and all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Hospital Facilities; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, Lessee shall be obligated to pay only such installments as are required to be paid during the Lease Term.

Lessee may, at its expense and in its own name and behalf, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless Lessor or the Trustee shall notify Lessee that, by nonpayment of any such items the lien of the Indenture will be materially endangered or the Hospital Facilities or any part thereof will be subject to loss or forfeiture, in which event such taxes, assessments or charges shall be paid promptly by Lessee.

Section 5.4. Insurance. Lessee agrees to maintain all insurance coverage required by the Indenture and in the event of any insured loss to comply in all respects with the requirements of the Indenture obtaining in such circumstances.

Section 5.5. Advances. In the event Lessee shall fail to make any payment required by Section 5.3, or to maintain the required insurance coverage, or to keep the Hospital Facilities in good repair and operating condition, Lessor or the Trustee may (but shall be under no obligation to) make such payment, or take out the required policies of insurance and pay the premiums on the same, or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by Lessor or the Trustee shall become an additional obligation of Lessee to the one making the advancement, and Lessee agrees to pay such amounts, together with interest thereon at the Interest Rate for Advances from the date thereof.

ARTICLE VI

13132

Damage, Destruction and Condemnation

Section 6.1. Damage, Destruction and Condemnation. In the event of damage to, destruction of, or condemnation of all or any portion of the Hospital Facilities, Lessor and Lessee shall comply in all respects with the applicable requirements of the Indenture.

ARTICLE VII

Special Covenants

13133

Section 7.1. No Warranty of Condition of Suitability. Lessor does not make any warranty, either express or implied, as to the suitability of the Hospital Facilities for Lessee's purposes or its earning capacity, or as to the condition of the Hospital Facilities. To the extent permitted by law, Lessee releases Lessor from, agrees that Lessor shall not be liable for, and agrees to hold Lessor harmless against, any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Hospital Facilities or the use thereof; provided, that the indemnity in this sentence shall be effective only to the extent of any loss that may be sustained by Lessor in excess of the Net Proceeds received by Lessor from any insurance carried with respect to the loss sustained.

Section 7.2. Right of Access to the Hospital Facilities. Lessee agrees that Lessor and the Trustee and their respective duly authorized agents shall have the right at all reasonable times to enter upon the Hospital Facilities and to examine and inspect the same in order to determine compliance with this Lease. Lessee further agrees that Lessor and its duly authorized agents shall have such rights of access to the Hospital Facilities as may be reasonably necessary to cause to be completed the construction and installation provided for in Section 3.1 hereof, and thereafter for the proper maintenance of the Hospital Facilities in the event of failure by the Lessee to perform its obligations under Sections 3.1 or 5.1 hereof.

Section 7.3. Lessee to Maintain its Corporate Existence; Conditions Under Which Exceptions Permitted. Lessee agrees that during the Lease Term it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into them without the approval of Lessor and the Trustee; provided, however, that such approval shall not be required for consolidation or merger with or into another organization which is a federally tax exempt organization so long as such consolidation or merger (i) does not adversely affect the exemption from federal income tax of the interest paid on the Bonds as determined by an opinion of Bond Counsel (ii) does not affect the status of this Lease, or (iii) does not reduce the net assets or net earnings of the surviving corporation below one-half of the aggregate of the net assets or net earnings, respectively, of Lessee during its immediately preceding two fiscal years as shown by financial statements audited by a firm of nationally recognized certified public accountants, and (iv) the surviving corporation shall remain fully obligated and responsible for the performance of this Lease and any obligations of Lessee under the Indenture and the Guaranty.

Further, if consolidation, merger or sale or other transfer is made as provided in this Section 7.3, the surviving or successor corporation shall execute such further documents as Trustee and Lessor may reasonably require to evidence the assumption of the Lessee's obligations under this Lease, the Indenture and the Guaranty. The provisions of this Section 7.3 shall continue in full force and effect and no further consolidation, merger, sale or transfer shall be made except in compliance with the provisions of this Section.

Section 7.4. Qualification in Oregon. Lessee warrants that it is and throughout the Lease Term it will continue to be a corporation organized and qualified to operate hospital facilities within the meaning of the Act under the laws of the state of Oregon.

Section 7.5. Release of Certain Land. The parties hereto reserve the right, at any time and from time to time, to amend this Lease for the purpose of effecting the release of and removal from this Lease and the leasehold estate created hereby of (i) any unimproved part of the Hospital Facilities or (ii) any part of the Hospital Facilities if the release is for the purpose of obtaining utility services, roads, or other ingress or egress. No such amendment shall be made without the consent of the Trustee, who may withhold consent if it finds that the release will materially and adversely affect the security for the Bonds.

Section 7.6. Granting Easements. If neither Lessor nor Lessee are then in default, Lessor at the request of Lessee from time to time shall grant easements, licenses, rights-of-way (including the dedication of public highways) and other rights or privileges in the nature of easements, licenses, or rights-of-way, pertaining to any Project with or without consideration, and Lessor agrees that it shall execute and deliver any instrument necessary or appropriate to grant or release any such easement, license, right-of-way or other right or privilege upon receipt of: (a) a copy of the instrument of grant or release; (b) a written application signed by an Authorized Officer of Lessee requesting such instrument; and, (c) a certificate executed by an independent engineer that in his opinion (i) such grant or release is not detrimental to the proper conduct of the operation of such Project as a "hospital" as defined under the Act, and (ii) such grant or release will not impair the character or significance of such Project as a "hospital" as defined under the Act.

Section 7.7. Annual Audit and Financial Statements. Lessee agrees to: (a) have an annual audit of its operations made by its regular independent certified public accountants, which shall be a nationally recognized public accounting firm of good repute, and to furnish copies of such audit as provided in Section 6.3 of the Indenture, and to cause the Trustee to make such documents available to the Bondholders upon request; and (b) to provide, upon written request (which request shall be deemed to be continuing until revoked in writing) by any Bondholder of at least 20% of the aggregate principal amount of the then Outstanding 1991 Bonds, copies of the Lessee's unaudited quarterly financial statements.

Section 7.8. No Abatement or Diminution of Rental Amount. No release or grant effected under the provision of Section 7.5 or 7.6 of this Lease shall entitle the Lessee to any abatement or diminution of the Rental Amount payable under this Lease.

Section 7.9. Payment into Gross Revenue and Operating Fund. Any moneys received by Lessor pursuant to Section 7.5 or 7.6 of this Lease shall be paid into the GRO Fund.

ARTICLE VIII

Assignment, Subleasing, and Selling;
Redemption; Rent Prepayment and Abatement

Section 8.1. Assignment and Subleasing by Lessee. This Lease may be assigned in whole or in part, and the Hospital Facilities may be subleased as a whole or in part by Lessee only after obtaining the consent of Lessor and of the Trustee, subject, however, to each of the following conditions:

(a) No assignment (other than pursuant to Section 7.3 hereof) or subletting shall relieve Lessee from primary liability for any of its obligations hereunder, and in the event of any such assignment or subletting, Lessee shall continue to remain primarily liable for the payment of the Rental Amounts specified in Section 4.3 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(b) Any assignment or sublease from Lessee must retain for Lessee such rights and interests as will permit Lessee to perform its obligations under this Lease, and any assignee from Lessee shall assume the obligations of Lessee hereunder to the extent of the interest assigned.

(c) Lessee shall, within thirty days after the delivery thereof, furnish or cause to be furnished to Lessor and the Trustee a true and complete copy of each assignment or sublease, as the case may be, together with any instrument of assumption.

(d) Lessee shall furnish to the Authority and the Trustee an Approval of Bond Counsel.

The provision of this Section 8.1 requiring a prior consent of Lessor and the Trustee shall not apply to or be required for sublease for (i) specialty services related to the operation of the Hospital Facilities, such as, but not limited to pathology, x-ray, physical medicine, anesthesiology, electrocardiology, and emergency room operation, or (ii) patient or employee snack shops, barber or beauty shops, doctors' or dentists' accommodations, flower shops, counseling services, pharmacy and living accommodations for persons providing services within the Hospital Facilities, provided that such sublease shall be subject to the terms of this Lease and shall not relieve Lessee of any of its obligations hereunder with respect to any portion of the Hospital Facilities so subleased and provided Lessee shall furnish to the Authority and the Trustee an Approval of Bond Counsel with respect to such sublease. The provisions of this Section 8.1 also do not apply to those portions of the Hospital Facilities, if any, which are now rented or leased to others and such portions may be rented or subleased by Lessee without prior consent so long as the use to be made of such portion is not offensive and does not interfere with the operation of the Hospital Facilities and provided Lessee shall furnish to the Authority and the Trustee an Approval of Bond Counsel with respect to such sublease.

Section 8.2. Assignment by Lessor. Lessor will assign its rights under and interest in this Lease and pledge all Gross Revenues receivable under or pursuant to, this Lease, to the Trustee pursuant to the Indenture as security for payment of the principal, premium, if any, and interest on the Bonds.

Section 8.3. Restrictions on Transfer and Encumbrances of Hospital Facilities by Lessor. Lessor agrees, that, except as otherwise provided in this Lease or in Section 11.1 of the Indenture, it will not sell, assign, transfer, convey or otherwise dispose of the Hospital Facilities or any portion thereof during the Lease Term and that it will not, to the extent permitted by law, take any action which may reasonably be construed as tending to cause or induce the levy of special assessments by others against the Hospital Facilities without the written consent of Lessee, nor will it create or suffer to be created any debt, lien or charge thereon or make any pledge or assignment of or create any lien or encumbrance upon the Gross Revenues other than as provided in Section 8.2 hereof.

Section 8.4. Redemption of Bonds. Lessor, at the request at any time of Lessee, shall forthwith take all steps that may be necessary under the applicable redemption provisions of the Indenture to effect redemption of all or any portion in multiples of \$5,000 of the then Outstanding Bonds, as may be specified by Lessee.

Section 8.5. Prepayment of Rental Amounts. There is expressly reserved to Lessee the right, and Lessee is authorized and permitted, at any time it chooses, to prepay all or any part of the Rental Amounts payable under Section 4.3 hereof, and Lessor agrees that the Trustee may accept such prepayment of Rental Amounts when the same are tendered by Lessee. Lessee shall make such prepayment to the GRO Fund and all Rental Amounts so prepaid shall be credited on the Rental Amounts in the order in which they become due.

Lessee also may at any time deliver to the Trustee moneys in addition to the Rental Amounts required under this Lease with instructions to the Trustee to use such moneys for the purpose of purchasing any of the Outstanding Bonds or to call for redemption any of the Bonds in accordance with the provisions of the Indenture. Any moneys so delivered to the Trustee shall be held in a separate bank account and shall not be considered as payment of Rental Amounts or prepayment of Rental Amounts under this Lease and shall not operate to abate the payment of Rental Amounts required by Section 4.3 of this Lease.

Section 8.6. Lessee Entitled to Certain Rental Amount Abatements if Bonds Paid Prior to Maturity. If at any time the aggregate moneys in the Special Funds other than the Construction Fund shall be sufficient to retire, in accordance with the provisions of the Indenture, all of the Bonds at the time Outstanding, and to pay all fees and charges of the Trustee and any paying agent of the Bonds due or to become due through the date on which the last of the Bonds is retired, under circumstances not resulting in termination of the Lease Term, and if Lessee is not at the time in default hereunder, Lessee shall be entitled to use and occupy the Hospital Facilities from the date on which such aggregate moneys are in the hands of the Trustee to the termination of the Lease Term, without the payment of the Rental Amounts specified in the first three paragraphs of Section 4.3 hereof during that interval (but otherwise on the terms and conditions hereof).

ARTICLE IX

Lease Default and Remedies

Section 9.1. Lease Default. The following shall be "Lease Defaults" under this Lease and the terms "Lease Default" or "default" shall mean, whenever they are used in this Lease, any one or more of the following events:

- (a) Failure by Lessee to pay any Rental Amounts required to be paid under Section 4.3 hereof on or prior to the date on which payment is required and continuing for a period of seven Business Days after written notice mailed to it by the Trustee or Lessor that the Rental Amounts referred to in such notice has not been received.
- (b) Failure by Lessee to observe and perform any other covenant, condition or agreement on its part to be observed or performed, other than as referred to in the other paragraphs of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied, given to Lessee by Lessor or the Trustee, unless Lessor and the Trustee shall agree in writing to an extension of such time for such remedy; provided, however, that if Lessee shall proceed to undertake the necessary curative action which, if begun and prosecuted with due diligence, cannot be completed within a period of thirty (30) days, then such period shall be increased without such written extension to such extent as shall be necessary to enable Lessee with due diligence to begin and complete such curative action.
- (c) Abandonment by Lessee of the Hospital Facilities, or of any substantial part thereof, or of the operations thereon, if such abandonment shall continue for a period of thirty (30) days after written notice thereof shall have been given to Lessee by Lessor or the Trustee.
- (d) The dissolution or liquidation of Lessee or the filing by Lessee of a voluntary petition in bankruptcy, or failure by Lessee promptly to lift any execution, garnishment or attachment of such consequences as will impair its ability to carry out its obligations under this Lease, or the commission by Lessee of any act of bankruptcy, or the adjudication of Lessee as a bankrupt, or the assignment by Lessee for the benefit of its creditors, or the entry by either Lessee into an agreement of composition with its creditors, or the approval of a court of competent jurisdiction of a petition applicable to Lessee in any proceeding for Lessee's reorganization or arrangement instituted under the provisions of the federal bankruptcy statutes, as amended, or under any similar act which may hereafter be enacted. The term "dissolution or liquidation of Lessee," as used in this subsection shall not be construed to include the cessation of the corporate existence of Lessee resulting either from a merger or consolidation of Lessee into or with another corporation or a dissolution or liquidation of Lessee following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions in Section 7.3 hereof.

(e) Loss by Lessee of its status as a federally tax exempt organization or other event which results in loss of federal tax exempt status for the interest paid on the Bonds.

(f) A default, however defined, under the Guaranty Agreement.

The provisions of paragraph (b) of this Section 9.1 are subject to the following limitations: if by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders, regulations or limitations of any kind of the government of the United States of America or of the State or any of their departments, agencies, political subdivisions or officials or any civil or military authority; insurrections; riots, epidemics; landslides, washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Lessee, Lessee is unable in whole or in part to carry out its agreements on its part herein contained, other than the obligation on the part of Lessee contained in Article IV and Sections 5.3, 5.4 and 5.5 of this Lease, Lessee shall not be deemed in default during the continuance of such inability. Lessee agrees, however, to use its best efforts to remedy with all reasonable dispatch the cause or causes preventing Lessee from carrying out its agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Lessee, and Lessee shall not be required to make settlement of strikes, lockouts and other industrial disturbances by according to the demands of the opposing party or parties when such course is, in the judgment of Lessee, unfavorable to Lessee.

Section 9.2. Remedies on Default. Whenever any Lease Default referred to in Section 9.1 of this Lease shall have happened and be subsisting, to the extent permitted by law, any one or more of the following remedial steps may be taken:

(a) Lessor, or the Trustee as provided in the Indenture, may at its option, and in the case of a Lease Default under paragraph (e) of Section 9.1 of this Lease shall, declare all installments of Rental Amounts payable under Section 4.3 hereof for the remainder of the Lease Term to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) Lessor, with the prior written consent of the Trustee, may re-enter and take possession of the Hospital Facilities without terminating this Lease, and sublease the Hospital Facilities for the account of Lessee, holding Lessee liable for the difference between the rent and other amounts payable by such sublessees in subleasing and the Rental Amounts and other amounts payable by Lessee hereunder.

(c) Lessor, with the prior written consent of the Trustee, may terminate the Lease Term, exclude Lessee from possession of the Hospital Facilities and use its best efforts to lease the Hospital Facilities to another, but holding Lessee liable for all Rental Amounts and other payments due up to the effective date of such leasing, if any.

(d) In the event any of the Bonds shall at the time be Outstanding and unpaid, Lessor may have access to and inspect, examine and make copies of the books and records, including without limitation any and all accounts, data and income tax and other tax records, of Lessee.

(e) Lessor may take whatever action at law or in equity may appear necessary or desirable to collect the Rental Amounts due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of Lessee under this Lease.

Before any of the foregoing remedies are exercised by either Lessor or the Trustee in a Lease Default under paragraph (b) of Section 9.1 of this Lease, the Lessor shall give notice to the Lessee that it believes a Lease Default under that paragraph has occurred, specifying the circumstances constituting the Lease Default in sufficient detail that Lessee will be fully advised of the nature of the charges made against them and able to adequately prepare a response thereto. Such notice shall fix a date for the hearing before the Lessor on whether such Lease Default has occurred, which date shall not be sooner than thirty (30) days following giving of such notice. At such hearing Lessee shall be confronted with the evidence of such Lease Default, shall have the right to cross-examine hostile witnesses and may introduce such other evidence and testimony with respect to such Lease Default as Lessee desires. After the hearing is concluded, the Lessor shall consider whether such Lease Default has occurred and if it shall determine that it has occurred, shall give notice of that determination to Lessee. With respect to a default under paragraph (b) of Section 9.1 of the Lease, no remedy specified in this Section 9.2 shall be exercised or undertaken by either Lessor or the Trustee until a period of thirty (30) days shall have elapsed from the giving of the aforesaid notice after hearing that the Lessor has determined that such Lease Default has occurred.

Any amounts collected pursuant to action taken under this Section 9.2 shall be paid into the GRO Fund and applied in accordance with the provisions of the Indenture for the equal and ratable benefit of the holders of all Bonds.

Section 9.3. No Remedy Exclusive. No remedy conferred upon or reserved to Lessor or the Trustee by this Lease is intended to be exclusive of any other available remedy or remedies, but to the extent permitted by law, each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall imply to the extent permitted by law, any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Lessor or the Trustee to exercise any remedy reserved to it in this Section 9.3, it shall not be necessary to give any notice, other than such notice as may be herein expressly required or required by law.

Section 9.4. Agreement to Pay Attorneys' Fees and Expenses. In the event Lessee should default under any of the provisions of this Lease and Lessor or the Trustee should employ attorneys or incur other expenses for the collection of rent or the enforcement of

performance or observance of any obligation or agreement on the part of Lessee contained in this Lease, Lessee agrees that it will on demand therefor reimburse the reasonable fees of such attorneys and such other expenses so incurred. In the event suit or action is brought to enforce or construe the terms of this Lease, the prevailing party shall be entitled to its reasonable attorneys fees and costs, both at trial or on appeal.

Section 9.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.6. Waiver of Appraisement, Valuation, Etc. In the event Lessee should default under any of the provisions of this Lease, Lessee agree to waive, to the extent it may lawfully do so, the benefit of all appraisement, valuation, stay, extension or redemption laws now or hereafter in force, and all right of appraisement and redemption to which it may be entitled.

ARTICLE X

Option in Favor of Lessee

Section 10.1. Option to Purchase Unimproved Land. Lessee shall have, and is hereby granted, an option to purchase any unimproved part of the Hospital Facilities (but on which roadways, wires, lines, conduits or pipes servicing the Hospital Facilities may be located if Lessor retains sufficient rights so as to be able to utilize them) at any time and from time to time for a purchase price calculated (to the next highest whole dollar) on the basis of the average per acre cost of the land to Lessor and the cost to Lessor of any roadways, wires, lines, conduits or pipes located on such part of the land and not reserved by Lessor, provided that it furnishes Lessor and the Trustee with the following:

(a) A notice in writing containing (i) an adequate legal description of that portion of the Hospital Facilities with respect to which such option is to be exercised, (ii) a statement that Lessee intends to exercise its option to purchase such portion of the Hospital Facilities on a date stated, which shall not be less than forty-five (45) nor more than ninety (90) days from the date of such notice, and (iii) a statement that the portion of the Hospital Facilities as to which the option is exercised is intended to be used for purposes stated therein.

(b) A certificate of an independent engineer who is acceptable to the Trustee, dated not more than ninety (90) days prior to the date of the notice and stating that, in such engineer's opinion (i) the portion of the Hospital Facilities with respect to which the option is exercised is not needed for the operation of the remaining Hospital Facilities, or that sufficient right, title and interests have been reserved by Lessor to fulfill such needs, and (ii) the purchase will not impair the character or significance of the remaining Hospital Facilities nor destroy the ingress thereto and egress therefrom.

(c) Evidence that an amount of money equal to the purchase price computed as provided in this Section 10.1 has been delivered to the Trustee.

In the event Lessee shall exercise the option granted to it under this Section 10.1, Lessee shall not be entitled to any abatement or diminution of the Rental Amounts payable under Section 4.3 hereof. The Trustee on receipt of the purchase price shall deposit such moneys in the GRO Fund.

Section 10.2. Option to Terminate. Lessee shall have the option to cancel or terminate the term of this Lease at any time when all the Bonds and coupons appertaining thereto shall be deemed to have been paid and discharged and no longer Outstanding under the provisions of Article XIII of the Indenture and there shall have been paid all fees and charges of the Trustee and any paying agents of the Bonds due or to become due through the date on which the last of the Bonds are to be retired or redeemed. Such option shall be exercised by giving Lessor notice in writing of such cancellation or termination and such cancellation or termination shall forthwith become effective.

Section 10.3. Option to Purchase Hospital Facilities Prior to Payment of the Bonds. Lessee shall have, and is hereby granted, the option to purchase the Hospital Facilities prior to the expiration of the Lease Term and prior to the full payment of the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture), if any of the following shall have occurred:

(a) The Hospital Facilities shall have been damaged or destroyed (i) to such extent that it cannot be reasonably restored within a period of twenty-three months from the commencement of such restoration to the condition thereof immediately preceding such damage or destruction, or (ii) to such extent that Lessee is thereby prevented from carrying on its normal operations for a period of four months, or (iii) to such extent that the cost of restoration thereof would exceed more than two-thirds of the then appraised value of the Hospital Facilities;

(b) Title to, or the temporary use of, all or substantially all of the Hospital Facilities shall have been taken under the exercise of the power of eminent domain by any governmental authority, or person, firm or corporation acting under governmental authority (including such taking or takings as results in Lessee being thereby prevented from carrying on its normal operations therein for a period of twenty-three months).

(c) As a result of any changes in the Constitution of the State of Oregon or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body by Lessor in good faith, this Lease shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in this Lease.

To exercise such option, Lessee shall, within one hundred twenty days following the event authorizing the exercise of such option give written notice to Lessor, and to the Trustee if any of the Bonds shall then be unpaid, and shall specify therein the date of closing such purchase, which date shall be not less than forty-five (45) nor more than ninety (90) days from the date such notice is mailed, and in case of a redemption of the Bonds in accordance with the provisions of the Indenture shall make arrangement satisfactory to the Trustee for the giving of the required notice of redemption, in which arrangements Lessor shall cooperate. The purchase price payable by Lessee, in the event of its exercise of the option granted in this Section 10.3, shall be the sum of the following:

(1) An amount of money which when added to the moneys and investments held by the Trustee to the credit of the Special Funds will be sufficient pursuant to the provisions of the Indenture, to pay and discharge all then Outstanding Bonds and coupons appertaining thereto on the first possible date for redemption, plus

(2) An amount of money equal to the Trustee's and Paying Agents' fees and expenses under the Indenture accrued and to accrue until such final payment and redemption of the Bonds, plus

(3) The sum of \$500 to Lessor.

In the event of the exercise of the option granted in this Section 10.3, any Net Proceeds of insurance or condemnation shall be applied first to pay and discharge the requirements of the foregoing paragraphs (1), (2) and (3).

The mutual agreements contained in this Section 10.3 are independent of, and constitute an agreement separate and distinct from, any and all provisions of this Lease and shall be unaffected by any fact or circumstance which might impair or be alleged to impair the validity of any other provisions.

Section 10.4. Options to Purchase. Lessee shall have and is hereby granted, an option to purchase the Hospital Facilities for the consideration of \$100 at the expiration of the Lease Term and following full payment of the Bonds or provisions for payment thereof having been made in accordance with the provisions of the Indenture.

Lessee also shall have the option to purchase the Hospital Facilities upon the full discharge or defeasance of the 1977 Bonds for the consideration of \$100, provided that, Lessee directs the Trustee to deliver as part of the purchase, the Loan Agreement held in escrow by the Trustee and executed by the Lessor and the Lessee simultaneously with the issuance and delivery of the 1991 Bonds in substantially the form attached hereto as Exhibit B and provided that, Lessee delivers to the Trustee an opinion of Bond Counsel that substitution of the Loan Agreement will not affect the tax-exempt status of the Bonds and an opinion of counsel to the Lessee and counsel to the Lessor that the Loan Agreement was duly executed and constitutes a valid and binding obligation of the parties thereto enforceable in accordance with its terms. The Loan Agreement may be amended as provided in the Indenture and in the Loan Agreement, to conform it to the requirements of law and to preserve the tax-exempt status of the Bonds.

In the event that the Lessee exercises its option to purchase granted in this Section 10.4, said option shall be exercised in the manner as is provided for exercise of the option to purchase granted in Section 10.3.

Section 10.5. Conveyance at Expiration of Lease Term or on Exercise of Option to Purchase. At the cancellation, termination or expiration of the Lease Term or on exercise of any option to purchase the Hospital Facilities granted herein, Lessor will upon payment of the purchase price deliver or cause to be delivered to Lessee documents conveying to Lessee good and marketable fee simple title to the property or interests therein being purchased, subject to the following: (i) those liens and encumbrances (if any) to which title to said property was subject when conveyed to Lessor; (ii) those liens and encumbrances created by Lessee or to the creations or suffering of which Lessee consented; (iii) those liens and encumbrances resulting from the failure of Lessee to perform or observe any of the agreements on its part contained in this Lease; (iv) Permitted Encumbrances other than the Indenture, the Loan Agreement, and this Lease; and (v) if the option is exercised pursuant to the provisions of Section 10.3(b) hercof, the rights and title of the condemning authority.

ARTICLE XI

13144

Miscellaneous

Section 11.1. Surrender of Hospital Facilities. In the event Lessee should default under this Lease and the Lease Term is terminated and Lessee does not exercise its option to purchase, Lessee agrees to surrender possession of the Hospital Facilities peaceably and promptly to Lessor in as good condition as prevailed at the time it was put in full possession thereof, loss by fire or other casualty covered by insurance, ordinary wear and tear, obsolescence and acts of God excepted.

Section 11.2. Notices. All notices, certificates, requests or other communications hereunder shall be given as provided in the Indenture.

Section 11.3. Net Lease. This Lease shall be deemed and construed to be a "net lease," and Lessee shall pay absolutely net during the Lease Term the Rental Amounts and all other payments required thereunder, free of any deductions, without abatement, deduction or set-off other than those herein expressly provided or required by law.

Section 11.4. Binding Effect. This Lease shall inure to the benefit of and shall be binding upon Lessor, Lessee and their respective successors and assigns, subject, however, to the limitations contained in Sections 7.3, 8.1 and 8.3 hereof and subject to the further limitation that any obligation of Lessor created by or arising out of this Lease shall not be a general obligation or debt of Lessor but shall be payable solely out of the proceeds derived from this Lease or the sale of the Bonds or the Net Proceeds of any insurance or condemnation awards as provided in the Indenture.

Section 11.5. Amendments, Changes and Modifications. Except as otherwise provided in this Lease or in the Indenture, subsequent to the initial issuance of 1977 Bonds and prior to payment of the Bonds in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), this Lease may not be effectively amended, changed, modified, altered or terminated without the prior written consent of the Trustee.

Section 11.6. Execution Counterparts. This Lease may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute but one and the same Lease.

Section 11.7. Severability. If any clause, provision or section of this Lease be held illegal or invalid by any court, the invalidity of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof and this Lease shall be construed and enforced as if such illegal or invalid clause, provision or section had not been contained herein. In case any agreement or obligation contained in this Lease be held to be in violation of law then such agreement or obligation shall be deemed to be the agreement or obligation of Lessor or Lessee, as the case may be, to the full extent permitted by law.

Section 11.8. Captions. The captions or headings in this Lease are for convenience and in no way define, limit or describe the scope or intent of any provisions or sections of this Lease.

Section 11.9. Amounts Remaining in the Special Funds. Any funds received by the Lessor pursuant to Section 4.6 of the Indenture shall be paid to the Lessee as overpayment of Rental Amounts due under this Agreement, provided an Approval of Bond Counsel is obtained with respect thereto.

Section 11.10. Conflict Between Terms. In the event of a conflict between the terms of this Lease and the Indenture, after the 1977 Bonds are fully paid or are otherwise deemed to be discharged under the Indenture, the terms of the Indenture shall control, except with respect to the Lessee's option to purchase the Hospital Facilities and with respect to the rights of the Trustee and the Lessor to exercise rights and remedies hereunder.

Section 11.11. Limitation on Liability of Lessor. The Lessor shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, except from amounts on deposit in the Special Funds. The Lessee hereby acknowledges that the Lessor's sole source of moneys to repay the Bonds and to pay expenses of the Lessor hereunder will be provided by the payments made by the Lessee pursuant to this Lease, and hereby confirms that amounts available to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), have been calculated to be at all times sufficient for such purpose.

Any obligation or liability of the Lessor created by or arising out of this Lease (including without limitation any liability created by or arising out of the representations, warranties or covenants set forth herein or otherwise) shall not impose a debt or pecuniary liability upon the Lessor or a charge upon its general credit or taxing powers, but shall be payable solely out of the amounts on deposit in the Special Funds. Neither the issuance of the Bonds nor the delivery of this Lease shall, directly or contingently, obligate the Lessor to levy any form of taxation therefor or to make any appropriation for their payment. Nothing in the Bonds or in the Indenture or this Lease or the proceedings of the Lessor authorizing the Bonds or in the Act or in any other related document shall be construed to authorize the Lessor to create a debt of the Lessor within the meaning of any constitutional or statutory provision of the State. No breach of any pledge, obligation or agreement of the Lessor hereunder may impose any pecuniary liability upon the Lessor hereunder or any charge upon its general credit or against its taxing power.

Section 11.12. Expenses. The Lessee covenants and agrees to pay and to indemnify the Lessor against all costs and charges, including reasonable fees and disbursements of attorneys, accountants, consultants and other experts, incurred in connection with the Bond Documents or the Bonds including the reasonable fees and costs of Lessor's accountants, if any.

Section 11.13. Indemnification. To the extent permitted by law, the Lessee releases the Lessor and the Trustee from and covenants and agrees that the Lessor and the Trustee shall not be liable for, and covenants and agrees, to indemnify and hold harmless the Lessor

and the Trustee and their respective officers, managers, directors, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the 1977 Project or the 1991 Project or the Hospital Facilities or any part thereof; (2) the issuance of a Series of Bonds or any certifications or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds and this Lease; (3) the Lessor's or Trustee's execution of the Indenture, or the exercise or performance of any of its powers or duties under and in accordance with the Indenture; or (4) any untrue statement or alleged untrue statement of any material fact pertaining to the Lessee or the 1977 Project or the 1991 Project or the Hospital Facilities necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the Lessor or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. Lessee further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Lessor and the Trustee and their respective officers, employees and agents for any and all costs, reasonable attorneys' fees, liabilities or expenses incurred in connection with any such losses, claims, damages, liabilities, expenses or actions for which the Lessor or Trustee is entitled to indemnity under this paragraph, except to the extent that the same arise out of the gross negligence or willful misconduct or material misrepresentation of the party claiming such payment or reimbursement. In addition to the foregoing (and not by way of limitation), the Lessor hereby specifically agrees that in the event the Internal Revenue Service challenges the federal tax-exempt status of the interest on the Bonds or threatens to disqualify the Lessor pursuant to Treasury Regulation § 1.103-13(a)(2)(iv) by reason of the issuance of the Bonds, the Lessee will promptly, upon request of the Lessor, take any and all actions necessary to avoid the loss of federal tax-exempt status of the interest on the Bonds or such disqualification of the Lessor, including but not limited to the payment (after final resolution of any administrative or legal proceedings challenging such actions or assertions by the Internal Revenue Service) to the United States Government of any and all earnings on the investment of Bond proceeds and the earnings on the investment income derived therefrom (investment earnings paid to the Lessor) if the payment thereof will preserve the federal tax-exempt status of the interest on the Bonds or prevent such disqualification, and the Lessee will pay all reasonable costs and expense (including attorneys' fees and expenses) incurred by the Lessor in connection therewith, and the Lessor agrees that it will cooperate with the Lessee in connection with any actions taken by the Lessee under this sentence, including cooperating with the Lessee in any legal or administrative proceedings challenging such action or assertion by the Internal Revenue Service. The provisions of this Section 11.13 shall survive retirement of the Bonds.

ARTICLE XII

13147

Incorporation of Guaranty Agreement:
Effect of Default Thereunder

Section 12.1. Incorporation of Related Documents. This Lease is made and executed contemporaneously with the Guaranty Agreement dated as of September 1, 1977 as amended and restated by the Amended and Restated Guaranty Agreement dated as of July 1, 1991 (collectively, the "Guaranty Agreement"), between the Lessee, Klamath Care and the Trustee under the Indenture. Such document is incorporated herein by reference.

Section 12.2. Additional Covenants of Lessee. The Lessee hereby covenants that it will timely perform each and every obligation required of it by the Guaranty Agreement.

Section 12.3. Effect of Default. Any default by the Lessee of its obligations under the Guaranty Agreement shall be deemed a Lease Default under this Lease, and the Lessor shall be entitled to the remedies provided in Section 9.2 of this Lease.

This instrument will not allow use of the property described in this instrument in violation of applicable land use laws and regulations. Before signing or accepting this instrument, the person acquiring fee title to the property should check with the appropriate city or county planning department to verify approved uses.

IN WITNESS WHEREOF, the parties have executed this Lease as of this 1st day of July, 1991.

LESSOR:

KLAMATH FALLS INTERCOMMUNITY
HOSPITAL AUTHORITY

LESSEE:

MERLE WEST MEDICAL CENTER

By: Chas C Bailey
Chair

By: David A. DeLoach
Chief Executive Officer

By: Charles E. Moore
Secretary

13148

STATE OF OREGON

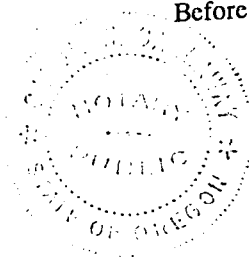
County of Multnomah

)
) ss
)

July 9, 1991

Personally appeared Charles A. Bailey, who being fully sworn, did say that he is the Chairman of Klamath Falls Intercommunity Hospital Authority, a municipal corporation, and that the foregoing instrument was signed in behalf of the corporation by authority of its Board of Directors, and he acknowledged this instrument to be its voluntary act and deed.

Before me:



Carol W. Hallaway
Notary Public for Oregon

My commission expires: 8-13-92

13149

STATE OF OREGON

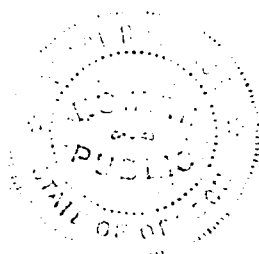
County of Klamath

)
) ss
)

July 3, 1991

Personally appeared Clara E. Moore, who being fully sworn, did say that she is the Secretary of Klamath Falls Intercommunity Hospital Authority, Oregon, a municipal corporation, and that the foregoing instrument was signed in behalf of the corporation by authority of its Board of Directors, and she acknowledged this instrument to be its voluntary act and deed.

Before me:



Traci A. Bracc

Notary Public for Oregon

My commission expires: 03-13-93

STATE OF OREGON

County of Multnomah

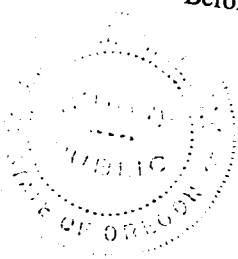
July 9, 1991

)
) ss
)

13150

Personally appeared David Arnold, who, being duly sworn, did say that he is the Chief Executive Officer of Merle West Medical Center, a nonprofit corporation, and that the foregoing instrument was signed in behalf of the corporation by authority of its Board of Directors; and he acknowledged this instrument to be its voluntary act and deed.

Before me:



Carrie W. Lamm
Notary Public for Oregon
My commission expires: 8-13-92

EXHIBIT A

to Amended and Restated Lease

HOSPITAL FACILITIES DESCRIPTION

The following described real property situate in Klamath County, Oregon:

PARCEL 1: HOSPITAL

A:

A parcel of land situate in SW1/4NE1/4 of Section 20, Township 38 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon, more particularly described as follows:

Beginning at an iron pin marking the Northeast corner of said SW1/4NE1/4 of Section 20, Township 38 South, Range 9 East of the Willamette Meridian; thence S. 0° 46' W. along the East line of said SW1/4NE1/4 a distance of 100.00 feet to a point; thence N. 89°21' W. a distance of 420.87 feet to a point; thence S. 20°39'40" W. a distance of 504.11 feet to a point on the Northerly line of Foothill Boulevard in the plat of McLoughlin Heights subdivision; thence Westerly along said Northerly line to its intersection with the Northeasterly line of Daggett Avenue as shown on the plat of Re-subdivision of a portion of McLoughlin heights; thence Northwesterly along the Northeasterly line of Daggett Avenue to an iron pin on the West line of said SW1/4NE1/4; thence N. 0°51' E. along said West line a distance of 381.24 feet, more or less, to the Northwest corner of said SW1/4NE1/4; thence S. 89°21" E. along the North line of said SW1/4NE1/4 a distance of 1318.1 feet, more or less, to the point of beginning.

B:

Lots 1 thru 7 and Lots 16 thru 22 in Block 6 of McLoughlin Heights, according to the official plat thereof on file in the records of Klamath County, Oregon.

C:

A parcel of land situate in the SE1/4NW1/4 of Section 20, Township 38 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon, more particularly described as follows:

Beginning at a Brass cap monument marking the Northeast corner of said SE1/4NW1/4 of Section 20, which monument also marks the Northwest corner of McLoughlin Heights Subdivision, thence N. 89°10' W. along the North line of said SE1/4NW1/4 a distance of 182.58 feet to a point on the Easterly line of Campus Drive; thence S. 2°38' W. along the Easterly line of Campus Drive to its intersection with the Northerly line of Daggett Avenue; thence East along the Northerly line of Daggett Avenue a distance of 191.34 feet, more or less, to the East line of said SE1/4NW1/4; thence N. 0°51' E., along said East line a distance of 381.24 feet, more or less, to the point of beginning.

PARCEL 2: BUSINESS OFFICE

A parcel of land situated in the SE1/4NW1/4 of Section 20, Township 38 South, Range 9 E.W.M., Klamath County, Oregon, more particularly described as follows: Beginning at a 5/8 inch iron pin on the Easterly line of that parcel described in Volume M69 page 5894, Deed Records of Klamath County, Oregon, which point bears N. 0°51' E. a distance of 549.15 feet from the center one-quarter corner of said Section 20; thence N. 87°49' W. a distance of 85.0 feet; thence S. 0°51' W. a distance of 107.95 feet; thence S. 87°49' E. a distance of 85.0 feet, to the East line of said SE1/4NW1/4; thence N. 0°51' E. along said East line a distance of 107.95 feet to the point of beginning.

PARCEL 3: CANCER CENTER

A portion of vacated and repartitioned Block 5 of Resubdivision of a portion of McLoughlin Heights, more particularly described as follows:

Beginning at a point on the Easterly boundary of relocated Uhrmann Road and the Westerly boundary of vacated and repartitioned Block 5 of Resubdivision of a portion of McLoughlin heights from which the monument marking the center quarter section corner of Section 20, Township 38 South, Range 9 East of the Willamette Meridian, bears N. 82°01' W. 60.47 feet and S. 0°51' W. 674.8 feet distant and the Northwest corner of said Block 5 bears N. 0°51' E. 170.5 feet distant; thence S. 82°01' E. 174.7 feet to a point on the Easterly boundary of said Block 5; thence S. 12°26'20" E. along said Easterly boundary 159.0 feet to a point; thence N. 82°01' W. 211.6 feet to a point on the Westerly boundary of said Block 5; thence N. 0°51' E. 150.25 feet, more or less, to the point of beginning.

EXCEPTING THEREFROM the Northerly 23.0 feet thereof as described in Volume M72 page 5888, Deed Records of Klamath County, Oregon.

PARCEL 4: ELDORADO

A:

A parcel of land situated in the Vacated Replat of Blocks 1, 2, 3, 5, 6 and 7, ELDORADO and in the Vacated portion of Block 9, Eldorado, more particularly described as follows: Beginning at the point of intersection of the Northerly line of Dahlia Street and the Northeasterly extension of the Southeasterly line of Lot 7, Block 9, Eldorado; thence N. 51°43'30" W., along the Northerly line of Dahlia Street, a distance of 211.87 feet to an iron pin marking the beginning of a curve; thence along the arc of a 20 foot radius curve to the right a distance of 49.56 feet to its point of tangency on the South line of Eldorado Blvd., said curve having a long chord which bears N. 19°21' E. a distance of 37.84 feet; thence S.

89°34'30" E. along the South line of Eldorado Blvd. a distance of 574.23 feet to the beginning of a curve; thence along the arc of a curve to the right, said curve having an angle of 26°58'19" and a radius of 677.34 feet, a distance of 318.86 feet to a point; thence on a line which bears S. 38°16'30" W., parallel with and 200 feet Northwesterly at right angles to the Westerly line of Sloan Street, a distance of 668.38 feet to a point on the Southwesterly line of Block 9 of Eldorado; thence N. 51°43'30" W., along said line, a distance of 517.0 feet to the most Southerly corner of Lot 7, said Block 9; thence N. 38°16'30" E. along the Southeasterly line of said Lot 7 and the extension thereof, 150.0 feet to the point of beginning.

Together with a portion of Vacated Dahlia Street which inurred thereto.

EXCEPT that portion of the above described property lying in the NE1/4SW1/4 of Section 20, Township 38 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon.

B:

Lots 1 thru 6 in Block 9 of Eldorado, according to the official plat thereof on file in the office of the County Clerk of Klamath County, Oregon. ALSO that portion of Vacated Dahlia Street which inurred thereto.

C:

Lot 7 in Block 9 of Eldorado, according to the official plat thereof on file in the office of the County Clerk of Klamath County, Oregon. ALSO that portion of Vacated Dahlia Street which inurred thereto.

D:

A parcel of land situated in the Vacated Replat of Blocks 1, 2, 3, 5, 6 and 7, ELDORADO and in the Vacated portion of Block 9, ELDORADO, more particularly described as follows: Beginning at the point of intersection of the Northerly line of Dahlia Street and the Northeasterly extension of the Southeasterly line of Lot 7, Block 9, Eldorado; thence N. 51°43'30" W., along the Northerly line of Dahlia Street, a distance of 211.87 feet to an iron pin marking the beginning of a curve; thence along the arc of a 20 foot radius curve to the right a distance of 49.56 feet to its point of tangency on the South line of Eldorado Blvd., said curve having a long chord which bears N. 19°21' E. a distance of 37.84 feet; thence S. 89°34'30" E. along the south line of Eldorado Blvd. a distance of 574.23 feet to the beginning of a curve; thence along the arc of a curve to the right, said curve having an angle of 26°58'19" and a radius of 677.34 feet, a distance of 318.86 feet to a point; thence on a line which bears S. 38°16'30" W., parallel with and 200 feet Northwesterly at right angles to the Westerly line of Sloan Street, a distance of 668.38 feet to a point on the Southwesterly line of Block 9 of Eldorado; thence N. 51°43'30" W., along said line, a distance of 517.0 feet to the most southerly corner of Lot 7, said Block 9; thence N. 38°16'30" E. along the Southeasterly line of said Lot 7 and the extension thereof, 150.0 feet to the point of beginning.

TOGETHER with a portion of Vacated Dahlia Street which inurred thereto.

EXCEPT that portion of the above described property lying in the NW1/4SE1/4 of Section 20, Township 38 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon.

E:

TOGETHER WITH easement for parking, and easement for the use of one-half of the waters in well located on the following described parcel: A parcel of land situated in portions of Vacated Blocks 2, 3, 6, 7, 9 and 10, Eldorado Addition to the City of Klamath Falls, Oregon, in the County of Klamath, State of Oregon, more particularly described as follows: Beginning at a point being the intersection of the Southerly right of way line of Eldorado Boulevard and ~~the intersection of the Southerly right of way line of Eldorado Boulevard and~~ the Northwest right of way line of Sloan Street; thence South 38°16'30" West along said right of way line of Sloan Street, a distance of 576.60 feet to the South right of way line of Dahlia Street; thence North 51°43'30" West along said right of way line, a distance of 25.00 feet; thence South 38°16'30" West a distance of 100.0 feet, thence North 51°43'30" West a distance of 175.0 feet; thence North 38°16'30" East a distance of 668.38 feet, to a point on the Southerly right of way line of Eldorado Boulevard; thence Southeasterly along the arc of a 8°18'30" curve to the right, a distance of 200.77 feet to the point of beginning, as disclosed by Judgment filed in Case No. 84-827CV filed November 9, 1987, in the Circuit Court of the State of Oregon for Klamath County.

EXHIBIT B
to Amended and Restated Lease

LOAN AGREEMENT

13156

EXECUTION COPY

LOAN AGREEMENT

by and between the

**KLAMATH FALLS INTERCOMMUNITY
HOSPITAL AUTHORITY**

and

MERLE WEST MEDICAL CENTER
(FORMERLY PRESBYTERIAN INTERCOMMUNITY HOSPITAL, INC.)

**Relating To The
Issuance Of**

\$8,500,000
Klamath Falls Intercommunity Hospital Authority
Gross Revenue Bonds, Series 1991
(Merle West Medical Center Project)

This is a security agreement with respect to certain amounts. Certain rights of the Klamath Falls Intercommunity Hospital Authority, hereunder have been assigned to First Interstate Bank of Oregon, N.A., as Trustee under an Amended and Restated Trust Indenture dated as of July 1, 1991, between Klamath Falls Intercommunity Hospital Authority and the Trustee.

Dated as of July 1, 1991

ATER WYNNE HEWITT DODSON & SKERRITT

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(This Index is not a part of this Loan Agreement
and is only for convenience of reference)

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LOAN AGREEMENT

This LOAN AGREEMENT ("Loan Agreement") dated as of July 1, 1991, between KLAMATH FALLS INTERCOMMUNITY HOSPITAL AUTHORITY, a municipal corporation in and of the State of Oregon, duly organized and existing under the laws of the State of Oregon and MERLE WEST MEDICAL CENTER, a nonprofit corporation duly organized and existing under the laws of the State of Oregon.

WITNESSETH:

WHEREAS, the Klamath Falls Intercommunity Hospital Authority (the "Authority") is authorized by Oregon Revised Statutes Sections 441.525 to 441.595, inclusive, as amended (the "Act"), to make mortgage loans or other secured or unsecured loans to private nonprofit corporations authorized by law to provide or operate hospital facilities in the State of Oregon which corporations, pursuant to the provisions of the Act, undertake the construction, equipping, or acquisition and improvement of hospital facilities; and

WHEREAS, the Act further authorizes the Authority to issue revenue bonds for the purpose of financing all or a part of the cost of constructing or acquiring hospital facilities, and to secure the payment of such bonds as provided in the Act; and

WHEREAS, the Authority has issued Klamath Falls Intercommunity Hospital Authority Gross Revenue Bonds, Series 1991 (Merle West Medical Center Project) under the Amended and Restated Trust Indenture dated as of July 1, 1991 between the Authority and the First Interstate Bank of Oregon, N.A., as Trustee (the "Trustee") (the "Bonds") between the Authority and the Trustee, to finance the Project; and

WHEREAS, at the time the Bonds were issued the parties agreed that this Loan Agreement could be substituted for the Amended and Restated Lease dated as of July 1, 1991 between the Authority and Merle West Medical Center (the "Lease") as the principal financing document upon the discharge or defeasance of the 1977 Bonds; and

WHEREAS, Merle West Medical Center, an Oregon nonprofit corporation (the "Borrower"), presently leases and operates hospital facilities in the State of Oregon and the Borrower proposes to finance and refinance certain capital costs with respect to such facilities (the "Project"); and

WHEREAS, pursuant to and in accordance with the Act, the Authority will be deemed to have loaned funds to the Borrower pursuant to this Loan Agreement to finance the Project; and

WHEREAS, simultaneously upon the effective date hereof the Authority will convey title to the Hospital Facilities back to the Borrower as contemplated by Article X of the Lease; and

WHEREAS, the Authority shall be deemed to have loaned to the Borrower and the Borrower shall be deemed to have borrowed from the Authority funds to finance the Project upon the terms and conditions hereinafter in this Loan Agreement set forth.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto formally covenant, agree, and bind themselves as follows:

ARTICLE I

Definitions

Section 1.1. Definitions. All terms, not otherwise defined herein, shall have the meanings assigned to them in the Indenture. In addition, the following terms, except where the context indicates otherwise, shall have the respective meanings set forth below.

"Accountant" means any independent certified public accounting firm licensed to practice in the State of Oregon (which may be the firm of accountants who regularly audit the books and accounts of the Borrower) from time to time selected by the Borrower with the approval of the Trustee.

"Accountant's Certificate" means a report, certificate or opinion by the Accountant.

"Bonds" means the 1991 Bonds as that term is defined in the Indenture.

"Borrower" means Merle West Medical Center or any other person owning and operating the Hospital Facilities.

"Cost of Capital Projects" means the sum total of all reasonable or necessary costs incidental to the Project and all other necessary and incidental expenses in connection with the foregoing, including, without limitation, the initial fees and expenses of the Authority and the Trustee.

"Improvements" means the facilities, required or permitted herein to be constructed or otherwise acquired with a portion of the proceeds of the Bonds or the proceeds of any payments pursuant to Section 4.7 hereof and any substitutions for and additions thereto, all as they may at any time exist including, but not limited to, the 1991 Project.

"Indenture" means the Amended and Restated Trust Indenture dated as of even date herewith between the Authority and the Trustee.

"Loan" means the loan by the Authority to the Borrower of the proceeds from the sale of the Bonds pursuant to this Loan Agreement.

"Loan Agreement" means this Loan Agreement and any amendments and supplements hereto made in conformity with the requirements hereof and of the Indenture.

"Loan Agreement Default" means a Loan Agreement Default under Section 10.1 hereof.

"Loan Payment(s)" means those payments required to be paid by the Borrower pursuant to Section 5.2 hereof.

"Person" includes an individual, association, corporation, partnership, joint venture or a government or an agency or a political subdivision thereof.

"Project" means the 1991 Project as that term is defined in the Indenture.

"Property" means any and all rights, title, and interest in and to any and all property of the Borrower whether real or personal, tangible or intangible, whether now owned or hereafter acquired.

Representations

Section 2.1. Representations by the Authority. The Authority represents that:

(a) The Authority is a municipal corporation of the State of Oregon, duly organized and existing under the laws of the State of Oregon. The Authority is authorized by the Act to enter into this Loan Agreement and the Indenture, and to carry out the transactions contemplated hereby and thereby and to carry out its obligations hereunder and thereunder and has duly authorized the execution and delivery of this Loan Agreement and the Indenture.

(b) Consistent with the understanding between the Authority and the Borrower, the Authority will, as of the date of this Loan Agreement, be deemed to have loaned to the Borrower the proceeds of the Bonds to provide for the financing of the Project all for the purpose of providing adequate hospital facilities under the Act.

(c) The Authority hereby finds that the financing of the Project enables or assists the Borrower to fulfill its obligation to provide hospital facilities.

(d) The execution and delivery of this Loan Agreement or the Indenture, the consummation of the transactions contemplated hereby or thereby, and the fulfillment of or compliance with the terms and conditions of this Loan Agreement or the Indenture, do not conflict with or result in a breach of any of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which it is bound or constitute a default under any of the foregoing 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 Authority under the terms of any instrument or agreement.

(e) The Authority hereby approves the Borrower's estimate of the total cost of the Project (including the cost of funding the Special Funds) and hereby finds that the amount of the Loan does not exceed such estimated cost.

Section 2.2. Representations by the Borrower. The Borrower represents and covenants that:

(a) Borrower is a nonprofit corporation duly organized under the laws of the State, having power to enter into and to perform and observe the covenants and agreements on its part contained in this Loan Agreement and by proper action has duly authorized the execution and delivery of this Loan Agreement.

(b) The execution and delivery of this Loan Agreement, the consummation of the transactions contemplated hereby and thereby, and the fulfillment of or compliance with the terms and conditions of this Loan Agreement do not violate any law or conflict with or result in a breach of any of the terms, conditions or provisions of any restriction or any agreement or

instrument to which Borrower is now a party or by which it is bound or constitutes a default under any of the foregoing or results in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the Property under the terms of any instrument or agreement, other than this Loan Agreement.

(c) To the extent required by law, the Project has been reviewed and approved by the appropriate regional and state health planning agencies and has been granted the appropriate certification by such agencies.

(d) Borrower intends to operate or to cause the Project to be operated to the expiration of the term of this Loan Agreement as "hospital facilities" within the meaning of the Act and it has complete lawful authority to operate the Project for such purpose.

(e) As of the date of this Loan Agreement, Borrower is an organization described in Section 501(c)(3) of the Code which is not a "private foundation" as defined in Section 509(a) of the Code, it has received a letter from the Internal Revenue Service to that effect, such letter has not been modified, limited or revoked, Borrower is in compliance with all terms, conditions, and limitation, if any, contained in such letter applicable to them, the facts and circumstances which form the basis of such letter as represented to the Internal Revenue Service continue substantially to exist, and Borrower is exempt from federal income taxes under Section 501(a) and Section 501(c)(3) of the Code and agrees that it shall not perform any acts or enter into any agreements which shall adversely affect such federal income tax status nor shall it carry on or permit to be carried on in the Project or permit the Project to be used in or for any trade or business if such activity would adversely affect the exemption or interest on any of the Bonds from federal income taxation or if such activity would adversely affect Borrower's federal income tax status under Section 501(c)(3) of the Code.

(f) The Project now or as hereafter constructed, acquired and installed has been or will be constructed acquired or installed as the case may be, in such manner as to conform with all applicable zoning, planning and building regulations of the governmental authorities having jurisdiction of the Project.

(g) Borrower shall throughout the term of this Loan Agreement, administer, own, operate, maintain and repair the Project in accordance with the terms of this Loan Agreement; shall, as its obligation and at its expense during the term of this Loan Agreement, use and occupy the Project exclusively for such purposes, and shall faithfully, efficiently and exclusively administer, operate, maintain and repair the same, and shall abide by all present and future applicable laws, ordinances, rules, regulations, requirements and orders of all governmental authorities or agencies having jurisdiction over the Project or the operations of Borrower.

(h) At least 95 percent of the sum of net proceeds of the Bonds plus income from the investment thereof will be used to pay the costs of acquiring, equipping, renovating or constructing the 1991 Project or otherwise paying the capital costs of Borrower which is a duly qualified and existing Section 501(c)(3) organization under the Code.

(i) Any real or personal property acquired, equipped, renovated, improved or otherwise financed with the proceeds of the Bonds shall be owned by an organization described in Section 501(c)(3) of the Code.

(j) Not more than 2 percent of the proceeds of the Bonds will be used to pay the costs of issuance of the Bonds including, without limitation, the fees and expenses of Bond Counsel or the underwriter's spread incurred in connection with the sale of the Bonds.

(k) The Borrower will comply with, and make all filings required by, all effective rules, rulings or regulations promulgated by the Department of the Treasury or the Internal Revenue Service with respect to obligations described in Section 103 and 145 of the Code, such as the Bonds.

(l) The Borrower will continue to conduct its operations in a manner that will result in its continuing to qualify as an organization described in Section 501(c)(3) of the Code, including but not limited to the timely filing of all returns, reports and requests for determination with the Internal Revenue Service and the timely notification of the Internal Revenue Service of all changes in its organization and purposes from the organization and purposes previously disclosed to the Internal Revenue Service.

(m) The proceeds of the Bonds and any investment earnings thereon will be expended for the purposes set forth in this Loan Agreement and in the Indenture and no portion thereof will be used in any "unrelated trade or business" of the Borrower within the meaning of Section 513(a) of the Code.

(n) The Borrower will not use or cause any portion of the Project to be used, or invest the proceeds of the Bonds or any other amounts held by the Trustee under the Indenture or any investment earnings thereon, in a manner that will cause the Bonds to be private activity bonds (other than qualified 501(c)(3) bonds) within the meaning of Sections 141 and 145 of the Code.

(o) The Borrower will not cause the Bonds to be treated as "federally guaranteed" obligations for purposes of Section 149(b) of the Code, as may be modified in any applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service with respect to "federally guaranteed" obligations described in Section 149(b) of the Code. For purposes of this paragraph, the Bonds shall be treated as "federally guaranteed" if: (i) all or any portion of the principal or interest is or will be guaranteed directly or indirectly by the United States of America or any agency or instrumentality thereof, or (ii) 5% or more of the proceeds of the 1990 Bonds will be (A) used in making loans the payment of principal or interest with respect to which is to be guaranteed in whole or in part by the United States of America or any agency or instrumentality thereof, or (B) invested directly or indirectly in federally insured deposits or accounts, and (iii) none of the exceptions described in Section 149(b)(3) of the Code apply.

(p) The Borrower will not use or invest the proceeds of the Bonds or any other amounts held by the Trustee under the Indenture or any investment earnings thereon in a manner that will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(q) The weighted average maturity of the Bonds will not exceed 120% of the reasonably expected remaining economic life of the Project, taking into account the respective cost of each item comprising the Project. For purposes of the preceding sentence, the reasonably expected remaining economic life of each component of the Project shall be determined as of the date on which the Bonds are issued. In addition, land shall not be taken into account in determining the reasonably expected remaining economic life of the Project, except that, in the event 25% or more of the proceeds of the Bonds originally issued to finance the Project have been expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected remaining economic life of the Project.

(r) The Borrower will not use, or permit to be used, less than 95% of the net proceeds of the Bonds with respect to a "hospital," within the meaning of Section 145(c) of the Code.

(s) No amount of the net proceeds of the Bonds will be used, directly or indirectly, to provide any airplane, sky-box or other luxury box, facility primarily used for gambling, a retail store the principal business of which is the sale of alcoholic beverages for consumption off premises or any health club facility unless the health club facility is directly used for the purpose of qualifying the Borrower for tax exemption under Section 501(c)(3) of the Code.

(t) None of the proceeds of the Bonds will be used directly or indirectly to provide residential rental property for family units within the meaning of Section 145(d)(1) of the Code unless the requirements of Section 145(d)(2) of the Code are satisfied.

(u) Borrower shall employ and maintain in its employ an administrator, manager, executive director, or other chief executive of the portion of the Hospital Facilities which is a "hospital" within the meaning of the Act, qualified by training and experience in hospital or industrial management.

Section 2.3. Environmental Representation, Warranties, Covenants and Indemnification.
For purposes of this Section, the following terms shall have the following meanings:

"Environmental Laws" means any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment.

"Hazardous Substances" is used in its very broadest sense and refers to materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. "Hazardous Substances" shall include, without limitation, petroleum products or crude oil or any

fraction thereof and any and all hazardous or toxic substances, materials or waste as defined by or listed under the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Comprehensive Environmental Response, Compensation and Reliability Act, or any other of the Environmental Laws.

The Borrower represents, warrants and covenants as follows:

(a) To the best of Borrower's knowledge, after due inquiry and investigation, all Hazardous Substances on or in the Hospital Facilities have been used, generated, manufactured, refined, transported, treated, stored, handled and disposed of only in strict compliance with all Environmental Laws. Borrower has no knowledge of any action, citation, directive, letter or other communication from any person or governmental authority concerning any intentional or unintentional action or omission which has resulted in the releasing, spilling, leaking, pumping, pouring, omitting, emptying or dumping of Hazardous Substances on the Hospital Facilities or from the Hospital Facilities to other property.

(b) Borrower shall exercise extreme care in handling Hazardous Substances and shall undertake any and all preventive, investigatory or remedial action (including, without limitation, emergency response, removal, containment and other remedial action):

(i) required by any applicable Environmental Laws or orders by any governmental authority having jurisdiction under Environmental Laws; or

(ii) necessary to prevent or minimize property damage (including, without limitation, damage to the Borrower's own property), personal injury or damage to the environment or threat of any such damage or injury, by releases of or exposure to Hazardous Substances in connection with the Hospital Facilities or operations on the Hospital Facilities. In the event the Borrower fails to perform any of its obligations under this Section, the Authority or the Trustee may perform (but shall not be required to perform) such obligations at the Borrower's expense. In performing any such obligations of the Borrower, the Authority and the Trustee shall at all times be deemed to be the agent of the Borrower and shall not by reason of any such performance be deemed to be assuming any responsibility of the Borrower under any Environmental Laws or to any other person.

(c) The Borrower shall indemnify and hold harmless the following (collectively the "Indemnitees"): the Authority and the Trustee and their officers, directors, employees, agents, and all of their successors and assigns against any and all claims, demands, losses, liabilities, costs and expenses (including, without limitation, attorney fees at trial and on any appeal or petition for review) incurred by any of the Indemnitees:

(i) arising out of or relating to any investigatory or remedial action involving the Hospital Facilities or the operations conducted on the Hospital Facilities and required by Environmental Laws or by orders of any governmental authority having jurisdiction under any Environmental Laws; or

(ii) on account of injury to any person or damage to any property arising out of or in connection with or in any way relating to:

(a) any applicable laws or regulations, including, without limitation, Environmental Laws; or

(b) the use, treatment, storage, generation, manufacture, transport, release, spill, disposal or other handling of Hazardous Substances on the Hospital Facilities or in connection with operations conducted on the Hospital Facilities; or

(c) the contamination of any of the Hospital Facilities by Hazardous Substances.

(d) The covenants contained in this Section shall survive any termination of the Loan Agreement, and shall survive any foreclosure, whether judicial or nonjudicial, of the Hospital Facilities pursuant to the terms of the Indenture and shall be for the benefit of the Authority, the Trustee and their successors and assigns.

ARTICLE III

Term of Loan Agreement

Section 3.1. Term of this Loan Agreement. This Loan Agreement shall remain in full force and effect from the date of delivery hereof from escrow by the Trustee to the parties hereto in accordance with the instructions of Borrower and the Authority pursuant to Section 10.4 and Section 10.5 of the Lease, until such time as all of the Bonds shall have been fully paid or provision is made for such payment pursuant to the Indenture and all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of the Bonds, all fees and expenses of the Authority accrued and to accrue through final payment of the Bonds and all other liabilities of the Borrower accrued and to accrue through final payment of the Bonds under this Loan Agreement and the Indenture have been paid or provision is made for such payments pursuant to the Indenture.

ARTICLE IV

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Acquisition and Installation of the Project; Issuance of the Bonds

Section 4.1. Loan Agreement to Construct, Acquire and Install the Project. The Borrower agrees that it will construct, improve, equip, renovate, install or otherwise acquire the Project with all reasonable dispatch.

Section 4.2. Loan Agreement to Issue Bonds. To provide funds to make the Loan for payment of the Cost of Capital Projects, the Authority has sold and caused to be delivered to the initial purchasers thereof the Bonds and will be deemed to have made such Loan from the proceeds thereof as provided in the Indenture. In the event that moneys are remaining in the Construction Fund on the date this Loan Agreement becomes effective, the Trustee shall disburse the proceeds of the Bonds to the Borrower as provided in Sections 4.3 and 4.4 hereof.

Section 4.3. Disbursements from the Construction Fund. The Authority has, in the Indenture, authorized and directed the Trustee to make payments from the Construction Fund to pay (or to reimburse the Borrower for the payment of) the Cost of Capital Projects. Each payment of the Cost of Capital Projects shall be made only upon receipt by the Trustee of a requisition signed by an Authorized Representative of the Borrower stating (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due or was made, (iii) the amount to be paid, (iv) that none of the items for which the payment is proposed to be made has formed the basis for any payment theretofore made from the Construction Fund, (v) the nature of each item for which the payment is proposed to be made and that such item is or was reasonable and necessary in connection with the Project and is a proper charge against the Construction Fund, (vi) that upon payment of the amount requested in such requisition, the amount remaining in the Construction Fund, together with other legally available monies of the Borrower, are sufficient to pay the portion of the Cost of Capital Projects then unpaid; (vii) that any item purchased with the moneys requisitioned shall be owned by the Borrower, (viii) that the use of the moneys requisitioned by Borrower shall not adversely affect the tax-exempt status of the Bonds, and (ix) that Borrower reaffirms all representations and warranties made in the Tax Regulatory Agreement and agrees to abide by the terms of the Tax Regulatory Agreement.

Section 4.4. Disbursements from the Bond Issuance Costs Fund. The Authority has, in the Indenture, authorized and directed the Trustee to make payments from the Bond Issuance Costs Fund for the payment of expenses as provided in this Section 4.4. Payments shall be made from the Bond Issuance Costs Fund only for paying the costs of legal, accounting, organization, marketing or other special services and other fees and expenses, incurred or to be incurred by or on behalf of the Authority or the Borrower in connection with the issuance of the Bonds. The Borrower acknowledges that the monies in the Bond Issuance Costs Fund available for payment of the foregoing costs may not be sufficient to pay such costs in full, and agrees to pay that portion of such costs in excess of the amount in the Bond Issuance Costs Fund from any monies legally available for such purpose. Each payment out of the Bond Issuance Costs Fund shall be

made only upon receipt by the Trustee of a requisition signed by an Authorized Representative of the Borrower.

Upon receipt of a certificate signed by an Authorized Representative of the Borrower stating that all such fees and expenses have been paid, the Trustee shall transfer any monies remaining in the Bond Issuance Costs Fund at the option of the Borrower to the Bond Principal Fund, the Bond Interest Fund, or if such certificate is received prior to the Completion Date, to the Construction Fund.

Section 4.5. Obligation of the Parties to Cooperate in Furnishing Documents to Trustee. The Borrower and the Authority agree to cooperate with each other in furnishing to the Trustee the requisitions referred to in Section 4.3 and 4.4 hereof.

Section 4.6. Establishment of Completion Date. The Completion Date shall be evidenced to the Trustee by a certificate signed by an Authorized Representative of the Borrower meeting the requirements of Section 5.3 of the Indenture. The completion of a Project and the deposit of any remaining balances shall be governed by Section 5.2 of the Indenture. The Borrower covenants that the Completion Date (i.e., the filing of the certificate required by this Section 4.6) will occur not later than July 1, 1994 for the Project, unless otherwise agreed to in writing by the Trustee and provided the Borrower provides the Trustee and the Authority with an opinion of nationally recognized bond counsel to the effect that the extension of such date will not adversely affect the tax-exempt status of the Bonds.

Section 4.7. Completion of the Project if Fund Insufficient. The Borrower acknowledges that the monies in the Construction Fund available for payment of the Cost of Capital Projects may not be sufficient to pay the Cost of Capital Projects in full, and agree to complete the Project and to pay that portion of the Cost of Capital Projects in excess of the monies available therefor in the Construction Fund from any monies legally available for such purpose. The Authority does not make any warranty, either express or implied, that the monies which will be paid into the Construction Fund will be sufficient to pay all the Cost of Capital Projects. The Borrower shall not be entitled as a result of paying a portion of the Cost of Capital Projects pursuant to this Section 4.7 to any reimbursement therefor from the Authority, the Trustee or from the owners of any Bonds, nor shall it be entitled to any diminution in or postponement of the Loan Payments or other payments required to be paid under Section 5.2 hereof.

Section 4.8. Investment of Monies. Any monies held as a part of the Construction Fund shall be invested, reinvested, and transferred to other Funds by the Trustee as provided in Article VI of the Indenture.

Section 4.9. Arbitrage.

(a) Borrower hereby covenants and represents for the benefit of each owner of the Bonds that it will not make, or permit, any use of the proceeds of the Bonds or the monies in the Special Funds, or take any other action, which will cause the Bonds or any subsequent obligations of the Authority to be "arbitrage bonds" within the meaning of Section 148 of the Code. Borrower covenants that it will comply with the applicable requirements of Section 148

of the Code, so long as any Bonds are Outstanding. Borrower further covenants and represents for the benefit of each owner of the Bonds that Borrower (or any related person as defined in Section 144(a)(3) of the Code) will not, pursuant to any arrangement, formal or informal, purchase the Bonds or any portion thereof in an amount related to the aggregate amounts payable with respect to principal under the Loan Agreement.

(b) The Borrower agrees that it will cause to be paid to the United States on behalf of the Authority all penalties, payments or other amounts required pursuant to Section 148(f) of the Code, the Tax Regulatory Agreement and Section 7.4 of the Indenture. The Borrower agrees to provide any instructions to the Trustee that are necessary to satisfy the requirements of Section 148(f) of the Code. The Borrower agrees to pay any expense, costs or fees incurred by or on behalf of the Authority or the Trustee in complying with Section 7.4 of the Indenture.

(c) At the request of the Trustee, the Borrower from time to time shall provide the Trustee any information necessary to satisfy the requirements of Section 148 of the Code or any information necessary to assure the Trustee that the Borrower has or will comply with the requirements of Section 148 of the Code.

ARTICLE V

Security Provisions for Payment

Section 5.1. Security Provisions. To secure the payment of the Loan and the payment of all sums advanced under this Loan Agreement, including advances which may be made in the future and to secure the performance by the Borrower of all the covenants expressed or implied by this Loan Agreement: the Borrower hereby pledges to and grants to the Authority a present security interest, within the meaning of the Oregon Uniform Commercial Code and to the extent permitted by law, all of its right, title and interest, if any, in the Special Funds and in any trust accounts referred to in this Loan Agreement or the Indenture.

This pledge shall be valid and binding from and after the date of the first delivery of any of the Bonds. To the extent any property covered by this Loan Agreement consists of rights of action or personal property, this Loan Agreement constitutes a security agreement and financing statement and is intended, if recorded or filed, to create a perfected security interest in such property in favor of the Authority.

Section 5.2. Loan Payments. On or before each Rental Payment Date, Borrower shall pay as repayment of the Loan the Loan Payment due and owing on such Rental Payment Date.

In any event, the Loan Payments payable under this Section 5.2 shall be sufficient to pay the total amount due with respect to the principal of, interest, and premium, if any, on the Bonds as such payments become due, and to pay any deficiency in any Special Fund, provided, that if at any time the amount held by the Trustee in the Special Funds, exclusive of the Construction Fund, should be sufficient to pay at the time required the principal of and interest on the Bonds, Borrower shall not be obligated to pay further Loan Payment amounts under the provisions of this Section 5.2.

During the term of this Loan Agreement, Borrower agrees to pay the Trustee as they become due (i) the fees of the Trustee for the Ordinary Services of the Trustee rendered; (ii) the reasonable fees and charges of the Trustee, as Bond Registrar and Paying Agent, and of paying agents on the Bonds, as provided in the Indenture; and (iii) the reasonable fees and charges of the Trustee for necessary Extraordinary Services rendered by it and Extraordinary Expenses incurred by it under the Indenture; provided, Borrower may, without creating a default hereunder, contest in good faith the necessity for any such Extraordinary Services and Extraordinary Expenses and the reasonableness of the same.

Borrower also agrees to pay to Authority or reimburse Authority for all reasonable expenses of Authority, including without limitation, the fees and costs of its legal counsel and the reasonable fees and costs of its accountants, related to the Hospital Facilities or requested by Authority or either of them, or required by the Bond Documents. Borrower also agrees to pay the fees, costs, and expenses of Bond Counsel.

Failure by the Borrower to make any Loan Payment required by this Section 5.2 shall constitute a Loan Agreement Default, and the required payment shall continue to be obligations of the Borrower, payable in full with interest at the Interest Rate for Advances from the date of such Loan Agreement Default.

Section 5.3. Place of Loan Payments. The Loan Payments provided for in the first two paragraphs of Section 5.2 hereof shall be paid directly to the Trustee at its corporate trust office for the account of Authority and will be deposited in the Special Funds as provided in the Indenture. The additional payments to be made to the parties under Section 5.2 hereof shall be paid directly to such parties.

Section 5.4. Obligations of Borrower Hereunder Unconditional. To the extent permitted by law, the obligations of the Borrower to make the Loan Payments required in Section 5.2 hereof and to perform and observe the other agreements on their part contained herein shall be absolute and unconditional. To the extent permitted by law, the Borrower (i) will not suspend or discontinue, or permit the suspension or discontinuance of, any payments provided for in Section 5.2 hereof, (ii) will perform and observe all of its other agreements contained in this Loan Agreement and (iii) except as provided in Article XI hereof, will not terminate this Loan Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Project, commercial frustration of purpose, or change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the State of Oregon or any political subdivision of either, any failure of the Authority 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, whether express or implied, or any failure of the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, whether express or implied. Nothing contained in this Section 5.4 shall be construed to release the Authority from the performance of any agreements on its part herein contained; and if the Authority shall fail to perform any such agreement, the Borrower may institute such action against the Authority as the Borrower may deem necessary to compel performance, provided that no such action shall violate the agreements on the part of the Borrower contained herein. The Borrower may, however, at its own cost and expense and in its own name or in the name of the Authority, prosecute or defend any action or proceeding or take any other action involving third persons which the Borrower deems reasonably necessary in order to secure or protect its right of possession, occupancy, and use of the Project and in such event the Authority hereby agrees to cooperate fully with the Borrower (without expense to the Authority).

Section 5.5. Gross Revenue Pledge. To secure the prompt payment of the Loan Payments and the performance by Borrower of its obligations hereunder, Borrower hereby pledges to the Authority and hereby grants the Authority a security interest in and agrees and acknowledges that the Authority shall have and shall continue to have a security interest in Gross Revenues.

Maintenance, Taxes and Insurance

Section 6.1. Maintenance and Modifications of Property by Borrower. The Borrower agrees that during the term of this Loan Agreement, the Project shall be operated and maintained in substantial compliance with all governmental laws, building codes, ordinances, and regulations and zoning laws and strictly in compliance with all Environmental Laws as shall be applicable to such Project. The Borrower agrees that during the term of this Loan Agreement it will at its own expense (i) keep the Project in as reasonably safe condition as their operations permit and (ii) keep the Project in good repair and in good operating condition, making from time to time all necessary repairs thereto (including external and structural repairs) and renewals and replacements thereof.

Section 6.2. Taxes, Other Governmental Charges and Utility Charges. The Borrower will pay promptly, as the same become due, (i) all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project or any interest therein, or any machinery, equipment, or other property installed or brought by the Borrower therein or thereon which, if not paid, will become a lien on the Project prior to or on a parity with the charge thereon under this Loan Agreement, (ii) all utility and other charges incurred in the operation, maintenance, use, occupancy, and upkeep of the Project and (iii) all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Project provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as may have become due during the term of this Loan Agreement.

The Borrower may, at its expense, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges contested to remain unpaid during the period of such contest and any appeal therefrom unless, in the opinion of the Trustee, the Project shall be subject to loss or forfeiture, in which case such taxes, assessments or charges shall be paid promptly or secured by posting a bond with the Trustee in form satisfactory to the Trustee. The Authority at the expense of the Borrower shall cooperate fully with the Borrower in any such contest. In the event that the Borrower shall fail to pay any of the foregoing items required by this Section 6.2 to be paid by the Borrower, the Authority or the Trustee may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by the Authority or the Trustee shall become an additional obligation of the Borrower to the one making the advance, which amount the Borrower agrees to pay on demand together with interest thereon at a rate which shall be 2% per annum above the rate announced by First Interstate Bank of Oregon, N.A. from time to time as its Prime Rate of Interest or the maximum rate permitted by law if less than such rate.

Section 6.3. Insurance Required. Throughout the term of this Loan Agreement, the Borrower shall maintain, or cause to be maintained, insurance as is customary and appropriate in the industry for the business and other activities conducted by the Borrower, covering such

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risks and in such amounts as, in the reasonable judgment of the Borrower, is adequate to protect their real and personal property and operations, and such insurance as required by the Indenture.

ARTICLE VII

Damage, Destruction and Condemnation

Section 7.1. Damage, Destruction and Condemnation. In the event of damage to, destruction of, or condemnation of all or any portion of the Hospital Facilities, the Authority and the Borrower shall comply in all respects with the applicable requirements of the Indenture.

ARTICLE VIII

Special Covenants

Section 8.1. No Warranty of Condition or Suitability by the Authority. The Authority makes no warranty, either express or implied, as to the Project or that it will be suitable for the Borrower's purposes or needs.

Section 8.2. Further Assurances. The Authority and the Borrower agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention of or facilitating the performance of this Loan Agreement.

Section 8.3. Financial Statements. The Borrower agrees that it will: (a) maintain proper books of records and accounts of the Project with full, true and correct entries of all of their dealings in accordance with generally accepted accounting principles; and (b) provide, upon written request (which request shall be deemed to be continuing until revoked in writing) by any Bondholder of at least 20% of the aggregate principal amount of the then Outstanding 1991 Bonds, copies of Borrower's quarterly unaudited financial statements.

Section 8.4. Release and Indemnification Covenants. The Borrower agrees to protect and defend the Authority, the Trustee, the City of Klamath Falls, Oregon, its City Council members, and their respective directors, servants, officers, employees, and other agents, now or hereafter, of the City of Klamath Falls, Oregon, the Authority or the Trustee, and further agree to hold the aforesaid harmless from any claim, demand, suit, action or other proceeding whatsoever (except for any intentional misrepresentation or any gross negligence or any willful or wanton misconduct of the aforesaid) by any person or entity whatsoever except the Authority, arising or purportedly arising from this Loan Agreement, the Indenture, the Bonds or the transactions contemplated thereby, and the ownership or the operation by the Borrower of the Project or the Hospital Facilities.

In addition, the Borrower releases the Authority and the Trustee from and covenants and agrees that the Authority and the Trustee shall not be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Authority and their respective officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project or the Hospital Facilities, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or the Hospital Facilities or any part thereof; (2) the issuance of any Bonds or any certifications or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds and this Loan Agreement; (3) the Authority's or Trustee's execution of the Indenture, the Lease or any of the Bond Documents, or the exercise or performance of any of its powers or duties under and in accordance with any of the foregoing; or (4) any untrue statement or alleged untrue statement of any material fact pertaining to the Borrower or the Project or the Hospital

Facilities or alleged omission to state a material fact pertaining to the Borrower or the Project or the Hospital Facilities necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the Authority or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Authority and the Trustee and their respective officers, employees and agents for any and all costs, reasonable attorneys' fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions for which the Authority is entitled to indemnity under this paragraph, except to the extent that the same arise out of the gross negligence or willful misconduct or material misrepresentation of the party claiming such payment or reimbursement. In addition to the foregoing (and not by way of limitation), the Borrower hereby specifically agrees that in the event the Internal Revenue Service challenges the federal tax-exempt status of the interest on the Bonds or threatens to disqualify the Authority pursuant to Treasury Regulation § 1.103-13(a)(2)(iv) by reason of the issuance of the Bonds, the Borrower will promptly, upon request of the Authority, take any and all actions necessary to avoid the loss of federal tax-exempt status of the interest on the Bonds or such disqualification of the Authority, including but not limited to the payment (after final resolution of any administrative or legal proceedings challenging such actions or assertions by the Internal Revenue Service) to the United States Government of any and all earnings on the investment of Bond proceeds and the earnings on the investment income derived therefrom if the payment thereof will preserve the federal tax-exempt status of the interest on the Bonds or prevent such disqualification, and the Borrower will pay all reasonable costs and expense (including attorneys' fees and expenses) incurred by the Authority in connection therewith, and the Authority agrees that it will cooperate with the Borrower in connection with any actions taken by the Borrower under this sentence, including cooperating with the Borrower in any legal or administrative proceedings challenging such action or assertion by the Internal Revenue Service. The provisions of this Section 8.4 shall survive the retirement of the Bonds.

The Borrower shall have no recourse for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or hereunder against any member, officer, employee or other agent of the Authority or any natural person executing the Bonds.

Section 8.5. Authority of Authorized Officer of the Borrower. Whenever under the provisions of this Loan Agreement or the Indenture the approval of the Borrower is required, or the Authority or the Trustee is required to take some action at the request of the Borrower, such approval or such request shall be made by the Authorized Officer of the Borrower unless otherwise specified in this Loan Agreement or the Indenture. The Authority or the Trustee shall be authorized to act on any such approval or request and the Borrower shall have no complaint against the Authority or the Trustee as a result of any such action taken in accordance with such approval or request. The execution of any document or certificate required under the provisions of this Loan Agreement or the Indenture by an Authorized Officer of the Borrower shall be on behalf of the Borrower and shall not result in any personal liability of such Authorized Officer.

Section 8.6. Authority of Authorized Officer of the Authority. Whenever under the provisions of this Loan Agreement or the Indenture the approval of the Authority is required, or the Borrower or the Trustee are required to take some action at the request of the Authority, such approval or such request shall be made by the Authorized Officer of the Authority unless otherwise specified in this Loan Agreement or the Indenture. The Borrower or the Trustee shall be authorized to act on any such approval or request and the Authority shall have no complaint against the Borrower or the Trustee as a result of any such action taken in accordance with such approval or request. The execution of any document or certificate required under the provisions of this Loan Agreement or the Indenture by an Authorized Officer of the Authority shall be on behalf of the Authority and shall not result in any personal liability of such Authorized Officer.

Section 8.7. Licenses and Qualifications. The Borrower will do all things necessary to obtain, renew and secure all permits, licenses and other governmental approvals necessary for operation of that portion of the Project which constitute adult congregate living facilities, hospital facilities or skilled nursing facilities as adult congregate living facilities, hospital facilities or as skilled nursing facilities.

Section 8.8. Sectarian Use. The Borrower agrees that no proceeds of the Bonds shall be used to acquire, construct, install or refinance any facilities which are intended to be used primarily for sectarian purposes. The Borrower will admit and treat individuals in the Project without regard to race, creed, color, age, sex, national origin or religious belief and will respect, permit and not interfere with the religious beliefs of persons admitted and treated.

Section 8.9. Preservation of Tax-Exempt Status of Bonds. The Borrower agrees that it will not knowingly take any affirmative action or omit to take any action, which action or omission will adversely affect any exclusion from gross income for federal income tax purposes of interest paid on the Bonds and, in the event of such action or omission, it will, promptly upon having such brought to its attention, take such reasonable actions based upon advice of counsel and, in all cases at the sole expense of the Borrower, as may rescind or otherwise negate such action or omission. The Borrower agrees that it will not use, or permit to be used, any of the Project in an unrelated trade or business as defined in Section 513(a) of the Code or by any person other than a 501(c)(3) organization or a state or local governmental unit in either case in such manner or to such extent as would result in the loss of exemption of interest on the Bonds from federal income taxation.

ARTICLE IX

Assignment and Pledging; Redemption of Bonds

Section 9.1. Assignment by Borrower. This Loan Agreement may be assigned by the Borrower with the prior consent of the Trustee, subject to each of the following conditions:

(a) No assignment shall relieve Borrower from primary liability for any of its obligations hereunder and in the event of any such assignment Borrower shall continue to remain primarily liable for payment of the Loan Payments required to be made under Section 5.2 hereof and for performance and observance of the other covenants and agreements on their part herein provided.

(b) No assignment shall impair the exemption of interest on the Bonds from federal income taxation as indicated in an Approval of Bond Counsel.

(c) The assignee shall assume in writing the obligations of Borrower hereunder to the extent of the interest assigned.

(d) Borrower shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of each such assumption of obligations and assignment.

Section 9.2. Assignment and Pledge by Authority. The Authority has assigned its interest in and pledged any monies receivable under this Loan Agreement to the Trustee pursuant to the Indenture as security for payment of the principal of, premium, if any, and interest on the Bonds. The Borrower consents to such assignment and pledge.

Section 9.3. Redemption of Bonds. Upon the agreement of the Borrower to deposit or cause to be deposited monies into the Bond Principal Fund and the Bond Interest Fund in an amount sufficient to redeem Bonds subject to redemption, the Authority, at the request of the Borrower, shall forthwith take all steps (other than the payment of the money required for such redemption) necessary under the applicable redemption provisions of the Indenture to effect redemption of all or part of the then Outstanding Bonds on the redemption date.

ARTICLE X

Loan Agreement Defaults and Remedies

Section 10.1. Loan Agreement Defaults. The following shall be "Loan Agreement Defaults" under this Loan Agreement:

- (a) Failure by Borrower to pay the Loan Payments required to be paid under Section 5.2 hereof on or prior to the date on which payment is required and continuing for a period of seven (7) Business Days after written notice mailed to Borrower by the Trustee or Authority that the Loan Payments referred to in such notice have not been received.
- (b) Failure by Borrower to observe and perform any other covenant, condition or agreement on its part to be observed or performed, other than as referred to in the other paragraphs of this Section 10.1, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied, given to Borrower by Authority or the Trustee, unless Authority and the Trustee shall agree in writing to an extension of such time for such remedy; provided, however, that if Borrower shall proceed to undertake the necessary curative action which, if begun and prosecuted with due diligence, cannot be completed within a period of thirty (30) days, then such period shall be increased without such written extension to such extent as shall be necessary to enable Borrower with due diligence to begin and complete such curative action.
- (c) Abandonment by Borrower of the Hospital Facilities, or of any substantial part thereof, or of the operations thereon, if such abandonment shall continue for a period of thirty (30) days after written notice thereof shall have been given to Borrower by Authority or the Trustee.
- (d) The dissolution or liquidation of Borrower or the filing by Borrower of a voluntary petition in bankruptcy, or failure by Borrower promptly to lift any execution, garnishment or attachment of such consequences as will impair its ability to carry out its obligations under this Loan Agreement, or the commission by Borrower of any act of bankruptcy, or the adjudication of Borrower as a bankrupt, or the assignment by Borrower for the benefit of its creditors, or the entry by Borrower into an agreement of composition with its creditors, or the approval of a court of competent jurisdiction of a petition applicable to Borrower in any proceeding for either Borrower's reorganization or arrangement instituted under the provisions of the federal bankruptcy statutes, as amended, or under any similar act which may hereafter be enacted. The term "dissolution or liquidation of Borrower", as used in this subsection shall not be construed to include the cessation of the corporate existence of Borrower resulting from a merger or consolidation of Borrower into or with another corporation or a dissolution or liquidation of Borrower following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions in the Indenture.
- (e) Loss by Borrower of its status as a federally tax-exempt organization or other event which results in loss of federal tax-exempt status for the interest paid on the Bonds.

Documents. (f) A default after the applicable cure period therefor, if any, under the Bond

(g) A default, however defined, under the Guaranty Agreement.

The provisions of paragraph (b) of this Section 10.1 are subject to the following limitations: If by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders, regulations or limitations of any kind of the government of the United States of America or of the State or any of the departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots, epidemics; landslides, washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Borrower, Borrower is unable in whole or in part to carry out its agreements on its part herein contained, other than the obligations of Borrower contained in Article V hereof, Borrower shall not be deemed in default during the continuance of such inability. Borrower agrees, however, to use its best efforts to remedy with all reasonable dispatch the cause of causes preventing Borrower from carrying out its agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Borrower, and Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of Borrower, unfavorable to Borrower.

Section 10.2. Remedies on Default. Whenever any Loan Agreement Default referred to in Section 10.1 of this Loan Agreement shall have happened and be subsisting, any one or more of the following remedial steps may be taken:

(a) The Authority, or the Trustee as provided in the Indenture, may at its option, and in the case of a Loan Agreement Default under paragraph (c) of Section 10.1 of this Loan Agreement shall, declare all installments of Loan Payments payable under Section 5.2 hereof for the remainder of the term of this Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) In the event any of the Bonds shall at the time be Outstanding and unpaid when due, Authority may have access to and inspect, examine and make copies of the books and records, including without limitation any and all accounts, data and income tax and other tax records, of Borrower.

(c) The Authority may take whatever action at law or in equity may appear necessary or desirable to collect the Loan Payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of Borrower under this Loan Agreement.

Before any of the foregoing remedies are exercised by either the Authority or the Trustee upon a Loan Agreement Default under paragraph (b) of Section 10.1 of this Loan Agreement,

Authority shall give notice to Borrower that it believes a Loan Agreement Default under that paragraph has occurred, specifying the circumstances constituting the Loan Agreement Default in sufficient detail that Borrower will be fully advised of the nature of the charges made against it and able to adequately prepare a response thereto. Such notice shall fix a date for the hearing before the Authority on whether such Loan Agreement Default has occurred, which date shall not be sooner than thirty (30) days following giving of such notice. At such hearing Borrower shall be confronted with the evidence of such Loan Agreement Default, shall have the right to cross-examine hostile witnesses and may introduce such other evidence and testimony with respect to such Loan Agreement Default as Borrower desires. After the hearing is concluded, Authority shall consider whether such Loan Agreement Default has occurred and if it shall determine that it has occurred, shall give notice of that determination to Borrower. No remedy specified in this Section 10.2 shall be exercised or undertaken by either Authority or the Trustee until a period of thirty (30) days shall have elapsed from the giving of the aforesaid notice after hearing that Authority has determined that such Loan Agreement Default has occurred.

Any amounts collected pursuant to action taken under this Section 10.2 shall be paid into the GRO Fund and applied in accordance with the provisions of the Indenture for the equal and ratable benefit of the holders of the Bonds and any Additional Bonds.

Section 10.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but to the extent permitted by law, each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity or by statute. To the extent permitted by law, no delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power to the extent permitted by law, may be exercised from time to time and as often as may be deemed expedient. To entitle the Authority to exercise any remedy reserved to it in this Article X, it shall not be necessary to give any notice, other than notice required herein or by applicable law. Such rights and remedies given the Authority hereunder shall also extend to the Trustee and the owners of the Bonds, subject to the Indenture.

Section 10.4. Borrower to Pay Attorneys' Fees and Expenses. In the event the Borrower shall default under any of the provisions of this Loan Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of Loan Payments or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower herein contained, the Borrower agrees that it will on demand therefor pay to the Authority or the Trustee in any proceeds in which the Authority and/or the Trustee prevails, as the case may be, the reasonable fees of such attorneys and such other reasonable expenses incurred by the Authority or the Trustee.

Section 10.5. Waiver. In the event any agreement contained in this Loan Agreement should be breached and any party and thereafter waived by any other party, such waiver shall be limited to the particular breach waived and shall not be deemed to waive any other breach hereunder. In view of the assignment of the Authority's rights in and under this Loan Agreement to the Trustee under the Indenture, the Authority shall have no power to waive any Loan

Agreement Default hereunder without the consent of the Trustee. Notwithstanding the foregoing, a waiver of a Loan Agreement Default under the Indenture or a rescission and annulment of its consequences shall constitute a waiver of the corresponding Loan Agreement Default under this Loan Agreement and a rescission and annulment of its consequences; provided, that no such waiver or rescission shall extend to or affect any subsequent or other default hereunder or impair any right consequent thereon.

ARTICLE XI

13187

Prepayment of the Loan

Section 11.1. General Option to Prepay the Loan. The Borrower shall have and is hereby granted the option exercisable at any time to prepay all or any portion of the Loan by depositing with the Trustee an amount of money or securities to the extent permitted by the Indenture, the principal and interest on which when due, will be equal to (giving effect to the credit, if any, provided by Section 11.2 hereof) an amount sufficient to pay the principal of, premium, if any, and interest on any portion of the Bonds then Outstanding under the Indenture. The exercise of the option granted by this Section 11.1 shall not be cause for redemption of Bonds unless such redemption is permitted at that time under the provisions of the Indenture and the Borrower pursuant to this Section 11.1 and pays all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of the Bonds called for redemption as a result of such prepayment and all of its liabilities accrued and to accrue hereunder to the Authority through final payment of the Bonds called for redemption as a result of such prepayment, this Loan Agreement shall terminate.

Section 11.2. Prepayment Credits. In the event of prepayment by the Borrower of the Loan in whole, the amounts then contained in the Bond Principal Fund, Bond Interest Fund and Bond Issuance Costs Fund shall be credited against the Borrower's prepayment obligation.

Section 11.3. Notice of Prepayment. To exercise the option granted by this Article XI, the Borrower shall give written notice to the Authority and the Trustee which shall specify therein the date of making the prepayment, which date shall be not less than 60 days nor more than 90 days from the date the notice is mailed. In the case of any prepayment pursuant to this Article XI, the Borrower and the Authority shall make arrangements with the Trustee for giving the required notice of redemption, if any, of any Bonds to be redeemed.

Section 11.4. Use of Prepayment Monies. By virtue of the assignment of the rights of the Authority under this Loan Agreement to the Trustee, the Borrower agrees to and shall pay any amount required to be paid by them under this Article XI directly to the Trustee (other than amounts to be paid to the Authority for its own account). The Trustee shall use the monies so paid to it by the Borrower to pay the principal of and interest on the Bonds on regularly scheduled payment dates or, upon direction of the Borrower and the Authority, to redeem Bonds on the date set for redemption thereof pursuant to Section 11.3 hereof.

ARTICLE XII

13188

Miscellaneous

Section 12.1. Notices. All notices, certificates, requests or other communications hereunder shall be given as provided in the Indenture.

Section 12.2. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Authority and the Borrower, and their respective successors and assigns, subject, however, to the limitations contained in Sections 9.1, 9.2 and 12.9 hereof.

Section 12.3. Severability. In the event any provision of this Loan Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 12.4. Amounts Remaining in Funds. It is agreed by the parties hereto that any amounts remaining in the Special Funds upon expiration of the term of this Loan Agreement shall belong to and be paid to the Borrower by the Trustee.

Section 12.5. Amendments, Changes and Modifications. Except as otherwise provided in this Loan Agreement or in the Indenture, this Loan Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

Section 12.6. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12.7. Governing Law. This Loan Agreement shall be governed and construed in accordance with the law of the State of Oregon.

Section 12.8. Cancellation at Expiration of Term of Loan Agreement. Upon the expiration of the term of this Loan Agreement, the Authority shall deliver to the Borrower any documents and take or cause the Trustee to take such actions as may be necessary to evidence the termination of this Loan Agreement.

Section 12.9. No Pecuniary Liability of Authority. No provision, covenant, or agreement contained in this Loan Agreement, or any obligations herein imposed upon the Authority, or the breach thereof, shall constitute an indebtedness or liability of the Authority within the meaning of any Oregon constitutional provision or statutory limitation or shall constitute or give rise to a pecuniary liability of the Authority or any member, director, officer or agent of the Authority or a charge against the Authority's general credit. In making the agreements, provisions and covenants set forth in this Loan Agreement, the Authority has not obligated itself except with respect to the Project and the application of the revenues, income and all other property therefrom, as hereinabove provided.

Section 12.10. Captions. The captions and headings in this Loan Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Loan Agreement.

Section 12.11. Payments Due on Holidays. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Loan Agreement, shall be a legal holiday or a day on which banking institutions in the City of Klamath Falls, Oregon are authorized by law to remain closed, such payments may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed with the same force and effect as if done on the nominal date provided in this Loan Agreement.

Section 12.12. Provision of General Application. Any consent or approval of the Authority required pursuant to this Loan Agreement shall be in writing and shall not be unreasonably withheld. If such consent or approval is withheld, the Authority shall state its reasons in writing.

IN WITNESS WHEREOF, the Authority and the Borrower have caused this Loan Agreement to be executed in their respective corporate names and to be attested by their duly authorized officers, all as of the date first above written.

AUTHORITY:

KLAMATH FALLS INTERCOMMUNITY
HOSPITAL AUTHORITY

By: Charles A. Bailey
Chair

By: Chara E. Moore
Secretary

BORROWER:

MERLE WEST MEDICAL CENTER

By: Daniel M. McNeill
Chief Executive Officer

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STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Klamath County Title Co. the 9th day
of July A.D., 19 91 at 8:34 o'clock A M., and duly recorded in Vol. M91
of Deeds on Page 13107.

FEE \$438.00

Evelyn Biehn County Clerk
By: Daniel M. McNeill