

AFTER RECORDING RETURN TO:

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SECOND AMENDED AND RESTATED LEASE

between

**KLAMATH FALLS INTERCOMMUNITY
HOSPITAL AUTHORITY**

"Lessor"

and

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

"Lessee"

Relating To The Issuance Of

\$4,266,000

Klamath Falls Intercommunity Hospital Authority
Refunding Gross Revenue Bonds, Series 1977
(Presbyterian Intercommunity Hospital Project)

and

\$8,500,000

Klamath Falls Intercommunity Hospital Authority
Gross Revenue Bonds, Series 1991
(Merle West Medical Center Project)

and

\$13,000,000

Klamath Falls Intercommunity Hospital Authority
Gross Revenue Bonds, Series 1994
(Merle West Medical Center Project)

The right, title and interest of Klamath Falls Intercommunity Hospital Authority (the "Authority") under this Second Amended and Restated Lease with certain exceptions is assigned to First Interstate Bank of Oregon, N.A., as trustee (the "Trustee") under the Second Amended and Restated Trust Indenture dated as of September 1, 1994, between the Authority and the Trustee.

Dated as of September 1, 1994

DAVIS WRIGHT TREMAINE

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SECOND AMENDED AND RESTATED LEASE

Between

KLAMATH FALLS INTERCOMMUNITY HOSPITAL AUTHORITY

and

MERLE WEST MEDICAL CENTER

This Second Amended and Restated Lease dated as of September 1, 1994 (herein called "Lease"), further amends and restates the Amended and Restated Lease dated as of July 1, 1991, which amended and restated the Lease dated as of September 1, 1977, 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

Incorporation of Indenture; Definitions

Section 1.1. Indenture Incorporated Herein. This Lease is made and executed contemporaneously with a document entitled Second Amended and Restated Trust Indenture dated as of September 1, 1994 (herein called the "Indenture"), which amends and restates the Amended and Restated Trust Indenture dated as of July 1, 1991, which amended and restated the Trust Indenture dated as of September 1, 1977, to each of 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.

ARTICLE II

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 and the 1994 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 its 1991 Bonds and proposes to issue its 1994 Bonds as provided in the Indenture and the Bond Resolution. Lessor's 1994 Bonds shall be in the aggregate principal amount of \$13,000,000, 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 1994 Bonds are issued as Additional Bonds under the 1991 Indenture and are secured under the Indenture on a parity basis with the 1977 Bonds and the 1991 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, the 1991 Project and the 1994 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 facility" 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 facility" 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 thereafter 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, the 1991 Project and the 1994 Project, have been and will be constructed, acquired or installed as the case may be, in such a manner as to conform with all applicable zoning, planning, environmental and building regulations or the governmental

authorities having jurisdiction of the 1977 Project, the 1991 Project and the 1994 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 of 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 1994 Bonds plus income from the investment thereof will be used to pay the costs of acquiring,

equipping, renovating or constructing the 1994 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 1994 Bonds will be used to pay the costs of issuance of the 1994 Bonds including, without limitation, the fees and expenses of Bond Counsel or the underwriter's spread incurred in connection with the sale of the 1994 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 Section 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 the purposes from the organization and purposes previously disclosed to the Internal Revenue Service.

(n) The proceeds of the 1994 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" or the Lessee within the meaning of Section 513(a) of the Code.

(o) The Lessee will not use or cause any portion of the 1994 Project to be used or invest the proceeds of the 1994 Bonds or any other amounts held by the Trustee under the Indenture, or any investment earnings thereon, in a manner that will cause the 1994 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 1994 Bonds to be treated as "federally guaranteed" obligations for purposes of Section 149(b) of the Code, as many 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 1994 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 1994 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 1994 Bonds will not exceed 120% of the reasonably expected remaining economic life of the 1994 Project, taking into account the respective cost of each item comprising the 1994 Project. For purposes of the preceding sentence, the reasonably expected remaining economic life of each component of the 1994 Project shall be determined as of the date on which the 1994 Bonds are issued. In addition, land shall not be taken into account in determining the reasonably expected remaining economic life of the 1994 Project, except that, in the event 25% or more of the proceeds of the 1994 Bonds originally issued to finance the 1994 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 1994 Project.

(s) The Lessee will not permit to be outstanding at any time tax-exempt nonhospital bonds for which the Lessee is the test-period beneficiary in a cumulative face amount exceeding \$150,000,000 within the meaning of Section 145(b) of the Code.

(t) No amount of net proceeds of the 1994 Bonds will be used, directly or indirectly, to provide any airplane, sky-box or other luxury box, facility primarily used 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 501(c)(3) of the Code.

(u) None of the proceeds of the 1994 Bonds will be used directly or indirectly to provide residential rental housing 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, the 1991 Bonds and the 1994 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 constitute a default under any of the foregoing, or result 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.

(z) In the event that any transfer, sales, use, value-added or other similar tax is imposed by the State of Oregon on Rental Amounts payable under this Lease, or on payments of principal of and interest on the Bonds, or on both, Lessee agrees to pay all such taxes as and when due; provided, however, that nothing set forth herein shall require Lessee to pay any transfer, sales, use, value-added or similar tax payable upon the transfer of any Bonds.

Section 2.3 Additional Representations and Covenants. In addition to the representations and covenants set forth in the preceding Section, Lessee makes and reaffirms, with respect to the 1991 Bonds and the proceeds thereof, the representations and covenants set forth in paragraphs (i), (k), (n), (o), (p), (q), (r), (s), (t) and (u) of Section 2.3 of the 1991 Lease.

Section 2.4. 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 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.

ARTICLE III

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 and the 1994 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 1991 Project and the 1994 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 1991 Project and the 1994 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 1991 Project and the 1994 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 1991 Project and the 1994 Project shall proceed with all reasonable dispatch; (ii) that the acquisition and installation 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 1991 Completion Date and the 1994 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 1991 Project, Lessor previously has issued the 1991 Bonds and has deposited the proceeds thereof as required in the Indenture. To provide funds for the 1994 Project, Lessor has, concurrently with the execution of this Lease, issued and delivered to the initial purchaser thereof the 1994 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 1991 Project and the 1994

Project should not be sufficient to pay the costs thereof in full, Lessee agrees, for the benefit of Lessor, to complete the 1991 Project and the 1994 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 1991 Project and/or the 1994 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 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 1991 Project and the 1994 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, if any, 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 and 1994 Bonds. (1) Lessor and Lessee hereby covenant that they will restrict the use of the 1991 Bond proceeds and the 1994 Bond proceeds in such manner and to such extent, if any, as may be necessary, to insure that the 1991 Bonds and the 1994 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, any 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 has 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 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 reaffirms all representations and warranties made as to the 1991 Bonds and the 1994 Bonds in any 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 1994 Bonds, the amount of \$260,000.

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 1994 Bonds have been paid, the Trustee shall transfer any moneys remaining as to the 1994 Bonds in the 1994 Bond Issuance Cost Account, at the option of the Lessee, to the 1994 Bond Principal Account, the 1994 Bond Interest Account or, if such certificate is received prior to the 1994 Completion Date, to the 1994 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 Section 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 1994 Project, September 1, 1997, 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 unto 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.

ARTICLE V

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

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

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, 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 facility" as defined under the Act, and (ii) such grant or release will not impair the character or significance of such Project as a "hospital facility" as defined under the Act.

Section 7.7. Annual Audit and Financial Statements. Within 120 days after the close of each fiscal year, 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 to the Trustee, and to cause the Trustee to make such documents available to the Underwriter, each Rating Agency and the Bondholders upon request; and (b) to provide, upon written request (which request shall be deemed to be continuing until revoked in writing) by the Underwriter, a Rating Agency, any Bondholder of at least 20% of the aggregate principal amount of the then Outstanding 1991 Bonds or any Bondholder of at least \$100,000 of the aggregate principal amount of the then Outstanding 1994 Bonds, copies of the Lessee's unaudited quarterly financial statements, within 45 days after the end

of each quarter and shall make available to the recipients of such financial statements appropriate officers of the Lessee to respond to questions during normal business hours, regarding such 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, or (iii) continuing care housing facilities which provide ready access to various types of outpatient care services provided by Lessee and/or affiliated entities, 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 have 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 extended 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; earthquakes; 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 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 it 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 agrees to waive, to the extent it

may lawfully do so, the benefit of all appraisal, valuation, stay, extension or redemption laws now or hereafter in force, and all right of appraisal 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 of the 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 taking 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 arrangements 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 to 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. Option 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 Amended Loan Agreement held in escrow by the Trustee and executed by the Lessor and the Lessee simultaneously with the issuance and delivery of the 1994 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 Amended 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 Amended Loan Agreement was duly executed and constitutes a valid and binding obligation of the parties thereto enforcement in accordance with its terms. The Amended Loan Agreement may be further amended as provided in the Indenture and in the Amended 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) hereof, the rights and title of the condemning authority.

ARTICLE XI

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 communication 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 Section 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 to 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, the 1991 Project, the 1994 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, the 1991 Project, the 1994 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 expenses (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 action taken by the Lessee under this sentence, including cooperating with the Lessee in any legal or administrative proceeding 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

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, and as further amended and restated by the Second Amended and Restated Guaranty Agreement dated as of September 1, 1994, (collectively the "Guaranty Agreement"), between the Lessee, Klamath Care Services, Inc. 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 September, 1994.

LESSOR:

KLAMATH FALLS INTERCOMMUNITY
HOSPITAL AUTHORITY

By: 

Donald A. Boyd, Chair

LESSEE:

MERLE WEST MEDICAL CENTER

By: 

Paul Stewart, President

By: 

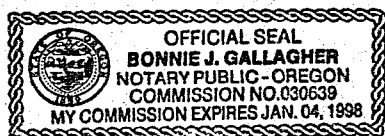
Eleanor C. Ehlers, Secretary

STATE OF OREGON)
) ss.
County of Multnomah)

September 27, 1994.

Personally appeared Donald A. Boyd, who being fully sworn, did say that he is the Chair of the Board of Directors of the 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:



Bonnie J. Gallagher
NOTARY PUBLIC FOR OREGON
My Commission Expires: 1-4-98

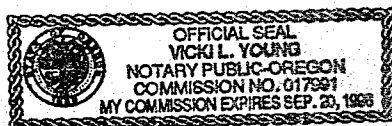
31112

STATE OF OREGON

County of Klamath)
) ss.
)September 29, 1994.

Personally appeared Eleanor C. Ehlers who being fully sworn, did say that she is the Secretary of the 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 she acknowledged this instrument to be its voluntary act and deed.

Before me:



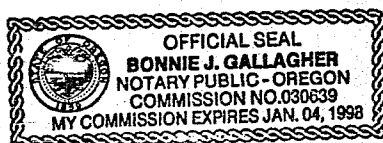
Vicki L. Young
NOTARY PUBLIC FOR OREGON
My Commission Expires: 9-20-96

STATE OF OREGON)
) ss.
County of Multnomah)

September 27, 1994.

Personally appeared Paul Stewart, who being fully sworn, did say that he is the President 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:



Bonnie J. Gallagher
NOTARY PUBLIC FOR OREGON
My Commission Expires: 1-4-98

HOSPITAL FACILITIES DESCRIPTION

31114

EXHIBIT "A"
to Second Amended and Restated Lease
DESCRIPTION OF PROPERTY

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

PARCEL 1: HOSPITAL

A:

A parcel of land situate in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ 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 SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 20, Township 38 South, Range 9 East of the Willamette Meridian; thence S. 0°46' W. along the East line of said SW $\frac{1}{4}$ NE $\frac{1}{4}$ 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 SW $\frac{1}{4}$ NE $\frac{1}{4}$; thence N. 0°51' E. along said West line a distance of 381.24 feet, more or less, to the Northwest corner of said SW $\frac{1}{4}$ NE $\frac{1}{4}$; thence S. 89°21' E. along the North line of said SW $\frac{1}{4}$ NE $\frac{1}{4}$ 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 SE $\frac{1}{4}$ NW $\frac{1}{4}$ 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 SE $\frac{1}{4}$ NW $\frac{1}{4}$ 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 SE $\frac{1}{4}$ NW $\frac{1}{4}$ 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 SE $\frac{1}{4}$ NW $\frac{1}{4}$; 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 SE $\frac{1}{4}$ NW $\frac{1}{4}$ 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 SE $\frac{1}{4}$ NW $\frac{1}{4}$; 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 $26^{\circ}58'19''$ and a radius of 677.34 feet, a distance of 318.86 feet to a point; thence on a line which bears S. $38^{\circ}16'30''$ 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. $51^{\circ}43'30''$ W., along said line, a distance of 517.0 feet to the most Southerly corner of Lot 7, said Block 9; thence N. $38^{\circ}16'30''$ 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 NE $\frac{1}{4}$ SW $\frac{1}{4}$ 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. $51^{\circ}43'30''$ 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. $19^{\circ}21'$ E. a distance of 37.84 feet; thence S. $89^{\circ}34'30''$ 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 $26^{\circ}58'19''$ and a radius of 677.34 feet, a distance of 318.86 feet to a point; thence on a line which bears S. $38^{\circ}16'30''$ 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. $51^{\circ}43'30''$ W., along said line, a distance of 517.0 feet to the most Southerly corner of Lot 7, said Block 9; thence N. $38^{\circ}16'30''$ E. along the Southeasterly line of said Lot 7 and the extension thereof, 150.0 feet to the point of beginning.

TOGETHER with portion of Vacated Dahlia Street which inurred thereto.
EXCEPT that portion of the above described property lying in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ 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 Northwest right of way line of Sloan Street; thence South $38^{\circ}16'30''$ 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 $51^{\circ}43'30''$ West along said right of way line, a distance of 25.00 feet; thence South $38^{\circ}16'30''$ West a distance of 100.0 feet, thence North $51^{\circ}43'30''$ West a distance of 175.0 feet; thence North $38^{\circ}16'30''$ 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 $8^{\circ}18'30''$ 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.

PARCEL 5: CRYSTAL TERRACE

The SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 20, Township 38 South, Range 9 East of the Willamette Meridian, SAVING AND EXCEPTING therefrom the portion conveyed to State of Oregon, acting by and through the Oregon State Board of Higher Education, by deed records July 28, 1961, in Volume 331 of Deeds page 299, records of Klamath County, Oregon AND ALSO SAVING AND EXCEPTING therefrom that portion conveyed to Presbyterian Inter-community Hospital, Inc., an Oregon non-profit corporation, by Deed Volume 355 on page 643, Records of Klamath County, Oregon.

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Klamath County Title Co the 4th day
of Oct A.D., 19 94 at 2:56 o'clock P.M., and duly recorded in Vol. M94
of Deeds on Page 31072.

FEE \$255

Evelyn Biehn County Clerk

By *Pauline Y. Miller*