

\$188,265,000**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY****Refunding Revenue Bonds****(STANFORD HOSPITAL AND CLINICS)****\$104,100,000**
2008 Series A-2**\$84,165,000**
2008 Series A-3**2008 Series A-2 Reoffering Date:** June 15, 2011**Due:** As set forth on inside cover hereof**2008 Series A-3 Reoffering Date:** June 16, 2011**Due:** As set forth on inside cover hereof

This Reoffering Circular has been prepared to provide information concerning the remarketing of the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2 and 2008 Series A-3 (the “2008 A-2 Bonds” and the “2008 A-3 Bonds”, together, the “Bonds”), following the mandatory tender of the 2008 A-2 Bonds on June 15, 2011 and the mandatory tender of the 2008 A-3 Bonds on June 16, 2011, in connection with the reoffering of the Bonds in a Long Term Rate Mode to maturity. Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities LLC will serve as the remarketing agents for the Bonds.

The 2008 A-2 Bonds were issued on June 2, 2008 in the original aggregate principal amount of \$104,100,000 and the 2008 A-3 Bonds were issued on June 2, 2008 in the original aggregate principal amount of \$85,700,000, pursuant to an Indenture, dated as of June 1, 2008, as amended and supplemented (the “Indenture”), between the California Health Facilities Financing Authority (the “Authority”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Other Bonds (described herein) were also issued on June 2, 2008 pursuant to the Indenture. The Bonds and the Other Bonds are referred to herein as the “2008 Bonds.” The 2008 A-2 Bonds currently bear interest at a Weekly Rate. Payments of principal, interest and purchase price with respect to the 2008 A-2 Bonds have been secured by a letter of credit that will terminate pursuant to its terms upon conversion of the 2008 A-2 Bonds to the Long Term Rate Mode on June 15, 2011. The 2008 A-3 Bonds currently bear interest at a Long Term Rate in a Long Term Rate Period that will end on June 15, 2011. At the direction of Stanford Hospital and Clinics (the “Corporation”), the interest rate mode for the 2008 A-2 Bonds will be converted to the Long Term Rate Mode for the period beginning June 15, 2011 and ending on the day next preceding the final maturity date of the 2008 A-2 Bonds. It is expected that the 2008 A-3 Bonds will be continued in the Long Term Rate Mode with a new Long Term Rate Period beginning June 16, 2011 and ending on the day next preceding the final maturity date of the 2008 A-3 Bonds. Interest on the Bonds in the Long Term Rate Mode will be payable on each May 15 and November 15, commencing November 15, 2011. The Bonds will not be secured by a letter of credit or any other credit enhancement upon the reoffering of the Bonds in the Long Term Rate Mode as described herein. The 2008 A-3 Bonds were originally issued in the aggregate principal amount of \$85,700,000. The reduction in the principal amount of the 2008 A-3 Bonds to be reoffered is a result of the remarketing of the 2008 A-3 Bonds at a premium and application of that premium, together with Corporation funds, to reduce the principal amount of the 2008 A-3 Bonds outstanding by \$1,535,000 effective June 16, 2011.

The 2008 Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and a Loan Agreement, dated as of June 1, 2008 (the “Loan Agreement”), between the Authority and the Corporation, and are payable from Revenues, which consist primarily of all amounts received by the Authority or the Trustee for the account of the Authority pursuant to or with respect to the Loan Agreement and Obligation No. 19 issued under the Master Indenture, described herein. Under the Master Indenture, the Corporation and any future Members of the Obligated Group are jointly obligated to make payments on Obligation No. 19 in an amount sufficient to pay the principal of and interest on the 2008 Bonds, when due.

The Bonds are offered in denominations of \$5,000 or any integral multiple thereof, and are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. The Bonds are subject to optional, special and mandatory redemption prior to maturity as described herein.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors should read the entire Reoffering Circular to obtain information essential to the making of an informed investment decision.

On June 2, 2008, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, delivered its opinion that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2008 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Bond Counsel’s opinion also stated that interest on the 2008 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2008 Bonds. In the opinions of Bond Counsel, to be dated June 15, 2011 with respect to the reoffering of the 2008 A-2 Bonds and to be dated June 16, 2011 with respect to the reoffering of the 2008 A-3 Bonds, the reoffering of the Bonds in a Long Term Rate Mode as described herein will not, in and of itself, adversely affect the exclusion of interest on the 2008 Bonds from gross income for purposes of federal income taxation. Bond Counsel is not rendering any opinion on the current tax status of the 2008 Bonds. See “TAX MATTERS” herein.

The Bonds are being remarketed at the direction of the Corporation. The Authority has not participated in the preparation of this Reoffering Circular, makes no representation with respect hereto and is not in any manner responsible for any of the information contained herein.

MORGAN STANLEY**GOLDMAN, SACHS & CO.****J.P. MORGAN**

June 8, 2011

† See “RATINGS” herein.

\$104,100,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Refunding Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)
2008 Series A-2

\$7,475,000 Serial Bonds

Maturity (November 15)	Principal Amount	Interest Rate	Yield	CUSIP†
2011	\$ 900,000	1.00%	0.47%	13033LMV6
2012	425,000	3.00	1.05	13033LMW4
2013	1,025,000	4.00	1.39	13033LMX2
2014	400,000	4.00	1.78	13033LMY0
2015	1,000,000	5.00	2.10	13033LMZ7
2016	625,000	4.00	2.39	13033LNA1
2017	625,000	4.00	2.76	13033LNB9
2018	700,000	4.00	3.10	13033LNC7
2019	325,000	4.00	3.39	13033LND5
2020	1,000,000	5.00	3.62	13033LNE3
2021	450,000	5.00	3.81	13033LNF0

\$96,625,000 5.25% Term Bond due November 15, 2040 - Price to Yield 5.33% CUSIP† 13033LNG8

\$84,165,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Refunding Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)
2008 Series A-3

\$6,075,000 Serial Bonds

Maturity (November 15)	Principal Amount	Interest Rate	Yield	CUSIP†
2011	\$750,000	1.00%	0.47%	13033LNH6
2012	350,000	3.00	1.05	13033LNJ2
2013	825,000	3.00	1.39	13033LNK9
2014	300,000	3.00	1.78	13033LNL7
2015	800,000	4.00	2.10	13033LNM5
2016	525,000	4.00	2.39	13033LNN3
2017	525,000	4.00	2.76	13033LNP8
2018	550,000	3.00	3.10	13033LNQ6
2019	275,000	4.00	3.39	13033LNR4
2020	800,000	5.00	3.62	13033LNS2
2021	375,000	4.00	3.81	13033LNT0

\$78,090,000 5.50% Term Bond due November 15, 2040 - Price to Yield 5.30% ‡ CUSIP† 13033LNU7

† A registered trademark of The American Bankers Association. CUSIP is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. None of the Authority, the Corporation, or any of the Remarketing Agents assume any responsibility for the accuracy of such numbers.

‡ Priced to optional redemption date of November 15, 2021.

This Reoffering Circular does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds, and, if given or made, such information or representation must not be relied upon.

All information set forth herein has been obtained from the Corporation and other sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Circular nor any sale of the Bonds made hereunder shall create under any circumstances any indication that there has been no change in the affairs of the Corporation since the date hereof. The Remarketing Agents have provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agents have reviewed the information in this Reoffering Circular in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE REOFFERING OF THE BONDS, THE REMARKETING AGENTS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THAT WHICH OTHERWISE MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS REOFFERING CIRCULAR

Certain statements included in this Reoffering Circular constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained under the caption “BONDHOLDERS’ RISKS” and under the caption “SUMMARY OF FINANCIAL INFORMATION—Management’s Discussion and Analysis” in APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS.”

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

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INTRODUCTION

General

This Reoffering Circular has been prepared to provide information concerning the remarketing of the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2, in the aggregate principal amount of \$104,100,000 (the “2008 A-2 Bonds”), and 2008 Series A-3, in the aggregate principal amount of \$84,165,000 (the “2008 A-3 Bonds” and, together with the 2008 A-2 Bonds, the “Bonds”), following the mandatory tender of the 2008 A-2 Bonds on June 15, 2011 and the mandatory tender of the 2008 A-3 Bonds on June 16, 2011, in connection with the reoffering of the Bonds in a Long Term Rate Mode to maturity.

The Bonds and the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1, B-1 and B-2 (collectively, the “Other Bonds”) were issued on June 2, 2008 pursuant to an Indenture, dated as of June 1, 2008, as amended and supplemented (the “Indenture”), between the California Health Facilities Financing Authority (the “Authority”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Bonds and the Other Bonds are referred to herein as the “2008 Bonds.” The 2008 A-2 Bonds currently bear interest at a Weekly Rate, and the last day of the Weekly Mode will be June 14, 2011. Payments of principal, interest and purchase price with respect to the 2008 A-2 Bonds have been secured by a letter of credit that will terminate pursuant to its terms upon conversion of the 2008 A-2 Bonds to the Long Term Rate Mode on June 15, 2011. The 2008 A-3 Bonds currently bear interest at a Long Term Rate in a Long Term Rate Period that will end on June 15, 2011.

At the direction of Stanford Hospital and Clinics (the “Corporation”), the interest rate mode for the 2008 A-2 Bonds will be converted to the Long Term Rate Mode for the period beginning June 15, 2011 and ending on the day next preceding the final maturity date of the 2008 A-2 Bonds. It is expected that the 2008 A-3 Bonds will be continued in the Long Term Rate Mode with a new Long-Term Rate Period beginning June 16, 2011 and ending on the day next preceding the final maturity date of the 2008 A-3 Bonds. Interest on the Bonds in the Long Term Rate Mode will be payable on each May 15 and November 15, commencing November 15, 2011. The Bonds will not be secured by a letter of credit or any other credit enhancement upon the reoffering of the Bonds in the Long Term Rate Mode as described herein.

The 2008 A-3 Bonds were originally issued in the aggregate principal amount of \$85,700,000. The reduction in the principal amount of the 2008 A-3 Bonds to be reoffered is a result of the remarketing of the 2008 A-3 Bonds at a net premium and application of that premium, together with other funds of the Corporation, to reduce by \$1,535,000 the Mandatory Sinking Account Payment due on the 2008 A-3 Bonds November 15, 2040, effective June 16, 2011.

The Bonds, together with the Other Bonds, were issued for the purpose of refunding five prior series of bonds issued by the Authority for the benefit of the Corporation in 2006.

Stanford Hospital and Clinics

The Corporation operates Stanford Hospital, a tertiary, quaternary and specialty teaching hospital (the “Hospital”), and the Stanford University clinics (the “Clinics”), which include primary, specialty and sub-specialty clinics, in which the medical faculty of the Stanford University School of Medicine provide clinical services. The Corporation serves as the principal teaching affiliate of the Stanford University School of Medicine with respect to providing primary and specialty health services to adults and operates its facilities to provide the clinical settings through which the Stanford University School of Medicine

educates medical and graduate students, trains residents and clinical fellows, supports faculty clinicians and conducts medical and biological sciences research. The principal facilities of the Hospital and the Clinics are located on the campus of Stanford University adjacent to its School of Medicine and elsewhere in Palo Alto, California and in nearby communities.

For additional information concerning the Corporation, its facilities and operations, including certain financial and statistical data, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS.”

The Corporation is solely responsible for the payment of principal of and interest on the Bonds. Neither Stanford University nor any legal entity other than the Corporation is obligated to make any such payments. Stanford University and the Corporation are not co-guarantors of the debt of each other, and each is separately rated by the rating agencies.

Security for the Bonds

The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture, and are payable on a pro rata basis with the Other Bonds solely from payments (the “Loan Repayments”) made by the Corporation under the Loan Agreement, dated as of June 1, 2008 (the “Loan Agreement”), between the Authority and the Corporation, from Revenues, which consist primarily of all amounts received by the Authority or the Trustee for the account of the Authority pursuant to or with respect to the Loan Agreement and Obligation No. 19 issued under the Master Indenture. The amounts required to be paid under the Loan Agreement and Obligation No. 19 are required to be equal to debt service on all of the 2008 Bonds and other amounts specified therein, including the purchase price of 2008 Bonds that have been tendered for purchase and not remarketed. All capitalized terms used in this Reoffering Circular and not otherwise defined in this Reoffering Circular shall have the meanings assigned to such terms in the Indenture or the Master Indenture (hereinafter defined), as applicable. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS, DEFINITIONS OF CERTAIN TERMS.”

The obligation of the Corporation under the Loan Agreement with respect to the Bonds is further evidenced and secured by an obligation (“Obligation No. 19”) issued under the Master Indenture of Trust, dated as of December 1, 1990, as amended and supplemented, including as supplemented by the Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008 (“Supplement No. 19”), between the Corporation and the Master Trustee (the “Master Indenture”), between the Corporation, formerly known as Stanford University Hospital, and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the “Master Trustee”). Obligation No. 19, the outstanding Obligations relating to other indebtedness and obligations of the Corporation (as described below) and any other Obligations issued in the future under the Master Indenture (each an “Obligation” and collectively, the “Obligations”) are secured by security interests in (i) the Gross Revenues of each Member of the Obligated Group and (ii) the moneys on deposit from time to time in the Gross Revenue Fund under the Master Indenture. Currently, the Corporation is the only Member of the Obligated Group created pursuant to the Master Indenture. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS” herein.

The Corporation intends to amend and restate the Master Indenture through an Amended and Restated Master Indenture of Trust which will go into effect when the Corporation secures the consent of the Holders of a majority in aggregate principal amount of Obligations outstanding under the Master Indenture, which the Corporation expects to obtain in connection with the reoffering of the Bonds and the reoffering described under the caption “RELATED REOFFERING” herein. However, one provision of the Amended and Restated Master Indenture of Trust will not go into effect until the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations outstanding. See

“SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Proposed Amended and Restated Master Indenture” herein.

Additional Indebtedness

No bonds other than the 2008 Bonds were, or may be, issued under the Indenture. However, as described below under “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS,” the Corporation is permitted to incur additional indebtedness under the Master Indenture, subject to the financial tests and limitations set forth therein and described in APPENDIX C attached hereto. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS - MASTER INDENTURE—Covenants—Limitations on Additional Indebtedness.”

For a description of certain events that are expected to require the incurrence of additional indebtedness of the Corporation, see “SERVICES, FACILITIES AND OPERATIONS—Long-Range Financial Plan and Additional Capital Needs” in APPENDIX A attached hereto.

Bondholders’ Risks

There are risks associated with the purchase of the Bonds. See “BONDHOLDERS’ RISKS” for a discussion of certain of these risks.

Availability of Documents

Copies of the Master Indenture, Supplement No. 19, the Indenture, the Loan Agreement, Obligation No. 19 and the Continuing Disclosure Agreement (hereinafter described), each as executed and delivered, may be examined or obtained at the expense of the person requesting the same at the corporate offices of the Corporation or at the designated corporate trust office of the Trustee.

THE BONDS

The following is a summary of certain provisions of the Bonds which will apply after the reoffering of the Bonds in a Long Term Rate Mode which will remain in effect until the final maturity of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such references.

General

The Bonds have been delivered in fully registered form without coupons and are registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC acts as securities depository for the Bonds. Upon the reoffering in a Long Term Rate Mode to maturity of the 2008 A-2 Bonds on June 15, 2011 and the 2008 A-3 Bonds on June 16, 2011, ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Principal of and interest on the Bonds is payable by the Trustee to DTC, which is obligated, in turn, to remit the principal, interest and premium to DTC Participants, upon DTC’s receipt of funds and corresponding detailed information from the Trustee or the Authority, for subsequent disbursement to beneficial owners of such Bonds. The Corporation cannot and does not give any assurances that DTC will distribute to DTC Participants or that DTC Participants or others will distribute to the Beneficial Owners payments of principal of and interest on the Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Reoffering Circular. The Corporation is not responsible or liable for the failure of DTC or any DTC Participant or DTC Indirect Participant to make any payments or give any notice to a Beneficial Owner

with respect to the Bonds or any error or delay relating thereto. See APPENDIX E – “BOOK-ENTRY SYSTEM.”

Interest on the Bonds

The Bonds of each maturity will accrue interest in the Long Term Rate Mode to their respective maturity dates, beginning June 15, 2011 with respect to the 2008 A-2 Bonds, and June 16, 2011 with respect to the 2008 A-3 Bonds. The Bonds will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on May 15 and November 15 of each year; provided, however, that if any May 15 or November 15 is not a Business Day, then the first Business Day immediately succeeding such May 15 or November 15, as applicable (each, an “Interest Payment Date”), commencing November 15, 2011, to the person whose name appears on the bond registration books of the Trustee as the Holder thereof as of the close of business on the Record Date (which will be the first day of the month, whether or not a Business Day, in which an Interest Payment Date occurs) for each Interest Payment Date (except with respect to interest in default, for which a special record date shall be established).

If the book-entry system for the Bonds is ever discontinued, payment of interest on the Bonds will be made by check mailed by first-class mail on each Interest Payment Date to each Holder as of the Record Date for such Interest Payment Date at its address as it appears on the bond registration books maintained by the Trustee or, at the written request of any Holder of at least one million dollars (\$1,000,000) in aggregate principal amount of a Series of Bonds, submitted to the Trustee on or before the Record Date for the applicable Interest Payment Date, by wire transfer in immediately available funds to an account within the United States designated by the Holder. Payment of the principal or redemption price of Bonds will then be payable upon presentation and surrender of the Bonds at the corporate trust office of the Trustee.

Redemption

Optional Redemption. The Bonds maturing on or after November 1, 2022 are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised upon Request of the Corporation, a copy of which Request shall be delivered to the Trustee not less than twenty (20) days prior to the date fixed for such redemption, or such shorter period as agreed to in writing by the Trustee in its sole discretion), in whole or in part (and, if in part, in such amounts as may be specified by the Corporation and in Authorized Denominations), by lot on any date on or after November 15, 2021, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest, if any, to the date fixed for redemption.

Sinking Account Redemption. Effective June 15, 2011, the 2008 A-2 Bonds maturing on November 15, 2040 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amounts set forth below, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2022	\$ 1,000,000
2023	775,000
2024	800,000
2025	800,000
2026	600,000
2027	1,150,000
2028	625,000
2029	1,150,000
2030	1,025,000
2031	800,000
2032	6,100,000
2033	6,025,000
2034	6,600,000
2035	6,600,000
2036	7,000,000
2037	13,000,000
2038	13,700,000
2039	14,250,000
2040 [†]	14,625,000

[†] Final Maturity

Sinking Account Redemption. Effective June 16, 2011, the 2008 A-3 Bonds maturing on November 15, 2040 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amounts set forth below, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2022	\$ 800,000
2023	650,000
2024	675,000
2025	675,000
2026	500,000
2027	925,000
2028	525,000
2029	925,000
2030	825,000
2031	675,000
2032	5,000,000
2033	4,975,000
2034	5,425,000
2035	5,425,000
2036	5,750,000
2037	10,675,000
2038	11,300,000
2039	11,725,000
2040 [†]	10,640,000 ^{††}

[†] Final Maturity

^{††} Assumes application of premium associated with remarketing of 2008 A-3 Bonds, together with other Corporation funds, to reduce amount of Mandatory Sinking Account Payment due November 15, 2040.

Special Redemption. The Bonds are subject to special redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised upon Request of the Corporation, a copy of which Request shall be delivered to the Trustee not less than 20 days prior to the date fixed for such redemption, or such shorter period as agreed to in writing by the Trustee), in whole or in part (and, if in part, in such amounts as may be specified by the Corporation, and by lot among the Bonds and in Authorized Denominations), on any date specified by the Corporation, from hazard insurance or condemnation proceeds received with respect to the facilities of the Corporation and deposited in the Special Redemption Account, at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Purchase In Lieu of Redemption. Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond, at any time such Bond is subject to optional redemption as provided in the Indenture at a Purchase Price equal to the Redemption Price then applicable to such Bond. In order to exercise such option, the Corporation shall deliver to the Trustee and the Authority a Favorable Opinion of Bond Counsel to the effect that such purchase, will not, in and of itself cause the interest on the Bonds to be included in gross income, and the Corporation shall direct the Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the

extent applicable, in accordance with the Indenture. On the date fixed for purchase of any Bond in lieu of redemption, the Corporation shall pay the Purchase Price of such Bond to the Trustee in immediately available funds and the Trustee shall pay the same to the Holders of Bonds being purchased against delivery thereof. Following such purchase, the Trustee shall register such Bonds in accordance with the written instructions of the Corporation. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness evidenced by such Bond. No Holder may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed, from all the Bonds subject to redemption or such given portion thereof equal to a multiple of Authorized Denominations of the Bonds not previously called for redemption, by lot or in any manner which the Trustee in its sole discretion shall deem appropriate.

Notice of Redemption. Notice of redemption shall be given by the Trustee by first class mail, postage prepaid, not less than 15 days, nor more than 60 days prior to the redemption date, to the respective holders of any the Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Each notice of redemption shall be dated and shall state (i) the date of issue of the Bonds, (ii) the redemption date, (iii) the Redemption Price, (iv) the place or places where the Bonds being redeemed shall be surrendered for payment of the Redemption Price (including the name and appropriate address or addresses of the Trustee, (v) the series and maturity date of the Bonds being redeemed, (vi) the CUSIP numbers, if any, and (vii) in the case of the Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice shall also state that on the redemption date there will become due and payable on each of said the Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of the Bonds designated for redemption shall not affect the validity or sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

With respect to any notice of optional redemption of the Bonds, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid pursuant to the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and interest on, such Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice to the Holders to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Trustee in the same manner and to the same parties, as notice of such redemption was given pursuant to the provisions of the Indenture. Such a failure to redeem Bonds as aforesaid shall not constitute an Event of Default.

Any notice given pursuant to the provisions of the Indenture described under this caption (other than a notice given in connection with a Mandatory Sinking Account Payment redemption) may be rescinded by written notice given to the Trustee by the Corporation no later than five Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as

practicable in the same manner, and to the same parties, as notice of such redemption was given pursuant to the Indenture.

Partial Redemption of the Bonds. Upon surrender of any Bond redeemed in part only, the Authority shall execute (but need not prepare) and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or the Bonds of Authorized Denominations and of the same series and maturity, equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

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

All the Bonds redeemed pursuant to the provisions of the Indenture described in this section, other than under the caption “Mandatory Purchase in Lieu of Redemption,” shall be cancelled and destroyed by the Trustee upon surrender thereof.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the Authority, payable on a pro rata basis with the Other Bonds solely from the Revenues pledged under the Indenture for such payment. Revenues consist primarily of Loan Repayments made by the Corporation pursuant to the Loan Agreement and Obligation No. 19 in amounts sufficient to pay the principal of, premium, if any, and interest on all 2008 Bonds, including the Bonds, when such become due. The Authority has assigned its right, title, and interest in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any administrative fees and expenses to the extent payable to the Authority, the right of the Authority to be indemnified pursuant thereto and the right to receive certain notices and opinions, to given consents and to make inspections) and Obligation No. 19 to the Trustee. The obligation of the Corporation to make the Loan Repayments with respect to all 2008 Bonds, including the Bonds, is evidenced and secured by Obligation No. 19. See “—The Master Indenture” below. No reserve fund was established in connection with the Bonds.

The Master Indenture

Joint and Several Obligations. Currently, the Corporation is the sole Member of the Obligated Group. Under the Master Indenture, the Corporation, as Obligated Group Representative, may incur, for itself and on behalf of the other Members of the Obligated Group, Indebtedness, which may be evidenced and secured by Obligations issued under the Master Indenture. All Members of the Obligated Group are jointly and severally liable with respect to the payment of each Obligation issued under the Master Indenture.

Obligation No. 19 was issued by the Corporation under and pursuant to the Master Indenture on a parity with all other Obligations issued or to be issued on behalf of the Members of the Obligated Group thereunder. See “Outstanding Obligations Under the Master Indenture” below. All Members of the Obligated Group are required to make payments on Obligation No. 19 in amounts sufficient to pay the principal of, redemption premium, if any, and interest on all 2008 Bonds, including the Bonds, when due. For a discussion of entry into or withdrawal from the Obligated Group, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Obligated Group Membership and Withdrawal.”

Outstanding Obligations Under the Master Indenture. Upon the reoffering of the Bonds, in addition to Obligation No. 19 there will be eight other Obligations outstanding under the Master Indenture. Two Obligations, Nos. 9 and 28, secure the Corporation’s obligations, respectively, under loan agreements with the Authority with respect to the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2003 Series A, which currently are outstanding in the aggregate principal amount of \$78,595,000, and the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2010 Series A and 2010 Series B, which currently are outstanding in the aggregate principal amount of \$296,055,000. Six Obligations, Nos. 13, 14, 21, 25, 29 and 30, secure the Corporation’s obligations to make regularly scheduled payments and, in limited circumstances, settlement payments, under existing interest rate swap agreements. For a discussion of the interest rate swap agreements that the Corporation has entered into, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information—Interest Rate Swap Arrangements.”

Security for Obligations. All Obligations issued and outstanding under the Master Indenture, including Obligation No. 19, which evidences and secures the Corporation’s obligations under the Loan Agreement, are secured by security interests in (i) the Gross Revenues of each Member of the Obligated Group and (ii) the moneys and investments on deposit from time to time in the Gross Revenue Fund created under the Master Indenture and held by the Master Trustee. For a description of the limitations on the enforceability of the Master Indenture, see “Risks Related to Master Indenture Financings, Fraudulent Transfer or Conveyance Statutes” and “Enforceability of Security Interests” herein.

Security Interest in Gross Revenues. Pursuant to the Master Indenture, the Corporation and each of the other Members of the Obligated Group, if any, grants a security interest in its Gross Revenues. The security interest in Gross Revenues has been perfected to the extent the same may be perfected by filing under the California Commercial Code. The California Commercial Code does not permit perfection by filing with respect to certain items included in Gross Revenues. Under certain circumstances, the security interest in Gross Revenues may be subordinated to the interests of creditors other than the Holders of Obligations.

The Gross Revenue Fund; Security Interest Therein. Under the Master Indenture, the Corporation and each of the other Members of the Obligated Group, if any, are required to deposit daily all of the cash proceeds of the Gross Revenues with a depository bank or banks (collectively, a “Depository”). Subject to the provisions of the Master Indenture permitting the moneys in the Gross Revenue Fund to be used as provided therein, the Corporation and each of the other Members of the Obligated Group, if any, grants a security interest in the Gross Revenue Fund to the Master Trustee. Such security interest has been perfected by the execution of an account control agreement with each Depository. See “Enforceability of Security Interests” herein and “Master Indenture—Gross Revenue Fund” in APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS.”

Additional Indebtedness. The Corporation and each of the other Members of the Obligated Group, if any, are permitted under the Master Indenture to incur additional Indebtedness, either unsecured

or secured by Permitted Encumbrances, subject to the financial tests and limitations contained in the Master Indenture. Additional Indebtedness need not be evidenced by Obligations issued under the Master Indenture. However, only Indebtedness represented by Obligations will be secured by the security interests in Gross Revenues and the Gross Revenue Fund on a parity with other Obligations. For a description of the financial tests and limits on additional indebtedness in the Master Indenture, see “Master Indenture—Covenants—Limitations on Additional Indebtedness” in APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS.”

Other Master Indenture Covenants. In addition to the security and other provisions described above, the Master Indenture contains provisions, covenants and restrictions related to rates and charges, mergers and other corporate combinations and divestitures, sales, leases or other dispositions of assets and other matters. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Covenants.”

Limitations on Enforceability. There are circumstances under which it is possible that the Master Indenture would not be enforced by courts, especially as to future Members of the Obligated Group. Also there are a number of circumstances under which the security interests, especially the security interest in Gross Revenues, may not be enforced or may be subordinated to the claims of others. See “BONDHOLDERS’ RISKS—Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes; Limitations on Enforceability of Security Interests; and Enforceability of the Loan Agreement” herein.

Proposed Amended and Restated Master Indenture

The Corporation intends to amend and restate the Master Indenture. For the form of the Amended and Restated Master Indenture of Trust (the “Amended Master Indenture”), see “APPENDIX G—FORM OF AMENDED AND RESTATED MASTER INDENTURE OF TRUST.” The Amended Master Indenture will not go into effect until the Corporation secures the consent of the Holders of a majority in aggregate principal amount of Obligations outstanding under the Master Indenture. The Amended Master Indenture also includes one provision which will not go into effect until the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations outstanding. See Section 4.14 of the Amended Master Indenture set forth in APPENDIX G to this Reoffering Circular.

By purchasing the Bonds offered hereunder, the purchasers and the Beneficial Owners will be deemed to have consented to the Amended Master Indenture and the amendment of Section 4.14. Upon completion of the reofferings described above and under the caption “RELATED REOFFERING,” the Corporation expects that it will file evidence with the Master Trustee that the Holders of a majority in aggregate principal amount of the Obligations Outstanding under the Master Indenture have consented to and approved the Amended Master Indenture. The Corporation expects that, upon execution of the Amended Master Indenture by the Corporation and the Master Trustee, and satisfaction of certain other conditions, the provisions of the Amended Master Indenture will take effect and supersede the provisions of the Master Indenture in their entirety with the exception of the amendment of Section 4.14 referred to above.

Security and Enforceability

Bankruptcy. In the event of bankruptcy of the Corporation, the rights and remedies of the Bondholders are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, payments made by the Corporation during the 90 day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the

extent such payments allow the recipients thereof to receive more than they would have received in the event of such entity's liquidation. Security interests and other liens granted to a Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of the Trustee therein. The rights of the Trustee to enforce its security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

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

In addition, the obligations of the Corporation under the Loan Agreement are not secured by a lien on or security interest in any assets or revenues of the Corporation, other than the lien on Gross Revenues and in the funds on deposit in the Gross Revenue Fund as described herein under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" securing all Obligations issued under the Master Indenture. Except with respect to such lien on Gross Revenues, in the event of a bankruptcy of the Corporation, Bondholders would be unsecured creditors and would be in an inferior position to any secured creditors and on a parity with all other unsecured creditors.

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

Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes. On the Reoffering Date, the Corporation will be the only Member of the Obligated Group, and, consequently, the risks described below in this section would not apply. However, should other institutions join the Obligated Group in the future, the risks described below would be relevant.

The state of insolvency, fraudulent transfer or conveyance and bankruptcy laws relating to the enforceability of obligations of one corporation in favor of the creditors of another, or the obligation of one member of an obligated group to make debt service payments on behalf of another member or the ability of a corporate parent to compel its affiliates or subsidiaries to make such payments is unsettled. The ability of the Master Trustee or the Corporation to compel one Member of the Obligated Group to make payment on behalf of another Member could be subject to challenge if such Member would, by make such payment, be rendered insolvent. In particular, such efforts by the Master Trustee or the Corporation may not be enforced under the Federal Bankruptcy Code or applicable state fraudulent transfer or conveyance statutes if the obligation to pay is incurred without "fair consideration" or

“reasonably equivalent value” to the obligor-Member and if the incurrence of the obligation renders the Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are matters of judicial discretion based upon subjective standards and may vary under the Bankruptcy Code and other statutes that may be applicable.

In addition a court could determine, in the event of a bankruptcy of a Member, that payments made on Obligation No. 19 by a bankrupt Member could constitute payments to or for the benefit of an insider, within the meaning of Section 547(b) of the Bankruptcy Code, which payments, if made within one year of the filing of the bankruptcy petition, might be recoverable by the bankruptcy court from the owners of the Bonds.

If a court were to find that a Member did not receive fair consideration or reasonably equivalent value for the incurrence of the indebtedness evidenced by Obligation No. 19 and such Member: (i) was insolvent; (ii) was rendered insolvent by such incurrence; (iii) was engaged in a business activity for which its remaining assets were unreasonably small; or (iv) intended (or believed) to incur, assume or issue, debt beyond its ability to pay, a court could determine to invalidate, the indebtedness represented by Obligation No. 19.

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

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the state or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

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

Enforceability of Security Interests. The security interest in Gross Revenues is perfected to the extent, and only to the extent, that such security interest may be perfected under the California Commercial Code. The foregoing grant of a security interest may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, and (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Revenues. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds, Medicare and Medi-Cal payments) prior to

actual receipt by the Corporation for deposit in the Gross Revenue Fund. To the extent that funds of the Obligated Group are not on deposit in the Gross Revenue Fund, the owners of Obligations, including Obligation No. 19, have no security interest in such funds.

RELATED REOFFERING

Of the Other Bonds previously issued for the benefit of the Corporation, the 2008 Series B-2 Bonds will be subject to mandatory tender on June 15, 2011, at which time the Corporation anticipates that the interest rate mode on the 2008 Series B-2 Bonds will be converted to the commercial paper mode. The 2008 Series B-2 Bonds are secured by Obligation No. 19 issued under the Master Indenture. The reoffering of the 2008 Series B-2 Bonds is not contingent upon the reoffering of the Bonds, nor is the reoffering of the Bonds contingent upon the reoffering of the 2008 Series B-2 Bonds.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation and future Members of the Obligated Group, if any, financial or operating data concerning the Authority is not material to an evaluation of the reoffering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority has not provided any such information. The Corporation, on behalf of the Obligated Group, has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the Authority has no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”).

In connection with the reoffering of the Bonds and the 2008 Series B-2 Bonds (the “Reoffered Bonds”), the Corporation, on behalf of the Obligated Group, will enter into a continuing disclosure agreement (the “Continuing Disclosure Agreement”) with Wells Fargo Bank, National Association, acting as Trustee and as dissemination agent. Pursuant to the Continuing Disclosure Agreement, the Corporation, for the benefit of Holders and Beneficial Owners of the Reoffered Bonds, will agree to provide for dissemination: (i) certain financial information and operating data relating to the Obligated Group by not later than 150 days following the end of the Corporation’s fiscal year (which currently is August 31) (the “Annual Report”), commencing with the report for the 2011 Fiscal Year (due January 28, 2012), and (ii) notices of the occurrence of certain enumerated events, as required by the Rule. The Annual Report and the notices of material events will be filed by the Corporation, in readable PDF or other acceptable electronic form, with the Electronic Municipal Market Access system (“EMMA”) of the Municipal Securities Rulemaking Board (the “MSRB”). See APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT” for the specific nature of the information to be contained in the Annual Report and the notices of material events. These covenants have been made in order to assist the Remarketing Agents in complying with the Rule. The Corporation has never failed within the previous five years to comply in all material respects with any previous undertaking that has been required with regard to the Rule to provide financial information and data, operating data or notices of material events.

The Corporation additionally has covenanted that it will provide, upon written request, to any Beneficial Owner of at least \$1,000,000 in aggregate principal amount of Reoffered Bonds, (i) not later than 60 days after the end of each fiscal quarter (except the fourth fiscal quarter), certain unaudited financial information for the Obligated Group for such fiscal quarter prepared by the Corporation and (ii) not later than 150 days following the end of each of the Corporation’s fiscal years, the Annual Report. See APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending November 15, the amounts required to be paid by the Corporation for payment of the principal, whether by payment at maturity or upon mandatory sinking account redemption, and interest on the 2008 A-2 Bonds and the 2008 A-3 Bonds. The table also includes the debt service on all other outstanding bonds previously issued for the benefit of the Corporation.

Year Ending November 15	2008 A-2 Bonds			2008 A-3 Bonds			Total Debt Service on Outstanding Bonds ¹	Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total		
2011	\$ 900,000	\$ 2,235,443	\$ 3,135,443	\$ 750,000	\$ 1,863,824	\$ 2,613,824	\$ 38,495,219	\$ 44,244,486
2012	425,000	5,356,063	5,781,063	350,000	4,495,700	4,845,700	38,652,270	49,279,033
2013	1,025,000	5,343,313	6,368,313	825,000	4,485,200	5,310,200	38,568,743	50,247,255
2014	400,000	5,302,313	5,702,313	300,000	4,460,450	4,760,450	38,617,644	49,080,407
2015	1,000,000	5,286,313	6,286,313	800,000	4,451,450	5,251,450	38,519,394	50,057,157
2016	625,000	5,236,313	5,861,313	525,000	4,419,450	4,944,450	38,747,608	49,553,370
2017	625,000	5,211,313	5,836,313	525,000	4,398,450	4,923,450	38,830,536	49,590,298
2018	700,000	5,186,313	5,886,313	550,000	4,377,450	4,927,450	39,388,948	50,202,710
2019	325,000	5,158,313	5,483,313	275,000	4,360,950	4,635,950	39,119,578	49,238,840
2020	1,000,000	5,145,313	6,145,313	800,000	4,349,950	5,149,950	39,072,356	50,367,618
2021	450,000	5,095,313	5,545,313	375,000	4,309,950	4,684,950	39,153,734	49,383,997
2022	1,000,000	5,072,813	6,072,813	800,000	4,294,950	5,094,950	39,024,763	50,192,525
2023	775,000	5,020,313	5,795,313	650,000	4,250,950	4,900,950	37,935,645	48,631,908
2024	800,000	4,979,625	5,779,625	675,000	4,215,200	4,890,200	37,938,636	48,608,461
2025	800,000	4,937,625	5,737,625	675,000	4,178,075	4,853,075	37,993,144	48,583,844
2026	600,000	4,895,625	5,495,625	500,000	4,140,950	4,640,950	38,427,428	48,564,003
2027	1,150,000	4,864,125	6,014,125	925,000	4,113,450	5,038,450	37,490,290	48,542,865
2028	625,000	4,803,750	5,428,750	525,000	4,062,575	4,587,575	38,492,173	48,508,498
2029	1,150,000	4,770,938	5,920,938	925,000	4,033,700	4,958,700	37,610,344	48,489,982
2030	1,025,000	4,710,563	5,735,563	825,000	3,982,825	4,807,825	37,911,415	48,454,803
2031	800,000	4,656,750	5,456,750	675,000	3,937,450	4,612,450	38,353,815	48,423,015
2032	6,100,000	4,614,750	10,714,750	5,000,000	3,900,325	8,900,325	28,775,961	48,391,036
2033	6,025,000	4,294,500	10,319,500	4,975,000	3,625,325	8,600,325	29,289,507	48,209,332
2034	6,600,000	3,978,188	10,578,188	5,425,000	3,351,700	8,776,700	28,675,528	48,030,415
2035	6,600,000	3,631,688	10,231,688	5,425,000	3,053,325	8,478,325	24,908,565	43,618,578
2036	7,000,000	3,285,188	10,285,188	5,750,000	2,754,950	8,504,950	24,920,236	43,710,373
2037	13,000,000	2,917,688	15,917,688	10,675,000	2,438,700	13,113,700	17,455,132	46,486,519
2038	13,700,000	2,235,188	15,935,188	11,300,000	1,851,575	13,151,575	17,481,565	46,568,328
2039	14,250,000	1,515,938	15,765,938	11,725,000	1,230,075	12,955,075	17,378,903	46,099,915
2040	14,625,000	767,813	15,392,813	10,640,000	585,200	11,225,200	17,021,561	43,639,573
2041	-	-	-	-	-	-	37,821,005	37,821,005
2042	-	-	-	-	-	-	37,635,249	37,635,249
2043	-	-	-	-	-	-	37,903,627	37,903,627
2044	-	-	-	-	-	-	37,861,442	37,861,442
2045	-	-	-	-	-	-	37,962,919	37,962,919
TOTAL	\$104,100,000	\$130,509,380	\$234,609,380	\$84,165,000	\$109,974,124	\$194,139,124	\$1,203,434,880	\$1,632,183,385

¹ Assumes that interest on each series of variable rate bonds outstanding is payable at the rate determined in accordance with the related interest rate swap transaction for such series to the final maturity of the related interest rate swap transaction. The interest rate swap transaction for the 2008 B-1 Bonds and 2008 B-2 Bonds terminates in 2016. For subsequent periods until maturity, assumes that interest on the 2008 B-1 Bonds and 2008 B-2 Bonds is payable at 4.0% per annum.

BONDHOLDERS' RISKS

The purchase of the Bonds involves investment risks that are discussed throughout this Reoffering Circular. Prospective purchasers of the Bonds should evaluate all of the information presented in this Reoffering Circular. This section on Bondholders' Risks focuses primarily on the general risks associated with hospital or health system operations, whereas APPENDIX A describes the Obligated Group specifically. These should be read together. This discussion is not intended to be comprehensive or definitive, but rather to summarize certain matters that could affect payment of the Bonds. Investors should recognize that the discussion below does not cover all such risks, that payment provisions for, and regulations and restrictions on, hospitals change frequently and that additional material payment limitations and regulations or restrictions may be created, implemented or expanded while the Bonds are Outstanding.

General

Except as noted under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the Bonds are payable on an equal and pro rata basis from Loan Repayments made pursuant to the Loan Agreement and funds provided under Obligation No. 19 and the Indenture. The Obligated Group's obligation to make the Loan Repayments with respect to the Bonds will be further evidenced and secured by Obligation No. 19 issued under the Master Indenture. All Obligations issued and Outstanding under the Master Indenture are secured by the security interests in the Gross Revenues and Gross Revenue Fund. **No representation or assurance can be made that revenues will be realized by the Obligated Group in amounts sufficient to make the Loan Repayments and hence the debt service on the Bonds.**

The Obligated Group is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and is subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare & Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), the Attorney General of the State of California (the "State"), and other federal, state and local government agencies. The future financial condition of the Obligated Group could be adversely affected by, among other things, changes in the method, timing and amount of payments to the Obligated Group by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental audits, inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., accountable care organizations and other health reform payment mechanisms), future changes in the economy, demographic changes, availability of physicians, nurses and other health care professionals, and malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation and any future Member of the Obligated Group under the Loan Agreement and Obligation No. 19 and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation and any future Obligated Group Member and, therefore, of the Bonds, could be adversely affected by, among other things, an adverse determination by a governmental entity, non-compliance with governmental regulations or legislative changes.

Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of the Obligated Group are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial condition

and results of operations of the Corporation or any future Member of the Obligated Group and, in turn, the ability of the Obligated Group to make payments under the Loan Agreement and Obligation No. 19.

Federal Health Care Reform. The federal health care reform legislation enacted in March 2010 contains extensive provisions and calls for the development of regulations that will take effect and be implemented over the course of the next eight years. This legislation addresses almost all aspects of hospital and provider operations, health care delivery and reimbursement. These changes will likely result in lower hospital and provider reimbursement, utilization changes, increased government enforcement and the necessity for health care providers to assess, and potentially alter, their business strategy and practices, among other consequences.

General Economic Conditions; Bad Debt, Indigent Care and Investment Performance. Health care providers are affected by the economic environment in which they operate. To the extent that employers reduce their workforces or budgets for employee health care coverage or private and public insurers seek to reduce payments to health care providers or curb utilization of health care services, health care providers may experience decreases in insured patient volume and reductions in payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local health care providers to increase free care. Furthermore, economic downturns and lower funding of Medicare and state Medicaid and other state health care programs may increase the number of patients who are unable to pay for their medical and hospital services. These conditions may give rise to increases in health care providers' uncollectible accounts, or "bad debt," and, consequently, to reductions in operating income. Declines in investment portfolio values may reduce or eliminate non-operating revenues. Losses in pension and benefit funds may result in increased funding requirements. Potential failure of lenders, insurers or vendors may negatively impact the results of operations and the overall financial condition of health care providers. Philanthropic support may also decrease or be delayed. For a discussion of these risks with regard to the Corporation, in particular the Corporation's recent results of operations and statement of financial position and performance of the Corporation's investments, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information."

Interest Rate Swaps and Hedge Risk. Interest rate swaps, which are relatively common in connection with certain tax-exempt bonds, have experienced negative trading patterns, causing many to cease to function effectively to hedge interest rate exposure. Some swap counterparties have ceased to exist and others have suffered repeated downgrading and negative market perception. Further, certain swap arrangements may not be terminable except upon the payment of termination fees by the borrowing party, which may be substantial in amount. In the interim, negative mark-to-market valuation of certain swap arrangements must be recorded on a borrower's balance sheet. These factors may have a material adverse impact on hospitals and health systems involved in such financial arrangements. For a discussion of the interest rate swap agreements that the Corporation has entered into, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information."

Rate Pressure from Insurers and Purchasers. Certain health care markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over the rates, utilization and competition of hospitals and other health care providers. Rate pressure imposed by health insurers or other major purchasers, including managed care payers, may have a material adverse impact on health care providers, particularly if major purchasers put increasing pressure on payers to restrain rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals and other health care providers in the form of payment shortfalls or delay, and

continuing obligations to care for managed care patients without receiving payment. In addition, disputes with non-contracted payers may result in an inability to collect billed charges from these payers.

Nonprofit Health Care Environment. The significant tax benefits received by nonprofit, tax-exempt hospitals may cause the business practices of such hospitals to be subject to scrutiny by public officials and the press, and to legal challenges of the ongoing qualification of such organizations for tax-exempt status. Practices that have been examined, criticized or challenged have included pricing practices, billing and collection practices, charitable care and executive compensation. Challenges to entitlement to exemption of property from real property taxation have succeeded from time to time. Multiple governmental authorities, including state attorneys general, the Internal Revenue Service (the “IRS”), Congress and state legislatures have held hearings and carried out audits regarding the conduct of tax-exempt organizations, including tax-exempt hospitals. These efforts will likely continue in the future. Citizen organizations, such as labor unions and patient advocates, have also focused public attention on the activities of tax-exempt hospitals and raised questions about their practices. Proposals to increase the regulatory requirements for nonprofit hospitals’ retention of tax-exempt status, such as by establishing a minimum level of charity care, have also been introduced repeatedly in Congress. Significant changes in the obligations of nonprofit, tax-exempt hospitals and challenges to or loss of the tax-exempt status of non-profit hospitals generally, or the Corporation in particular, could have a material adverse effect on the Corporation.

Capital Needs vs. Capital Capacity. Hospital and other health care operations are capital intensive. Regulation, technology and expectations of physicians and patients require constant and often significant capital investment. In California, seismic safety standards mandated by the State may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in the State are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs may exceed capital capacity.

Construction Risks. Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and labor, and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor and other factors. Cost overruns could cause the costs to exceed available funds. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SERVICES, FACILITIES AND OPERATIONS—Long-Range Financial Plan and Additional Capital Needs.”

Reliance on Medicare. Inpatient hospitals rely to a high degree on payment from the federal Medicare program. Recent changes in the underlying law and regulations, as well as in payment policy and timing, create uncertainty and could have a material adverse impact on hospitals’ payment stream from Medicare. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS is expected to take action in the future to decrease or restrain Medicare outlays for hospitals.

Government “Fraud” Enforcement. “Fraud” in government funded health care programs is a significant concern of federal and state regulatory agencies overseeing health care programs, and is one of the federal government’s prime law enforcement priorities. The federal government and, to a lesser degree, state governments impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of “fraud” in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital and other health care provider commercial activity, including billing, accounting, recordkeeping, medical

staff oversight, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

Violations and alleged violations may be deliberate, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. Violations carry significant sanctions. The government periodically conducts widespread investigations covering categories of services or certain accounting or billing practices.

Violations and Sanctions. The government and/or private “whistleblowers” often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal, monetary and other penalties, including the suspension of essential hospital and other health care provider payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force health care providers to enter into monetary settlements in exchange for releases of liability for past conduct, as well as agreements imposing prospective restrictions and/or mandated compliance requirements on health care providers. Such negotiated settlement terms may have a materially adverse impact on hospital and other health care provider operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements for alleged intentional misconduct, fraud or false claims are not uncommon in the health care industry. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital and health care sector. Many large hospital and other health care provider systems are likely to be adversely impacted.

Personnel Shortage. From time to time, shortages of physicians and nursing and other technical personnel occur, which may have its primary impact on hospitals and health care systems. Various studies have predicted that physician and nurse shortages will become more acute over time, as practitioners retire and patient volume exceeds the growth in new professionals. In California, regulation of nurse staff ratios intensifies the shortage of nursing personnel. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians and others may occur. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by personnel shortages, resulting in material adverse impact to hospitals and health care systems.

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

Costs and Restrictions from Governmental Regulation. Nearly every aspect of hospital operations and health care delivery is regulated, in some cases by multiple agencies of government. The level and complexity of regulation and compliance audits appear to be increasing, imposing greater operational limitations, enforcement and liability risks, and significant and sometimes unanticipated costs.

Proliferation of Competition. Hospitals face competition from specialty providers of care and ambulatory care facilities. This competition may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications

of patients, leaving full-service hospitals with higher acuity and lower paying patient populations. These new sources of competition may have a material adverse impact on hospitals, particularly where principal physician admitters may curtail their use of a hospital service in favor of a competitor's facilities.

Increasing Consumer Choice. Hospitals and other health care providers face increased pressure to be transparent and provide information about cost and quality of services, which may lead to a loss of business as consumers and others make choices about where to receive health care services based upon reports about cost and quality.

Labor Costs and Disruption. The delivery of health care services is labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital and health care provider operations and financial condition. Hospital and health care employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce and turnover are high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Employees.”

State Medicaid Program. While the State Medicaid program, known as the “Medi-Cal” program, is rarely as important to hospital and other health care provider financial results as Medicare, it nevertheless constitutes an important payor source to many hospitals, physicians and other health care providers. This program often pays hospitals, physicians and other health care providers at levels that are substantially below the actual cost of the care provided. As Medi-Cal is partially funded by the State, the continuing poor financial condition of the State is likely to result in lower funding levels and/or payment delays. This could have a material adverse impact on hospitals and other health care providers.

Pension and Benefit Funds. As large employers, hospitals and health care providers may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Plans are often underfunded, or may become underfunded and funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS— Summary of Financial Information— Management's Discussion and Analysis—Pension Funding Requirements.”

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

Facility Damage. Hospitals and health care providers are highly dependent on the condition and functionality of their physical facilities. Damage from earthquakes, floods, fires, other natural causes, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on operations, financial conditions and results of operations.

Nonprofit Health Care Environment

As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex business

transactions and is a major employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

The operations and practices of nonprofit, tax-exempt hospitals are routinely challenged or criticized for inconsistency or inadequate compliance with the regulatory requirements for, and societal expectations of, nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation. The challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could have a material adverse effect on the Corporation.

Congressional Hearings. Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including proposed reform in the area of tax-exempt health care organizations, as part of health care reform generally. See “IRS Examination of Compensation Practices and Community Benefit” below.

Bond Examinations. IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. A schedule to the revised Form 990 return (Schedule K), effective for the 2009 tax year and thereafter, is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. Schedule K also requires tax-exempt organizations to report on the investment and use of bond proceeds to address IRS concerns regarding compliance with arbitrage rebate requirements and the private use of bond-financed facilities.

IRS Examination of Compensation Practices and Community Benefit. In 2004, the IRS began a new compliance program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation and benefits to their officers and other insiders. In 2009, the IRS issued its Hospital Compliance Project Final Report (the “IRS Final Report”) that examined tax-exempt hospitals’ practices and procedures with regard to compensation and benefits paid to their officers and other defined “insiders.” The IRS Final Report indicates that the IRS will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations and, in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. A recent IRS report on this initiative determined that a lack of uniformity in definitions of community benefit used by reporting hospitals, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether any particular hospital is in compliance with current law. The revised Form 990 includes a new schedule, Schedule H, which hospitals must use to report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. Proposals have also been made within Congressional committees to codify the requirements for hospitals’ tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care.

California Attorney General. State nonprofit public benefit corporations, including the Corporation, are subject to oversight and examination by the California Attorney General (the “AG”) to ensure their charitable purposes are being carried out, that their fundraising and investment activities comply with State law and that the terms of charitable gifts are followed.

Financial Assistance and Charity Care. State law requires hospitals to maintain written policies about discount payment and charity care and to provide copies of such policies to patients and the Office of Statewide Health Planning and Development (“OSHPD”). State law also requires hospitals to follow specific billing and collection procedures. The Corporation has adopted and maintains such policies.

Indigent Care. Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner-city hospitals and other health care providers may treat significant numbers of indigents. These hospitals and health care providers may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions affect the number of employed individuals who have health coverage and the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, county, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

Class Actions. Nonprofit hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for nonprofit hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices and breaches of privacy, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on nonprofit hospitals and health systems in the future.

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

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations, including the Corporation. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Corporation, and, in turn, its ability to make payments under the Loan Agreement and Obligation No. 19.

Health Care Reform

As a result of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the “ACA”), enacted in March 2010, substantial changes are anticipated in the United States health care system. Some of the provisions of the ACA took effect immediately, while others will take effect or will be phased in over time. Such legislation has been intended by its supporters to be transformative and includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. These provisions are slated to take effect at specified times over approximately the next decade, and, therefore, the full consequences of the ACA on the health care industry will not be immediately realized. Due to the complexity of the ACA, the ramifications of federal health care reform legislation may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the ACA may also be limited or nullified as a result of legal challenges or amendments. In addition, the uncertainties regarding the implementation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

The changes in the health care industry brought about by the ACA will likely have both positive and negative effects, directly and indirectly, on the nation’s hospitals and other health care providers, including the Corporation. For example, the projected increase in the numbers of individuals with health care insurance occurring as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the mandate for individuals to purchase insurance, could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. A significant negative impact to the hospital industry overall will likely result from substantial reductions in the rate of increase of Medicare “market basket” adjustments and in actual reductions in Medicare payments. The legislation’s cost-cutting provisions to the Medicare program include reduction in Medicare market basket updates to hospital reimbursement rates under the inpatient prospective payment system, which are projected by the CMS actuary to result in Medicare savings of \$112 billion over the next ten years, as well as reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions. See also “Patient Service Revenues—The Medicare Program” below.

Health care providers will likely be further subject to decreased reimbursement as a result of implementation of recommendations of the Medicare payment advisory board, whose directive is to reduce Medicare cost growth. The advisory board’s recommended reductions, beginning in 2014, will be automatically implemented unless Congress adopts alternative legislation that meets equivalent savings targets. Industry experts also expect that government cost reduction actions may be followed by private insurers and payors.

The ACA will likely affect some health care organizations differently from others, depending, in part, on how each organization adapts to the legislation’s emphasis on directing more federal health care dollars to integrated provider organizations and providers with demonstrable achievements in quality care. The ACA proposes a value-based purchasing system for hospitals under which a percentage of payments will be contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The legislation also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including “accountable care organizations” and bundled provider payments. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded or their effect on health care organizations’ revenues or financial performance cannot be predicted.

The ACA contains amendments to existing criminal, civil and administrative anti-fraud statutes and increases in funding for enforcement and efforts to recoup prior federal health care payments to providers. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt a compliance and ethics program. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provide new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments. See also “—Regulatory Environment” below.

The ACA is highly politicized. Initiatives to repeal it in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been proposed. Several challenges to the ACA’s constitutionality are pending review in Federal Courts of Appeals. At this time it is unclear what further action, if any, Congress, the Presidential administration or the federal courts may take with respect to the ACA. In this volatile context, no projections can be made as to the future implementation or content of the ACA.

Patient Service Revenues

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

As the population ages, more people will become eligible for the Medicare program. Current projections indicate that demographic changes and continuation of current cost trends will exert significant and negative forces on the overall federal budget. The ACA institutes multiple mechanisms for reducing the costs of the Medicare program, including the following:

Overall Reduction in Hospital Payments. Beginning in federal fiscal year 2013, Medicare inpatient payments to hospitals will be reduced by 1%, progressing to 2% by federal fiscal year 2017. This reduction may be offset in part by new Medicare inpatient incentive payments commencing in federal fiscal year 2013 for hospitals that meet “value-based purchasing” standards for treatment of certain conditions.

Market Basket Reductions. Generally, Medicare payment rates to hospitals are adjusted annually based on a “market basket” of estimated cost increases, which have averaged approximately 2-4% annually in recent years. The ACA required automatic 0.25% reductions in the “market basket” for federal fiscal years 2010 and 2011, and calls for reductions ranging from 0.10% to 0.75 % each year through federal fiscal year 2019.

Market Productivity Adjustments. Beginning in federal fiscal year 2012 and thereafter, the ACA provides for “market basket” adjustments based on national economic productivity statistics. This adjustment is anticipated to result in an approximately 1% additional annual reduction to the “market basket” update.

Hospital Acquired Conditions Penalty. Beginning in federal fiscal year 2015, Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain

“hospital-acquired conditions” will be reduced by 1% of what would otherwise be payable to each hospital for the applicable federal fiscal year.

Readmission Rate Penalty. Beginning in federal fiscal year 2012, Medicare inpatient payments to each hospital will be reduced based on the dollar value of that hospital’s percentage of preventable Medicare readmissions for certain medical conditions.

DSH Payments. Beginning in federal fiscal year 2014, hospitals receiving supplemental “DSH” payments from Medicare (i.e., those hospitals that care for a disproportionate share of Medicare beneficiaries) are slated to have their DSH payments reduced by 75%. This reduction will be adjusted to add-back payments based on the volume of uninsured and uncompensated care provided by each such hospital, and is anticipated to be offset by a higher proportion of covered patients as other provisions of the ACA go into effect. Separately, beginning in federal fiscal year 2014, Medicaid DSH allotments to each state will also be reduced, based on a methodology to be determined by DHHS, accounting for statewide reductions in uninsured and uncompensated care. See also “Disproportionate Share Payments” below.

Hospitals also receive payments from health plans under the Medicare Advantage program. The ACA includes significant changes to federal payments to Medicare Advantage plans. Payments to plans are frozen for fiscal year 2011 and thereafter will transition to benchmark payments tied to the level of fee-for-service spending in the applicable county. These reduced federal payments could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

Components of the 2008 federal stimulus package, the American Recovery and Reinvestment Act (“ARRA”), provide for Medicare incentive payments beginning in 2011 to hospital providers meeting designated deadlines for the installation and use of electronic health information systems. For those hospital providers failing to meet a 2016 deadline, Medicare payments will be significantly reduced.

For information concerning the Medicare payments received by the Corporation for the fiscal years ended August 31, 2008, 2009 and 2010, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues.”

Hospital Inpatient Reimbursement. Hospitals are generally paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups (“DRGs”). The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates are subject to adjustment by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients. For information regarding the impact of the ACA on payments to hospitals for inpatient services, see “The Medicare Program—Overall Reductions in Hospital Payments” above.

Hospital Outpatient Reimbursement. Hospitals are generally paid for outpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as ambulatory payment classifications (“APC”). The actual cost of care, including capital costs, may be more or less than the reimbursements. There is no guarantee that APC rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

Other Medicare Service Payments. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may

change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

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

Medical Education Payments. The Corporation, as the operator of a teaching hospital, has historically received direct and indirect medical education reimbursement through the Medicare program. In recent years, the direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit. For example, the Balanced Budget Act of 1997 capped the number of residents recognized by Medicare for reimbursement purposes at the number of residents working in a hospital for such hospital's most recent cost report period ended on or before December 31, 1996, and contained other provisions that limit reimbursement for both direct and indirect medical education costs. Reductions in the level of reimbursement for direct and indirect medical education costs could have a material and adverse effect on the financial condition of the Corporation.

Hospital Tax. In 2009, the State legislature enacted the Medi-Cal Hospital Provider Rate Stabilization Act and the Quality Assurance Fee Act (together, the "Provider Fee Law"). As implemented, the Provider Fee Law imposed a one-time quality assurance fee on the State's general acute care hospitals for the period from April 1, 2009 through and including December 31, 2010, except for public hospitals and certain other exempt hospitals. The quality assurance fee for each hospital was calculated on an annual basis by multiplying a fee for managed care, fee-for-service and Medi-Cal total patient days by the number of each of these types of inpatient days as reported on each hospital's publicly available Annual Financial Disclosure Report for the fiscal year ending in 2007. California hospitals paid the quality assurance fee in installments during the last three months of 2010.

The fee proceeds were used to earn federal matching funds for Medi-Cal, including increases in Medi-Cal payments to hospitals, supplemental payments to managed care plans dedicated to increased payments to hospitals, health care coverage for children and certain costs of administering the quality assurance fee program. These increased Medi-Cal fee-for-service payments to hospitals were made pursuant to a fixed methodology based on the number of inpatient days paid by the department to a hospital in the 2008 calendar year. The related supplemental Medi-Cal payments were made between October 2010 and March 2011. Under the fixed methodology, some California hospitals received more money in increased Medi-Cal reimbursement than they paid in quality assurance fees, while other California hospitals received less money in Medi-Cal payments than the fees paid. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Management's Discussion and Analysis."

On April 13, 2011, Governor Brown signed a six-month extension to the quality assurance fee, which extended the current quality assurance fee from January 1, 2011 to June 30, 2011. The six-month fee program under this legislation closely resembles the fee program under the Provider Fee Law. California's implementation of the extension is contingent on approval from CMS. The State legislature is also currently considering legislation that would extend the quality assurance fee program or enact a new quality assurance fee program for periods subsequent to June 30, 2011. No assurances can be given as to whether California will receive CMS's approval for the six-month fee extension or the State legislature will take action to extend the quality assurance fee program beyond June 30, 2011.

Medicaid Program. Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid and other State health care program spending.

California Medi-Cal. Medi-Cal is the California Medicaid program. The State selectively contracts with general acute care hospitals through the Selective Provider Contracting Program (“SPCP”) to provide inpatient services to Medi-Cal patients. The State is obligated to make contractual payments only to the extent the State Legislature appropriates adequate funding. Hospitals may elect not to participate in the SPCP, in which case they are considered non-contracting hospitals. Except in areas of the State that have been excluded from contracting, a general acute care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate an SPCP contract on 120 days’ notice and the State may terminate without notice under certain circumstances. No assurances can be made that hospitals will be awarded Medi-Cal contracts or that any such contracts will reimburse hospitals for the cost of delivering services.

The ACA makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries. While management of the Corporation cannot predict the effect of these changes to the Medicaid program on the operations, results from operations or financial condition of the Corporation, historically Medicaid has reimbursed at rates below the cost of care. Therefore, increases in the overall proportion of Medicaid patients poses a risk. It is uncertain to what extent this risk may be mitigated if the increased Medicaid utilization replaces previously uncompensated patients.

For information concerning the Medi-Cal payments received by the Obligated Group, for the fiscal years ended August 31, 2008, 2009 and 2010, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues.”

Medicare and Medicaid Audits. Hospitals that participate in the Medicare and Medicaid programs are subject from time to time to audits and other investigations relating to various aspects of their operations and billing practices, as well as to retroactive audit adjustments with respect to reimbursements claimed under these programs. Medicare and Medicaid regulations also provide for withholding reimbursement payments in certain circumstances. New billing rules and reporting requirements for which there is no clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health programs.

Authorized by HIPAA (as defined herein), the Medicare Integrity Program (“MIP”) was established to deter fraud and abuse in the Medicare program. Funded separately from the general administrative contractor program, the MIP allows CMS to enter into contracts with outside entities and insure the “integrity” of the Medicare program. These entities, Medicare zone program integrity contractors (“ZPICs”), formerly known as program safeguard contractors, are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. ZPICs have the authority to deny and recover payments as well as to refer cases to the Office of Inspector General (“OIG”). CMS is also planning to enable ZPICs to compile claims data from multiple sources in order to analyze the complete claims histories of beneficiaries for inconsistencies.

CMS also enlists recovery audit contractors (“RACs”) to conduct periodic annual audits of Medicare payments to search for potentially improper Medicare payments from prior years that were not detected through CMS’s routine program integrity efforts. The RACs are private contractors, paid on a contingency fee basis, and use their own software and review processes. Although required to identify both overpayments and underpayments, RACs have in practice collected significantly more in overpayments from providers in proportion to the underpayments to providers. Under the ACA, recovery audits were expanded to include Medicaid by requiring states to contract with RACs to conduct such audits.

In addition, CMS has instituted a Medicaid Integrity Program, modeled on the MIP. Medicaid Integrity Program contractors assist state Medicaid agencies by analyzing Medicaid claims data to identify high-risk areas and potential vulnerabilities and conducting post-payment field audits and desk reviews audits of Medicaid provider payments.

Medicare audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The ACA explicitly gives DHHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The ACA also amended certain provisions of the FCA (as defined herein) to include retention of overpayments as a violation. It also added provisions respecting the timing of the obligation to identify, report and reimburse overpayments. The effect of these changes on existing programs and systems of the Corporation cannot be predicted.

California State Budget. California faces severe financial challenges that are expected to continue or worsen over the coming years, including erosion of general fund tax revenues, falling real estate values, slow economic growth and high unemployment. Shortfalls between revenues and spending have in the past and may in the future result in cutbacks to State and local government health care programs.

The State is currently projected to face a budget deficit of \$9.6 billion dollars at the end of fiscal year 2011-12. On May 16, 2011, the Governor of California released a proposed budget for fiscal year 2011-12, revising an earlier proposal issued in January 2011. To resolve the anticipated deficit and provide reserves of approximately \$1.2 billion, the revised budget proposal provides for spending cuts to health and social service programs, including a reduction in funding for Medi-Cal of \$1.52 billion. Whether the State legislature will adopt the Governor’s proposed budget for fiscal year 2011-12 in its current or a modified form cannot be predicted. The Governor and State legislature may also implement additional measures for fiscal year 2011-12 or future fiscal years to address California’s persistent budget shortfalls, which could have a detrimental effect on hospitals and other health care providers operating in the State.

The financial challenges facing California may negatively affect health care organizations in a number of ways, including elimination or reduction of health care safety net programs (causing a greater number of indigent, uninsured or underinsured patients) and reductions in Medi-Cal reimbursement rates. The financial challenges may also result in a greater number of indigent, uninsured or underinsured patients who are unable to pay for their care or access primary care facilities, a greater number of individuals who qualify for Medi-Cal and reductions in Medi-Cal reimbursement rates. See “Significant Risk Areas Summarized—General Economic Conditions; Bad Debt, Indigent Care and Investment Performance” and “Nonprofit Health Care Environment—Indigent Care” herein.

Health Plans and Managed Care. Most private health insurance coverage is provided by various types of “managed care” plans, including health maintenance organizations (“HMOs”) and preferred

provider organizations (“PPOs”) that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Medicare and Medicaid also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

In California, managed care plans have replaced indemnity insurance as the primary source of non-governmental payment for hospital services, and hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. Regional coverage and aggressive pricing may be required. However, it is also essential that contracting hospitals be able to provide the contracted services without significant operating losses, which may require multiple forms of cost containment.

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

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

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

Failure to maintain contracts could have the effect of reducing a hospital’s market share and net patient services revenues. Conversely, participation may result in lower net income if participating hospitals are unable to adequately contain their costs. Thus, managed care poses one of the most significant business risks (and opportunities) that hospitals face.

For information concerning the managed care payments received by the Obligated Group for the fiscal years ended August 31, 2008, 2009 and 2010, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues.”

International Classification of Diseases, 10th Revision Coding System. In 2009, CMS published the final rule adopting the International Classification of Disease, 10th Revision coding system (“ICD-10”), requiring health care organizations to implement ICD-10 no later than October 2013. ICD-10 provides a common approach to the classification of diseases and other health problems, allowing the United States to align with other nations to better share medical information, diagnosis, and treatment codes. In order to implement the ICD-10, staff will need to be retrained, processes redesigned, and computer applications modified as the current available codes and digit size will dramatically increase. Additionally, there is a potential for temporary coding and payment backlog, as well as potential increases in claims errors. Products and services will be developed by outside software vendors, clearinghouses

and third-party billing companies to support and enable timely, complete and successful implementation of ICD-10. Delays in the required implementation may occur if such ICD-10 products and services are not available to health care organizations from these outside sources well in advance of October 2013 to allow for adequate testing and installation.

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures. Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. Published rankings such as “score cards,” “pay for performance” and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals, the members of their medical staffs and other providers and to influence the behavior of consumers and providers such as the Corporation. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance set by others that characterize a hospital or a provider negatively may adversely affect its reputation and financial condition.

Enforcement Affecting Academic Research. In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health (“NIH”) significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration (“FDA”) also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the OIG, in its recent “Work Plans” has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the NIH and other agencies of the U.S. Public Health Service. Although the Corporation is not the direct recipient of such awards (instead, Stanford University School of Medicine is the recipient of research awards), the Corporation receives payments for health care items and services under many of these grants as a subcontractor and is subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies’ enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in billing of the Medicare Program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject the Corporation to sanctions as well as repayment obligations.

Regulatory Environment

“Fraud” and “False Claims.” Health care “fraud and abuse” laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and others can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or including inaccurate billing information, billing for services deemed to be medically unnecessary, or billing accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital from participation in the Medicare/Medicaid programs, civil monetary penalties, and suspension of Medicare/Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation.

Laws governing fraud and abuse may apply to a hospital and to nearly all individuals and entities with which a hospital does business. Fraud investigations, settlements, prosecutions and related publicity can have a material adverse effect on hospitals. See “Enforcement Activity,” below. Major elements of these often highly technical laws and regulations are generally summarized below.

The ACA authorizes the Secretary of DHHS to exclude a provider’s participation in Medicare and Medicaid, as well as suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider.

False Claims Act. The federal False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim for payment or approval for payment for which the federal government provides, or reimburses at least some portion of the requested money or property. The ACA amends the FCA by expanding the numbers of activities that are subject to enforcement as violations of the FCA, including, among other actions, failure to report and return to a federal health care program a known overpayment within 60 days of having identified the overpayment or, for cost-reporting entities, the date (if later) on which a hospital cost report is due. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the government’s primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital.

Anti-Kickback Law. The federal “Anti-Kickback Law” is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is paid by any federal or state health care program. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions. The ACA amended the Anti-Kickback Law to provide that a claim that includes items or services resulting from a violation of the Anti-Kickback Law now constitutes a false or fraudulent claim for purposes of the FCA.

Violation or alleged violation of the Anti-Kickback Law most often results in settlements that require multi-million dollar payments and mandatory compliance agreements that typically include costly audit requirements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Violation is a felony, subject to a fine of up to \$250,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program) or an “assessment” of three times the amount claimed may be

imposed. The IRS has taken the position that hospitals which are in violation of Anti-Kickback Law may also be subject to revocation of their tax-exempt status.

Stark Referral Law. The federal “Stark” statute prohibits the referral by a physician of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiation and other imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. If certain substantive and technical requirements are not met, many ordinary business practices and economically desirable arrangements between hospitals and physicians will likely constitute “financial relationships” within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of designated health services with physician relationships have some exposure to liability under the Stark statute.

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

State “Fraud” and “False Claims” Laws. Hospital providers in California also are subject to a variety of State laws related to false claims (similar to the FCA or that are generally applicable false claims laws), anti-kickback (similar to the federal Anti-Kickback Law or that are generally applicable anti-kickback or fraud laws), and physician referral (similar to Stark). These prohibitions while similar in public policy and scope to the federal laws have not in all instances been avidly enforced to date. However, in the future they could pose the possibility of material adverse impact for the same reasons as the federal statutes. See “False Claims Act,” “Anti-Kickback Law” and “Stark Referral Law” above.

Antitrust. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is evolving (especially as the ACA is implemented), and therefore not always clear. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing disputes.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines.

HIPAA. The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, or other assets

of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from Medicare.

HIPAA addresses the confidentiality of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA's confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 to \$250,000 and/or imprisonment for up to 10 years if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

The HITECH Act. Provisions in the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities' marketing communications.

Management of the Corporation does not expect that the prohibited practices provisions of the HITECH Act will affect the Corporation in any material respect.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments for the "meaningful use" of certified electronic health record ("EHR") technology. Beginning in 2011, the Medicare and Medicaid EHR incentive programs will provide incentive payments to eligible professionals and eligible hospitals for demonstrating meaningful use of certified EHR technology. Health care providers demonstrate their meaningful use of EHR technology by meeting objectives specified by CMS for using health information technology and by reporting on specified clinical quality measures. Beginning in 2015, hospitals and physicians who have not satisfied the performance and reporting criteria for demonstrating meaningful use will have their Medicare payments significantly reduced.

Security Breaches and Unauthorized Releases of Personal Information. State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Exclusions from Medicare or Medicaid Participation. The government may exclude a hospital from Medicare/Medicaid program participation if it is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a hospital would be decertified and no program payments could be made. Any hospital exclusion could be a materially adverse event. In addition, exclusion of hospital employees may be another source of potential liability for hospitals or health systems.

Administrative Enforcement. Administrative regulations may require less proof of a violation than do criminal laws, and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of administrative enforcement actions.

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

EMTALA. The Emergency Medical Treatment and Active Labor Act ("EMTALA") is a federal civil statute that requires hospitals to treat or conduct a medical screening for emergency conditions and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient. A hospital that violates EMTALA is subject to civil penalties of up to \$50,000 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital may be liable for any claim by an individual who has suffered harm as a result of a violation.

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

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

Health facilities may be subject to requirements related to investigating and remedying hazardous substances located on their property, including substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to

individuals, property or the environment; may interrupt operations and increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

Enforcement Activity. Enforcement activity against health care providers has increased, and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above.

Enforcement authorities are often in a position to compel settlements by providers charged with or being investigated for false claims violations by withholding or threatening to withhold Medicare, Medicaid and similar payments or to recover higher damages, assessments or penalties by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals or other facilities in a health system, as the government often extends enforcement actions regarding health care fraud to other entities in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse to a hospital could have materially adverse consequences to a health system taken as a whole.

Business Relationships and Other Business Matters

Integrated Delivery Systems. Health facilities and health care systems often own, control or have affiliations with physician groups and independent practice associations. Generally, the sponsoring health facility or health system is the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits. As separate operating units, integrated physician practices and medical foundations sometimes operate at a loss and require subsidy from the related hospital or health system.

These types of alliances are likely to become increasingly important to the success of hospitals in the future as a result of changes to the health care delivery and reimbursement systems that are intended to restrain the rate of increases of health care costs, encourage coordinated care, promote collective provider accountability and improve clinical outcomes. The ACA authorizes several alternative payment programs for Medicare that promote, reward or necessitate integration among hospitals, physicians and other providers.

Whether these programs will achieve their objectives and be expanded or mandated as conditions of Medicare participation cannot be predicted. However, Congress and CMS have clearly emphasized continuing the trend away from the fee-for-service reimbursement model, which began in the 1980s with the introduction of the prospective payment system for inpatient care, and toward an episode-based payment model that rewards use of evidence-based protocols, quality and satisfaction in patient outcomes, efficiency in using resources, and the ability to measure and report clinical performance. This shift is likely to favor integrated delivery systems, which may be better able than stand-alone providers to realize efficiencies, coordinate services across the continuum of patient care, track performance and monitor and

control patient outcomes. Changes to the reimbursement methods and payment requirements of Medicare, which is the dominant purchaser of medical services, are likely to prompt equivalent changes in the commercial sector, because commercial payors frequently follow Medicare's lead in adopting payment policies.

While payment trends may stimulate the growth of integrated delivery systems, these systems carry with them the potential for legal or regulatory risks. Many of the risks discussed in “—Regulatory Environment” herein, may be heightened in an integrated delivery system. The foregoing laws were not designed to accommodate coordinated action among hospitals, physicians and other health care providers to set standards, reduce costs and share savings, among other things. Although CMS and the agencies that enforce these laws are expected to institute new regulatory exceptions, safe harbors or waivers that will enable providers to participate in payment reform programs, there can be no assurance that such regulations will be forthcoming or that any regulations or guidance issued will sufficiently clarify the scope of permissible activity. State law prohibitions, such as the bar on the corporate practice of medicine, or state law requirements, such as insurance laws regarding licensure and minimum financial reserve holdings of risk-bearing organizations, may also introduce complexity, risk and additional costs in organizing and operating integrated delivery systems. Tax-exempt hospitals also face the risk in affiliating with for-profit entities that the IRS will determine that compensation practices or business arrangements result in private benefit or private use or generate unrelated business income for the hospitals.

In addition, integrated delivery systems present business challenges and risks. Inability to attract or retain participating physicians may negatively affect managed care, contracting and utilization. The technological and administrative infrastructure necessary both to develop and operate integrated delivery systems and to implement new payment arrangements in response to changes in Medicare and other payor reimbursement is costly. Hospitals may not achieve savings sufficient to offset the substantial costs of creating and maintaining this infrastructure.

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

Physician Supply. Sufficient community-based physician supply is important to hospitals. CMS annually reviews overall physician reimbursement formulas for Medicare and Medicaid. Changes to physician compensation under these programs could lead to physicians ceasing to accept Medicare and/or Medicaid patients. Regional differences in reimbursement by commercial and governmental payors, along with variations in the costs of living, may cause physicians to avoid locating their practices in communities with low reimbursement or high living costs. Hospitals may be required to invest additional resources in recruiting and retaining physicians, or may be compelled to affiliate with, and provide support to, physicians in order to continue serving the growing population base and maintain market share. The physician-to-population ratio in certain parts of the State is below the national average, and the shortage of physicians could become a significant issue for hospitals in the State.

Competition Among Health Care Providers. Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, HMOs, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians

and others, may adversely affect the utilization and revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty facilities or ventures that attract an important segment of an existing hospital's admitting specialists and services that generate significant revenue may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery or orthopedic programs producing revenue streams that cover significant fixed overhead costs. If a significant component of such a hospital's heart surgeons or orthopedists develop their own specialty hospital or surgery center (alone or in conjunction with a growing number of specialty hospital operators and promoters), taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty entity, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A variety of proposals have been advanced recently to permanently prohibit such investments. Nonetheless, specialty hospitals continue to represent a significant competitive challenge for full-service hospitals.

Freestanding ambulatory surgery centers may attract significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in reduced income. Competing ambulatory surgery centers, more likely a for-profit business, may not accept indigent patients or low paying programs and would leave these populations to receive services in the full-service hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

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

Action by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services could take action to restrain hospital charges or charge increases. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted. In addition, consumers and groups on behalf of consumers are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

Employer Status. Hospitals are major employers with mixed technical and nontechnical workforces. Labor costs, including salary, benefits and other liabilities associated with a workforce, have significant impacts on hospital operations and financial condition. Developments affecting hospitals as major employers include: (i) imposing higher minimum or living wages; (ii) enhancing occupational health and safety standards; and (iii) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse impact on the Corporation and, in turn, their ability to make payments with respect to the Bonds.

Labor Relations and Collective Bargaining. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. Certain employees of the Corporation are currently covered by collective bargaining agreements. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Employees.”

Class Actions. Nonprofit hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for nonprofit hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on nonprofit hospitals and health systems in the future.

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

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

Staffing. From time to time, the health care industry suffers from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. In addition, aging medical staffs and difficulties in recruiting individuals to the medical profession are predicted to result in physician shortages. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for physicians and other health care professionals, coupled with increased recruiting and retention costs may increase hospital operating costs, possibly significantly. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals. This scarcity may further be intensified if utilization of health care services increases as a consequence of the ACA’s expansion of the number of insured consumers.

California imposes mandatory nurse staffing ratios for all hospital patient care areas. The nurse to patient ratio standards increased as of January 1, 2008. The impact on California hospitals will vary by facility, but the required staffing, in aggregate, is more costly than prior staffing patterns.

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

Beginning in 2008, CMS refused to reimburse hospitals for medical costs arising from certain “never events,” which include specific preventable medical errors. Certain private insurers and HMOs followed suit. The occurrence of “never events” is more likely to be publicized and may negatively impact a hospital’s reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

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

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

Information Systems. The ability to adequately price and bill health care services and to accurately report financial results depends on the integrity of the data stored within information systems, as well as the operability of such systems. An ongoing commitment of significant resources is required to maintain, protect and enhance existing information systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media are also increasingly being used in clinical operations, including the conversion from paper to electronic medical records, computerization of order entry functions and the implementation of clinical decision-support software. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety, and to the privacy, accessibility and preservation of health information. See “—Regulatory Environment—HIPAA” above. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians and other health care professionals. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by health care providers, which may increase the cost, complexity and risks of operations. All of these risks may have adverse consequences on hospitals and other health care providers.

Tax-Exempt Status and Other Tax Matters

Maintenance of the Tax-Exempt Status of the Corporation and any future Members of the Obligated Group. The tax-exempt status of the Bonds depends upon maintenance by each Obligated Group Member, consisting currently only of the Corporation, that receives or benefits from the proceeds of the Bonds (a “Benefiting Member”) of its status as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The ACA also contains new requirements for tax-exempt hospitals. Under the ACA, each tax-exempt hospital facility is required to (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital’s financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using “gross charges” when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital’s financial assistance policy. In addition, the Treasury Department is required to review information about each tax-exempt hospital’s community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

The Corporation participates in a variety of joint ventures and transactions with physicians either directly or indirectly. Management of the Corporation believes that the joint ventures and transactions to which the Corporation is a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. The IRS conducts special audits of large tax-exempt health care organizations with at least \$500 million in assets or \$1 billion in gross receipts. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. These audits examine a wide range of possible issues, including tax-exempt bond financing of partnerships and joint ventures, retirement plans, employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that the Corporation or any future Obligated Group Member has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be jeopardized. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of

nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status by even one Benefiting Member potentially could result in loss of tax exemption of the Bonds and of other tax-exempt debt of the Corporation or any future Member of the Obligated Group and defaults in covenants regarding the Bonds and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation or any future Obligated Group Member. For these reasons, loss of tax-exempt status of any Benefiting Member could have a material adverse effect on the financial condition of the Obligated Group, taken as a whole.

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In those cases, the IRS and exempt hospitals entered into settlement agreements requiring the hospital to make substantial payments to the IRS.

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain “excess benefit transactions” involving 501(c)(3) organizations and “disqualified persons.” An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization, pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any “organization manager” who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on an Obligated Group Member or the tax status of the Bonds if an excess benefit transaction were subject to IRS enforcement, pursuant to these “intermediate sanctions” rules.

State and Local Tax Exemption. The State has not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. In California, it is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health systems. It is likely that the loss by the Corporation or any future Member of the Obligated Group of federal tax exemption would also trigger a challenge to their respective state tax-exemption. Depending on the circumstances, such event could be material and adverse.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of the Corporation is currently treated as exempt from real property taxation. Although the real property tax exemptions of the Corporation with respect to its core hospital facilities are not, to the knowledge of management of the Corporation, under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemptions of the Corporation or any future Obligated Group Member.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the financial condition of the Obligated Group by requiring payment of income, local property or other taxes.

Maintenance of Tax-Exempt Status of Interest on the Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States

Treasury, and a requirement that issuers file an information report with the IRS. The Corporation has covenanted in the Loan Agreement that it will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. The Authority has covenanted in the Indenture that it will not take any action or refrain from taking any action that would cause interest on the Bonds to be included in gross income for federal income tax purposes.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds, including the use of bond proceeds, in the charitable organization sector, with specific reviews of private use. In addition, under its compliance check program initiated in 2007, the IRS has from time to time sent post-issuance compliance questionnaires to several hundred nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education. IRS representatives indicate that more questionnaires will be sent to additional nonprofit organizations.

Effective with the 2009 tax year, tax-exempt organizations must also complete new schedules to IRS Form 990 – Return of Organizations Exempt From Income Tax, which create additional reporting responsibilities. On Schedule H, hospitals and health systems must report how they provide community benefit and specify certain billing and collection practices. Schedule K requires detailed information related to all outstanding bond issues of tax-exempt borrowers, including information regarding operating, management and research contracts as well as private use compliance. Tax-exempt organizations must also complete Schedule J, which requires reporting of compensation information for the organizations' officers, directors, trustees, key employees, and other highly compensated employees.

There can be no assurance that responses by Obligated Group Members to a questionnaire or Form 990 will not lead to an IRS review that could adversely affect the market value of the Bonds or of other outstanding tax-exempt indebtedness of the Obligated Group. Additionally, the Bonds or other tax-exempt obligations issued for the benefit of the Obligated Group Members may be, from time to time, subject to examinations or audits by the IRS.

The Corporation believes that the Bonds properly comply with the tax laws. In addition, Bond Counsel rendered an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." No ruling with respect to the Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts. There can be no assurance that an examination of the Bonds will not adversely affect the Bonds or the market value of the Bonds. See "TAX MATTERS" herein.

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code. As tax-exempt organizations, the Corporation and any future Obligated Group Member are limited with respect to their use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. Uncertainty in this area has been reduced somewhat by the issuance by the IRS of guidelines on permissible physician recruitment practices. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of the hospitals in an effort to determine whether any action should be taken with respect to limitations on or revocation of their tax-exempt status or assessment of additional tax. Any suspension, limitation, or revocation of the Corporation or any future Member's tax-exempt status or assessment of

significant tax liability would have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Bonds.

Other Risk Factors

Earthquakes. Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in California could destroy or disable the Hospital, the Clinics or other health care facilities operated by the Corporation or any future Obligated Group Member. California's Hospital Seismic Safety Act (the "Seismic Safety Act") requires each acute care hospital facility in the State either to comply with new hospital seismic safety standards on or before a deadline specified by the State or to cease acute care operations in noncompliant facilities. The deadline for compliance varies depending on a hospital facility's classification within one of five categories established by the state. Classification is a factor of the earthquake risk in the facility's geographic area and the structural attributes of a hospital facility. The Seismic Safety Act requires hospital facilities in the highest category of risk (those that are considered hazardous and at risk of collapse or significant loss of life in the event of an earthquake) to be replaced or retrofitted to higher seismic safety standards by 2013, or later if the Office of Statewide Health Planning and Development ("OSHPD") has approved an extension.

Extensions to the 2013 deadline for up to two years to January 1, 2015 may be obtained if the following qualifications are met: a hospital must have (i) begun construction when the extension is requested; (ii) submitted construction plans to OSHPD before January 1, 2010; (iii) obtained a building permit for construction by January 1, 2011; (iv) submitted to state officials a timetable for construction; and (v) made reasonable progress in meeting this timetable.

Effective January 1, 2011, the Seismic Safety Act was amended to authorize OSHPD to provide for an alternative extension from 2013 to January 1, 2016 for eligible hospitals that apply for the extension due to local planning delays. Other legislation allows OSHPD to grant two additional one-year extensions, until January 1, 2018, to facilities that meet certain criteria. In April 2011, the Seismic Safety Act was further amended to authorize OSHPD to provide for an additional extension, which allows an acute care hospital that has obtained a compliance extension to 2013 to extend its compliance deadline 2020. To qualify for this extension, the hospital must (i) certify that it lacks financial capacity to comply with applicable seismic safety standards by 2013 using statutory criteria; (ii) show that it serves otherwise underserved communities; (iii) submit its facility master plan to OSHPD before January 1, 2010; (iv) comply with statutory construction planning timeline; and (v) document its progress on the project.

For information about the Corporation's compliance with the Seismic Safety Act, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SERVICES, FACILITIES AND OPERATIONS—Seismic Compliance" and "—Long-Range Financial Plan and Additional Capital Needs."

Construction Risks. The Corporation expects to undertake substantial construction projects over the next several years to replace and renew its patient care facilities. Construction projects are subject to a variety of risks, including but not limited to strikes, shortages of materials and labor, adverse weather conditions, and delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor and other factors. Cost overruns could cause the costs to exceed available funds. Construction costs have historically inflated in California between 15% and 20% annually making some projects financially prohibitive.

Risks Related to Outstanding Variable Rate Obligations. The Corporation has variable rate obligations outstanding, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is not unrestricted, however, because the Corporation would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents.

In addition, after giving effect to the reoffering of the Reoffered Bonds as described herein, approximately \$84.1 million of variable rate bonds issued on behalf of the Corporation have a “put” feature which grants the holders of such bonds the right to tender these bonds for payment on seven, or fewer, days’ notice. Such bonds are not supported by either a credit facility or a liquidity facility. If any variable rate bonds are tendered for purchase and not remarketed, the Corporation will be obligated to purchase such bonds.

Risks Related to Interest Rate Swaps. The Corporation has entered into interest rate swap agreements related to indebtedness of the Obligated Group (the “Swaps”). The Swaps are and will be subject to periodic “mark-to-market” valuations and at any time may have a negative value to the Corporation. The Swaps counterparty may terminate the Swaps upon the occurrence of certain “termination events” or “events of default.” The Corporation may terminate the Swaps at any time. If either the counterparty to the Swaps or the Corporation terminates any of the Swaps during a negative value situation, the Corporation may be required to make a termination payment to such Swaps counterparty, and such payment could be material.

Pursuant to the Swaps, the counterparty will be obligated to make payments to the Corporation, which payments may be more or less than the interest rates the Corporation is required to pay with respect to a comparable principal amount of the related indebtedness.

Regularly scheduled payments and, in limited circumstances, settlement amounts under the Swaps are secured under the Master Indenture. The Corporation or any future Member of the Obligated Group may in the future enter into additional Swaps and other financial product and hedge devices that also may be secured under the Master Indenture. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Interest Rate Swap Agreements.”

Investments. The Obligated Group has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be material. For a discussion of the Corporation’s investments, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Cash and Investments.”

Other Future Risks. In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Corporation, or the market value of health care revenue bonds, including the Bonds, to an extent that cannot be determined at this time:

- (a) Adoption of legislation or implementation of regulations that would modify national or State health programs or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers;
- (b) Reduced demand for the services of health facilities that might result from decreases in population or loss of market share to competitors;

- (c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor;
- (d) Efforts by insurers and governmental agencies to limit the cost of health care services, to reduce the number of hospital beds and to reduce the utilization of hospital facilities by such means as improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities;
- (e) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, which health care facilities of a similar size and type generally carry;
- (f) The occurrence of a natural or man-made disaster, a pandemic or an epidemic that could damage hospital facilities, interrupt utility service to hospital facilities, result in an abnormally high demand for health care services or otherwise impair operations or the generation of revenues from the facilities; and
- (g) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

TAX MATTERS

On June 2, 2008, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), delivered its opinion that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2008 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel’s opinion also stated that interest on the 2008 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observed that such interest is included when adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

In the opinion of Bond Counsel, the reoffering of the Bonds in a Long Term Rate Mode will not, in and of itself, adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2008 Bonds. The opinions of Bond Counsel, to be dated June 15, 2011, with respect to the reoffering of the 2008 Series A-2 Bonds, and June 16, 2011, with respect to the reoffering of the 2008 Series A-3 Bonds, that the reoffering will not, in and of itself, adversely affect the exclusion of interest on the 2008 Bonds from gross income for purposes of federal income taxation are set forth in APPENDIX D. Bond Counsel is not rendering any opinion on the current tax status of the 2008 Bonds. A complete copy of the opinion of Bond Counsel delivered on June 2, 2008 in connection with the issuance of the 2008 Bonds is set forth in APPENDIX E.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2008 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2008 Bonds being included in gross income for federal income tax purposes,

possibly from the date of original issuance of the 2008 Bonds. The opinion of Bond Counsel rendered on June 2, 2008 in connection with the issuance of the 2008 Bonds assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2008 Bonds may adversely affect the value of, or the tax status of interest on, the 2008 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, in its opinion rendered on June 2, 2008 in connection with the issuance of the Bonds, Bond Counsel relied, among other things, on the opinion of Ropes & Gray LLP, Counsel to the Corporation, regarding the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities refinanced by the 2008 Bonds in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the 2008 Bonds being included in federal gross income, possibly from the date of the original issuance of the 2008 Bonds.

Although the opinion of Bond Counsel rendered on June 2, 2008 in connection with the issuance of the 2008 Bonds stated that interest on the 2008 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2008 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

A Bond purchased for less than its stated principal amount generally will be treated as purchased with "market discount" for federal income tax purposes in the amount of such difference. A Bond will be considered to have de minimis market discount if the excess of its stated principal amount over its purchase price is less than the product of 0.25 percent of the stated principal amount and the number of complete years to maturity (or in the case of term bonds with sinking fund payments, the weighted average maturity). Beneficial owners of Bonds having de minimis market discount generally will have taxable gain or loss at the time the Bond is sold or retired, and such gain or loss generally will be capital gain or loss, except to the extent of any accrued but unpaid stated interest. All beneficial owners who purchased Bonds at a discount to their respective principal amounts at the original reoffering prices will have acquired the Bonds with de minimis market discount. Any beneficial owner who purchases Bonds other than at the time of the reoffering and at the original reoffering price should consult their own tax advisor.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2008 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future

legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the 2008 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel rendered on June 2, 2008 in connection with the issuance of the 2008 Bonds was based on current legal authority, covered certain matters not directly addressed by such authorities, and represented Bond Counsel's judgment as to the proper treatment of the 2008 Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2008 Bonds ended with the issuance of the 2008 Bonds on June 2, 2008, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Corporation or the beneficial owners regarding the tax-exempt status of the 2008 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Corporation and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Corporation legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2008 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2008 Bonds, and may cause the Authority, the Corporation or the beneficial owners to incur significant expense.

LEGAL MATTERS

Certain legal matters will be passed upon for the Corporation by its counsel, Ropes & Gray LLP, San Francisco, California and for the Remarketing Agents by their counsel, Sidley Austin LLP, San Francisco, California.

Bond Counsel to the Authority undertakes no responsibility for the accuracy, completeness or fairness of the Reoffering Circular.

LITIGATION

There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of the officers of the Corporation, threatened, restraining or enjoining the reoffering, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Corporation taken concerning the reoffering or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds.

The Corporation, like similar institutions, is subject to a variety of suits and proceedings arising in the ordinary course of business. For further discussion, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—LITIGATION AND REGULATORY MATTERS."

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings, have assigned municipal bond ratings of "Aa3," "A+" and "AA-," respectively, to the Bonds. There is no assurance that any of such ratings will remain in effect for any given period of time or that the ratings might not be lowered or withdrawn entirely by the rating agency that assigned any such rating, if in its judgment circumstances so warrant. Any downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

INDEPENDENT ACCOUNTANTS

The financial statements as of August 31, 2010 and 2009 and for each of the two years then ended, included in this Reoffering Circular, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

No audited or unaudited financial statements for any period prior to the fiscal year ended August 31, 2009 have been included in this Reoffering Circular. For management's discussion regarding pre-fiscal year 2009 financial statements, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information—Management's Discussion and Analysis."

THE REMARKETING

The Corporation has appointed Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities LLC to act as remarketing agents (the "Remarketing Agents") in connection with the mandatory tender of the Bonds on June 15, 2011 and June 16, 2011. The 2008 A-3 Bonds will be reoffered by the Remarketing Agents at a net premium in accordance with the terms and conditions of the Indenture. The premium generated upon the remarketing of the 2008 A-3 Bonds, together with other funds of the Corporation, will be used to reduce the principal amount of the 2008 A-3 Bonds outstanding effective June 16, 2011.

As compensation for their services in connection with the remarketing of the Bonds, the Corporation has agreed to pay the Remarketing Agents a remarketing fee of \$758,720.02 on the Reoffering Date of the 2008 A-2 Bonds and \$613,426.23 on the Reoffering Date of the 2008 A-3 Bonds, pursuant to a fixed rate remarketing agreement, dated June 8, 2011 (the "Fixed Rate Remarketing Agreement"), among the Remarketing Agents and the Corporation. Also pursuant to the Fixed Rate Remarketing Agreement, the Corporation has agreed to pay the fees of counsel to the Remarketing Agents. The Fixed Rate Remarketing Agreement provides that the Remarketing Agents will purchase all of the Bonds, if any are purchased, and contains the agreement of the Corporation to indemnify the Remarketing Agents against certain liabilities to the extent permitted by law.

Morgan Stanley, as parent company of Morgan Stanley & Co. Incorporated, a Remarketing Agent of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its reoffering efforts with respect to the Bonds.

Goldman, Sachs & Co., as a Remarketing Agent of the Bonds, has entered into a master dealer agreement (the “Master Dealer Agreement”) with Incapital LLC (“Incapital”) for the distribution of certain municipal securities offerings, including the Bonds, to Incapital’s retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase the Bonds from Goldman Sachs & Co. at the initial public reoffering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells.

J.P. Morgan Securities LLC, as a Remarketing Agent of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the Bonds, at the original reoffering prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from J.P. Morgan Securities LLC at the original reoffering price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

RELATIONSHIPS AMONG THE PARTIES

Certain of the parties acting with respect to the reoffering of the Bonds (this “Transaction”) act for parties related to the Corporation. Ropes & Gray LLP is acting as counsel to the Corporation in this Transaction. Ropes & Gray LLP also acts as outside counsel for Stanford University and LPCH. Orrick, Herrington & Sutcliffe LLP, which is acting as bond counsel to the Authority on this Transaction, also acts as bond counsel on LPCH and Stanford University bond issues. PricewaterhouseCoopers LLP is the independent auditors of the financial statements of the Corporation, Stanford University and LPCH. Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co., which are acting as Remarketing Agents in this Transaction, also act as underwriters for LPCH and Stanford University. J.P. Morgan Securities LLC, which is acting as a Remarketing Agent in this Transaction, also acts as an underwriter for Stanford University.

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APPENDIX A

**INFORMATION CONCERNING
STANFORD HOSPITAL AND CLINICS**

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BACKGROUND AND ORGANIZATION

Introduction

Stanford Hospital and Clinics (the “Corporation” or “SHC”) is a principal teaching affiliate of the Stanford University School of Medicine (the “School of Medicine”) and provides primary and specialty health services to adults, including cardiac care, cancer treatment, solid organ transplantation services, orthopedics and neurosciences services. The Corporation, together with Lucile Salter Packard Children’s Hospital at Stanford, operates the clinical settings through which the School of Medicine educates medical and graduate students, trains residents and clinical fellows, supports faculty and community clinicians and conducts medical and biological sciences research.

The principal clinical facilities of the Corporation are the Stanford Hospital, a 613-licensed bed tertiary, quaternary and specialty hospital (the “Hospital”), and the primary, specialty and sub-specialty clinics (the “Clinics” and, together with the Hospital, the “Hospital and Clinics”) in which the medical faculty of the School of Medicine provide clinical services. The Hospital and a majority of the Clinics are located on the campus of Stanford University adjacent to the School of Medicine in Palo Alto, California. Other Clinics are located elsewhere on-campus and off-campus in neighboring communities. During the fiscal year ended August 31, 2010, the Corporation treated more than 50,000 patients in its emergency room, admitted more than 23,000 inpatients and recorded more than 346,000 outpatient transactions. From these patient care activities, the Corporation reported total revenues of \$1.9 billion and income from operations of \$100 million for the fiscal year ended August 31, 2010. At August 31, 2010, the Corporation’s total assets were approximately \$2.3 billion, total liabilities were approximately \$1.4 billion and net assets were approximately \$800 million.

The Corporation is solely responsible for the payment of principal of, redemption premium, if any, and interest on the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2, A-3 and B-2, to be reoffered as described in this Reoffering Circular (the “Bonds”). Neither Stanford University nor any of its affiliates other than the Corporation is obligated to pay debt service on the Bonds. Stanford University and the Corporation are not co-guarantors of the debt of each other, and the Corporation and Stanford University receive separate credit ratings from rating agencies.

Capitalized terms used and not otherwise defined in this Appendix A have the meanings set forth in the forepart of this Reoffering Circular.

Corporate Organization and Related Entities

The Corporation is a California nonprofit public benefit corporation. It is exempt from federal income taxation as a charitable organization described in Section 501(c) (3) of the Internal Revenue Code of 1986, as amended (the “Code”) and is not a private foundation as defined in Section 509(a) of the Code.

Set forth below is a listing of other entities to which the Corporation is related or in which it has interests and a brief description of the nature of those relationships or interests. For additional information, see Note 1 of the audited consolidated financial statement of the Corporation included as Appendix B to the Reoffering Circular.

Stanford University (“Stanford University”). Stanford University, of which the School of Medicine is a part, is the sole member of the Corporation. As sole member of the Corporation, Stanford

University elects all elected directors of the Corporation and has the power to amend the governing documents of the Corporation and to take certain other significant actions with respect to the Corporation.

Lucile Salter Packard Children’s Hospital at Stanford (“LPCH”). LPCH, a California nonprofit public benefit corporation and a tax-exempt organization, is the principal teaching affiliate of the School of Medicine that provides pediatric and obstetric services. LPCH operates a 248-bed pediatric and obstetric hospital and related outpatient clinics (collectively, the “Children’s Hospital and Clinics”) on Stanford University’s campus adjacent to the Corporation’s Hospital and Clinics and in certain neighboring communities. LPCH purchases certain services from the Corporation and shares certain services with the Corporation. See “SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA” herein. Stanford University is the sole member of LPCH.

SUMIT Insurance Company Ltd. (“SUMIT”). SUMIT, a company organized and licensed under the laws and jurisdiction of Bermuda, provides claims-made liability coverage to the Corporation and LPCH for Healthcare Professional, Comprehensive General, Miscellaneous Errors/Omissions and Employment Practices liability. See “PROFESSIONAL LIABILITY AND OTHER INSURANCE” herein for additional information. The governing body of SUMIT consists of eight voting directors of whom three are appointed by the Corporation, two by LPCH and the remainder by the appointees of the Corporation and LPCH. The sole shareholder of SUMIT is SUMIT Holding International LLC (“SHI”), a limited liability company organized and licensed under the laws and jurisdiction of Delaware and a tax-exempt organization. The Corporation and LPCH are the sole members of SHI.

University HealthCare Alliance (“UHA”). UHA was formed in January 2011 as a California nonprofit public benefit corporation to own and operate multi-specialty clinics in support of the charitable, education and research purposes of SHC, LPCH and the School of Medicine. SHC, LPCH and Stanford University are the corporate members of UHA. UHA has applied to the Internal Revenue Service for recognition as a tax-exempt organization under Section 501(c)(3) of the Code. For further information about UHA, see “SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA” and “—Market Strategy” herein.

Stanford PET-CT, LLC (“PET-CT”). PET-CT, a California limited liability company, provides radiological services, including positron emission tomography and computerized axial tomography scan services. The Corporation and Stanford University each appoint half of the members of the governing board of PET-CT and are its only members.

Stanford Emanuel Radiation Oncology Center (“SEROC”). SEROC, a joint venture between the Corporation and Emanuel Medical Center, a California nonprofit public benefit corporation operating a 403-bed hospital in Turlock, California, operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities.

History of the Corporation

The Corporation has operated hospital facilities in Palo Alto continuously since 1958, except for the period from November 1997 through March 2000. During that period, the Hospital and Clinics were operated in a joint venture with The Regents of the University of California.

From 1958 to 1997. Stanford University and the City of Palo Alto organized the Corporation in 1957, and the Corporation began operation of Stanford University Hospital the following year, when Stanford University moved its School of Medicine from San Francisco to its present location on the Palo

Alto campus. The Corporation added the Clinics in 1994 when the Corporation assumed operation of the clinics staffed by School of Medicine faculty members and previously operated by Stanford University.

1997 to 2000. In 1997, Stanford University and The Regents of the University of California (the “University of California”) agreed to combine the separate health care facilities and services of the Corporation, LPCH and the University of California, San Francisco Medical Center (“UCSF”) into a single clinical enterprise under the control of UCSF Stanford Health Care, a California nonprofit public benefit corporation organized with Stanford University and the University of California as members. In connection with this transaction, UCSF Stanford Health Care replaced the Corporation as a Member of the Obligated Group created under the Master Indenture.

On November 1, 1997, the Corporation transferred substantially all of its assets, liabilities and operations to UCSF Stanford Health Care. Two years later, the parties agreed to terminate their affiliation. Termination took effect April 1, 2000 with the return of assets and operations to each entity that contributed them, together with liabilities related to those assets. In connection with the termination, the Corporation replaced UCSF Stanford Health Care as a Member of the Obligated Group.

2000 to present. The Corporation resumed operating the Hospital and Clinics on April 1, 2000. During the period since April 1, 2000, the Corporation has focused on strengthening its operating performance, developing initiatives with the School of Medicine, focusing on growth in strategic clinical services and providing high quality care to patients. In furtherance of those objectives, the Corporation has opened major clinical facilities on and off campus. On campus, the Corporation opened a 165,000 square-foot Cancer Center in March 2004, consolidating all outpatient cancer medical services into one facility, making treatment more convenient for patients and giving physicians greater opportunities to coordinate optimal patient care. Off campus, the Corporation opened an outpatient imaging center in 2008, which offers diagnostic imaging services, and opened a 360,000 square-foot facility named the Stanford Medicine Outpatient Center (the “Outpatient Center”) in 2009. The Outpatient Center provides short-stay procedures and other clinical services, with an orthopedic center being a core component of the facility. Other services relocated from the Hospital to the Outpatient Center include an imaging center, sleep center and dermatology center. In October 2009, the Corporation completed a multi-year upgrade of its clinical information systems. In addition, the Corporation has developed a master plan and applied for local and state approvals for a major facilities replacement project as described under the caption “Long-Range Financial Plan and Additional Capital Needs” herein.

In 2011, the Corporation launched its Corporate Partners Program and recruited six leading Silicon Valley technology companies to join together to provide philanthropic support for development of the facilities replacement project referred to in the preceding paragraph. Apple, eBay, HP, Intel, Intuit and Oracle are founding members of the new Stanford Hospital Corporate Partners Program. Their contributions are projected to provide as much as \$150 million over the next 10 years to help build the replacement facilities and create a global model for patient-centered, technologically advanced health care.

Governance

Board of Directors. Pursuant to the bylaws of the Corporation, the Board of Directors (the “Board”) is comprised of six *ex-officio* directors, who are occupants of the position specified below under occupation, and between seven and twenty-four elected directors as determined by Stanford University. Currently, the Board consists of six *ex-officio* directors and eighteen directors elected by Stanford University. Each director has one vote. Elected directors, except for the community physician noted below, serve for three-year terms commencing on January 1 or on such other date as specified by Stanford University. The community physician director represents the community for a one-year term

commencing on January 1. The Board has three classes of directors that are equally sized to the extent possible, such that in each year the terms of the directors in only one class expire. Elected directors may serve up to three consecutive three-year terms. At least one year must then elapse before such a director may be elected for an additional term. The current elected and *ex-officio* directors, the year of each director's commencement of service on the Board, the year of expiration of each director's current term and each director's occupation are as follows:

Name	Service Commenced	Year of Expiration of Current Term	Occupation
Marc Andreessen	2006	2012	Technology entrepreneur
Bryan Bohman, MD, <i>ex officio</i>	2008	N/A	Chief of Staff
Susan L. Bostrom	2004	2013	Senior executive for a large public corporation
Mariann Byerwalter, Chair	1999	2012	Chairman of an advisory group
Bruce Cozadd	2004	2013	Chairman and CEO of a publicly traded pharmaceutical company
Christopher Dawes, <i>ex officio</i>	2000	N/A	President and CEO, LPCH
John Freidenrich	2001	2012	Founder of a venture capital firm
Stephen Hearst	2008	2011	Philanthropist and director of a commercial real estate company
Joel Hyatt	2010	2012	Co-founder of a cable television channel
Ron Johnson	2008	2011	Executive for a large public corporation
Charles Koob	2011	2013	Retired Attorney
John Levin, Vice Chair	2009	2011	Attorney
John Lillie, <i>ex officio</i>	2007	N/A	Chair, LPCH's Board of Directors
Ted Love, MD	2011	2013	Senior executive of a pharmaceutical company
John Morgridge	2008	2013	Chairman Emeritus of the board of a large publicly traded corporation
Woodrow A. Myers, MD	1996	2011	Health care consultant
Denise O'Leary	2000	2011	Private investor
Philip Pizzo, MD, <i>ex officio</i>	2001	N/A	Dean, Stanford University School of Medicine
Christopher Redlich	2009	2012	Former Chairman and Owner of contract stevedore and terminal operating company
Norman Rizk, MD, <i>ex officio</i>	2001	N/A	Senior Associate Dean for Clinical Affairs, Stanford University School of Medicine
Amir Dan Rubin, <i>ex officio</i>	2011	N/A	President and CEO, the Corporation
Scott Wood, MD	2011	2012	Community Physician
Steve Young	2003	2012	Founder of a nonprofit corporation
William Younger	2007	2012	Managing director of a venture capital firm

Board Committees. The bylaws of the Corporation provide for an Audit and Compliance Committee (auditor control, supervision and selection) and Quality and Service Committee (service quality and patient safety) and permit the Board to create such other committees as it deems necessary for the effective governance of the Corporation. Pursuant to this power, the Board has created the following committees: Compensation, Credentials, Policies and Procedures, Development, Facilities, Finance, Information Technology, Investment, and Nominations and Governance. In addition, from time to time,

the Board may create one or more ad hoc committees to deal with such matters as the Board may delegate to such ad hoc committee.

Management

The bylaws of the Corporation provide for the positions of President (Chief Executive Officer), Chief Financial Officer and Chief Operating Officer. The Board is authorized to appoint the President from among candidates nominated by the President of Stanford University and following consultation with the President of Stanford University. The President of the Corporation is authorized to appoint the Chief Financial Officer and Chief Operating Officer and is also permitted to appoint and prescribe the duties of such additional officers as the President may deem proper. The position of Chief Operating Officer is currently vacant. Biographical information on the current executive management group is set forth below.

Amir Dan Rubin, President and Chief Executive Officer. Amir Rubin was appointed President and Chief Executive Officer of the Corporation effective January 3, 2011. Prior to his appointment as President and Chief Executive Officer of the Corporation, Mr. Rubin served as the Chief Operating Officer at the 832-bed UCLA Health System in Los Angeles, California from October 2005 until January 2011. In that role, Mr. Rubin was responsible for the operations of the Ronald Reagan UCLA Medical Center, Mattel Children's Hospital, Resnick Neuropsychiatric Hospital, Santa Monica-UCLA Medical Center and Orthopedic Hospital and outpatient centers located in the west side of Los Angeles. Before joining UCLA Health System, Mr. Rubin was Chief Operating Officer of Stony Brook University Hospital, a 504-bed, comprehensive academic medical center on Long Island, New York. Before joining Stony Brook, Mr. Rubin served as Assistant Vice President of Operations for Memorial Hermann Hospital in Houston, Texas, an 818-bed, level-1 trauma center, which serves as the primary teaching hospital for University of Texas-Houston Medical School. He holds a M.S. in Health Care Administration and a M.B.A. from the University of Michigan and a B.S. in Economics with a minor in Business Administration from the University of California, Berkeley.

Daniel J. Morissette, Chief Financial Officer. Daniel Morissette became the Chief Financial Officer of the Corporation in August 2007. Prior to joining the executive team of the Corporation, Mr. Morissette served for four years as Senior Vice President, Finance and Strategy at the University of Toledo Medical Center and the University of Toledo, upon the merger of the health system with the University. For the previous 11 years, Mr. Morissette served in various senior management roles, including Senior Vice President and Chief Financial Officer, for the Herman M. Finch University of Health Sciences/The Chicago Medical School. He serves on the audit committee and formerly served on the operations and strategy committee of the University HealthSystem Consortium. Mr. Morissette is a Certified Public Accountant, holds a B.S. in Commerce, Concentration in Accountancy, from DePaul University, and an M.B.A. in Finance and Policy Studies from the University of Chicago, Graduate School of Business.

Carolyn D. Byerly, Chief Information Officer. Carolyn Byerly became the Chief Information Officer of the Corporation in May 2002. Ms. Byerly has nearly 20 years of experience as a Chief Information Officer and Vice President of Information Services for healthcare institutions, including at Lovelace Health System in Albuquerque, New Mexico, Mayo Clinic in Scottsdale, Arizona, Good Samaritan Health System in San Jose, California and Children's Hospital at the University of California, San Francisco Medical Center.

Nancy J. Lee, Chief Nursing Officer, Vice President Patient Care Services. Nancy Lee joined the Corporation in 2002 as Vice President, Clinical Services and became the Chief Nursing Officer in April 2009. Prior to joining the Corporation, she worked at Daniel Freeman Hospitals, Inc. and was

formerly Chief Operating Officer and Chief Nursing Officer of Tenet Health Systems. Ms. Lee has a M.S. in Nursing Administration and a B.S. in Nursing from California State University, Dominguez Hills, Carson, California.

Kevin Tabb, M.D., Chief Medical Officer. Kevin Tabb joined the Corporation as Chief Quality and Medical Information Officer in April 2005 and in January 2008 was promoted to a newly created position as the Vice President for Medical Affairs. Effective September 1, 2009, Dr. Tabb became the Corporation's Chief Medical Officer. In March 2011, Dr. Tabb's role was expanded to include Physician Network Development and Operations. In connection with this expansion of duties, Dr. Tabb assumed additional executive leadership responsibility for the development and operations of the community-based physician network contemplated by UHA and now serves as Board Chair of UHA. From 2003 until joining the Corporation, Dr. Tabb was President of Clinical Data Services, a division of GE Healthcare Information Technologies. Dr. Tabb received his medical degree from Hebrew University and completed his residency at Hadassah Hospital in Jerusalem, Israel.

Jenni Vargas, Vice President, Business Development and Strategic Planning. Jenni Vargas joined the Corporation in 2007 as Vice President, Business Development and, in January 2008, Strategic Planning was added to her responsibilities. Prior to joining the Corporation, she worked at HealthNet of California, most recently as its Healthcare Delivery Officer. Ms. Vargas was formerly the Group Vice President for MedPartners Northern California Region and Vice President and General Manager for Cigna Northern California. Ms. Vargas has a B.A. in Human Biology from Stanford University and a M.B.A. from the University of California-Los Angeles.

SERVICES, FACILITIES AND OPERATIONS

The Corporation operates the Hospital and Clinics both on the campus of Stanford University and in nearby communities. In 2010, U.S. News and World Report ranked the Hospital and Clinics as one of the nation's top twenty medical centers in cancer treatment, orthopedics, heart and heart surgery and other specialties.

Principal Patient Services

The Corporation provides comprehensive primary and secondary care to residents of the San Francisco Bay Area. In addition, the Corporation provides many highly specialized referral services to patients residing in northern California and the surrounding regions. See "SERVICES, FACILITIES AND OPERATIONS—Service Area" herein.

Since 2001, the Corporation has concentrated its planning, development and marketing on five Strategic Clinical Services (the "Strategic Clinical Services"): Cardiac Care, Cancer Treatment, Solid Organ Transplantation (Abdominal), Orthopedics and Neurosciences. Historically, these services have been strengths of both the Hospital and Clinics and the School of Medicine. Such services are intensively focused on research and innovation, both strengths of the Corporation in management's view, and many procedures in these services lines are eligible for higher than average payments from third-party payors. Management planning, development and marketing efforts are directed toward establishing the Hospital and Clinics as a leading center in the United States in each of these Strategic Clinical Services. Brief descriptions of the five Strategic Clinical Services follow. For additional information on utilization of the Strategic Clinical Services for the three years ended August 31, 2010 and the six months ended February 28, 2010 and February 28, 2011, see "Utilization" herein.

Cardiac Care. The Hospital and Clinics are a referral center for the medical and surgical treatment of end-stage heart failure and aortic disease. Treatments available at the Hospital and Clinics

include heart, heart/lung and lung transplants, aortic surgery, revascularization, implantation of mechanical pumps to replace heart muscle function as a temporary bridge to transplant and as a permanent therapy, stent placement, catheter ablation, internal cardioverter defibrillators and other electrophysiology treatments for heart rhythm problems, minimally invasive heart surgery and cardiac imaging. Breakthrough therapies, including new interventional devices to treat coronary artery disease and heart failure and to prolong the quality of heart muscle function, have also been developed as a part of this Strategic Clinical Service.

Cancer Treatment. The Corporation offers a multidisciplinary approach to the diagnosis and treatment of cancer, which brings together practitioners from a number of specialties, including medical and surgical specialties, radiation oncology, radiology and pathology. Specialty services include the treatment of cancers of the breast, gastrointestinal tract, head and neck, lung, and genitourinary tract, and gynecologic cancers, sarcoma and melanoma, as well as leukemia, lymphoma, and multiple myeloma. The bone marrow transplant program, specializing in the treatment of leukemia, Hodgkin's disease and lymphomas, is a significant part of the cancer treatment program. Many cancer treatments, particularly chemotherapy, are now performed in the Hospital and Clinics' ambulatory infusion treatment area, which is open 365 days a year. Treatment of brain cancer is also provided and is described below under "Neurosciences." The cancer clinical trials office oversees more than 250 active cancer related clinical trials providing patients access to experimental treatments.

The Corporation completed construction of the Cancer Center outpatient facility in 2004 and further expanded the facility in 2007. These additions have allowed the Corporation to consolidate cancer services for radiation oncology and gene therapies, as well as an ambulatory treatment and apheresis center, into one building.

Solid Organ Transplantation (Abdominal). Services provided include kidney, simultaneous kidney/pancreas, pancreas, liver and intestinal transplantation. Such surgical transplantation services are in addition to heart, heart/lung and lung transplant services described above under "Cardiac Care." All transplant programs utilize multi-disciplinary teams comprised of experts in transplant surgery, immunology and infectious disease. Patients benefit from research protocols and receive care and education from specialty-trained bedside nurses, transplant coordinators, social workers and rehabilitation personnel.

Orthopedics. Services provided include total joint replacements, sports medicine, hand and upper extremities, foot and ankle, spine, trauma, tumor, and physiatry. The adult reconstructive team, also known as the total joint replacement team, develops and implements the protocols for recovery and return to productivity. The team also provides the latest in spine surgery to enable high degrees of mobility for patients who are otherwise immobilized through injury or pain and works closely with the multi-disciplinary teams of rehabilitation services and pain management experts to serve the patient from pre-surgery through post-surgical recovery.

The opening of the Outpatient Center in February 2009 supports continued growth and expansion in the scope of the Corporation's orthopedic services and gives the Corporation an opportunity to develop and implement additional innovations in orthopedic care.

Neurosciences. Development of treatments for diseases of the brain are emphasized at the Hospital and Clinics. Neurosurgeons, neurologists, radiologists and other specialists collaborate at the Hospital to design and develop these treatments. Brain tumor patients have access to chemotherapy, biologic agent therapy and gene therapy, as well as radiation therapy, including CyberKnife (developed by School of Medicine faculty at the Hospital) for deep-seated brain tumors and brain metastases. An extensive cerebro-vascular surgery program, including neuro-interventional radiology, treats patients with

aneurysms, complex vascular malformations, and stroke. The Corporation also offers medical and neurosurgical treatments for intractable epilepsy, aggressive acute treatment of stroke, movement disorders such as Parkinson's disease, spine care, pain management, multiple sclerosis, amyotrophic lateral sclerosis and other neuromuscular disorders.

Other Clinical Services. The Corporation is, in the view of management, a recognized leader in providing a number of other services, including primary care and internal medicine, treatment of asthma, treatment of blood disorders, management of critical care patients, dermatologic care for complex skin disorders and vascular malformations, diagnostic radiology, endocrinology, endocrine surgery, gastrointestinal medicine and surgery, genetics, care for hearing disorders and cochlear implants, treatment of hepatobiliary disease, HIV care, treatment of immunological disorders, treatment of female and male infertility, laboratory medicine and pathology, laparoscopic surgery, major joint replacements, maxillo/craniofacial surgery, nephrology, ophthalmology, pain management, psychiatry, interventional and neurointerventional radiology, rehabilitation, rheumatology and treatment of bone malformation and disease, plastic surgery, pulmonary medicine and treatment for sleep disorders, surgery for scoliosis and other spinal disorders, sports medicine, urology, vascular medicine and surgery and women's health.

Seismic Compliance

California's Hospital Seismic Safety Act (the "Seismic Safety Act") requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. Facilities classified by the State of California as non-compliant must be retrofitted, replaced or removed from acute care service by applicable deadlines in 2013 or 2030. The California Office of Statewide Health Planning and Development ("OSHPD") has classified a substantial portion of the Hospital as compliant with seismic safety structural standards until 2030 and beyond. All inpatient care activities are located in facilities that are structurally compliant until 2030 or beyond. However, these facilities have utility and other connections to facilities that are only compliant until 2013 under prescribed circumstances. Effective January 1, 2011, the Seismic Safety Act was further amended to authorize OSHPD to extend the structural compliance deadline from 2013 until January 1, 2016 for eligible hospitals that apply for the extension due to local planning delays. In addition, such legislation authorizes OSHPD to grant two additional one-year extensions, until January 1, 2018, to facilities that meet certain criteria in the legislation.

Management expects the Corporation to be eligible for such extensions to January 1, 2018. Based on current estimated schedules for obtaining local approvals and for the construction of the replacement facilities, management currently projects that the construction of the replacement facilities will be complete by January 1, 2018.

In April 2011, the Seismic Safety Act was further amended to authorize OSHPD to extend the structural compliance deadline from January 1, 2018 to January 1, 2020 for eligible hospitals that apply for the extension. This extension is dependent on federal approval of the fiscal provisions of a related bill, which approval has yet to occur. Management is evaluating the submission of an application for this additional extension.

Certain utilities for the Hospital are supplied from a central plant operated by Stanford University. The central plant contains facilities that are only compliant until 2013 in their current state. Stanford University is developing plans to retrofit the existing facilities and construct a new central plant facility with an objective of compliance with the Seismic Safety Act by January 1, 2018.

Long-Range Master Plan and Additional Capital Needs

The Corporation has developed a master plan to replace, expand and renovate major portions of the Hospital. The master plan contemplates the construction of approximately 1.1 million square feet of additional facilities to house 456 new beds in private rooms, new surgical operating, diagnostic and treatment suites, a new emergency department and associated nursing and support space, and approximately 429,000 square feet of new clinics, medical offices, and administrative offices. These facilities will replace approximately 700,000 square feet of existing facilities, resulting in a net increase of approximately 824,000 square feet of facilities. The master plan is anticipated to be completed in multiple phases under a thirty-year development agreement with the City of Palo Alto, the Corporation, LPOCH and Stanford University that governs the local entitlements. The first phase of the master plan consists of construction of a 368-bed hospital to be comprised of four modular pavilions adjacent to the existing Hospital and the renovation of three existing inpatient units to house additional beds and support space. The first phase of the master plan is designed to support growth of tertiary services and Strategic Clinical Services and to meet Seismic Safety Act standards. Upon completion of the first phase, the new facilities, together with the renovated portions of the existing Hospital, will house approximately 580 patient beds. Management currently estimates the cost of the first phase to approximate \$2 billion. Assuming that local entitlements and other approvals are obtained on a timely basis, construction and renovation activities are scheduled to begin in 2013 and continue over a five-year period. There is no assurance that such approvals will be granted in a timely manner with respect to the initial phase of the master plan or that additional phases of the master plan will be constructed. No construction contracts have been entered into as of the date of this Reoffering Circular. Construction and renovation activities have been and will continue to be planned to permit inpatient and outpatient services to continue without interruption during the first phase and any additional phases of the master plan.

Management currently estimates total expenditures on capital improvements, including costs related to the master plan, to be approximately \$3.1 billion over the next eleven fiscal years, subject to annual budget review and approvals. Funding sources for the first phase include cash flows from operations, investment income, debt (currently estimated at approximately \$650 million) and philanthropy. Capital plan expenditures remain subject to the review and approval of the Board in light of the priorities, debt capacity and resources of the Corporation, and accordingly are subject to material change.

The School of Medicine

The School of Medicine was established in 1908 as a part of Stanford University and today is one of the pre-eminent schools of medicine in the United States. In 2011 U.S. News and World Report ranked the School of Medicine fifth nationally (in a tie) among research-oriented medical schools based upon peer assessment surveys. The School of Medicine offers an M.D. program; M.A. and Ph.D. programs in various areas of biosciences; intern and residency programs at the Hospital and Clinics and LPOCH and a Medical Scientist Program in which students earn both an M.D. and Ph.D.

The mission statement of the School of Medicine is in part "...to be a premier research-intensive medical school that improves health through leadership and a collaborative approach to discovery and innovation in patient care, education and research...." A specific strategic goal of the School of Medicine is to be a leader in the clinical application of knowledge acquired and scientific innovations achieved through research at the School of Medicine. The Hospital and Clinics provide the settings where these clinical applications are delivered to adult patients.

Joint Strategic Initiatives. The School of Medicine and the Corporation collaborate on strategies addressing areas of clinical excellence and patient satisfaction and on a variety of initiatives in translational medicine.

Collaborations between the School of Medicine and the Corporation include:

- A Council of Clinical Chairs, co-chaired by the Senior Associate Dean for Clinical Affairs of the School of Medicine and the Corporation's Chief Operating Officer. Amir Rubin, the Corporation's Chief Executive Officer, is serving as the co-chair until a replacement is found for the vacant Chief Operating Officer position. The Council includes the chairs of the 17 departments of the School of Medicine as well as key officers of the Corporation.
- Joint planning involving the School of Medicine, other components of Stanford University and the Corporation to integrate the clinical services, business needs and information technology priorities.
- Coordination of development and philanthropy for the mutual benefit of the two institutions.
- Collaboration in protecting the privacy and security of patient health information.
- Clinical Services and outreach clinics with select community hospitals.
- Collaboration regarding health care reform and medical center strategy.

The School of Medicine has undertaken to improve the position of the Hospital and Clinics in the Strategic Clinical Services and other tertiary and quaternary services. The School of Medicine has created four institutes that align research, education and clinical efforts, including the Stanford Institute for Stem Cell Biology and Regenerative Medicine, the Stanford Cardiovascular Institute, the Neuroscience Institute at Stanford, and the Immunology, Transplantation and Infection Institute. The School of Medicine also plans to develop inter-departmental clinical centers, such as a vascular center, to promote linkage between the School of Medicine and the Hospital and Clinics in the care delivered to the patient.

Operational Relationships Among the Corporation, Stanford University, LPH and UHA

Purchased Services from the School of Medicine. Services provided at the Hospitals and Clinics by the School of Medicine include emergency room physician coverage, medical direction and professional clinical services, which are covered by a Professional Services Agreement ("PSA") with the School of Medicine. The expenses for these services are included in purchased services in the consolidated statements of operations and changes in net assets and were approximately \$265 million for the year ended August 31, 2010.

The compensation methodology in the PSA is based on productivity and degree of complexity of the clinical procedures performed. Under the PSA, the payment to the School of Medicine is calculated using the volume of clinical work relative value units. As the School of Medicine achieves the strategic goal of seeing more patients, it is expected that the payment to the School of Medicine for services will increase.

Other Transactions with Stanford University. Services provided to the Corporation by Stanford University include telecommunications, transportation, utilities, blood products, and certain

administrative services, which include legal and internal audit. The Corporation's cost of such services for the fiscal year ended August 31, 2010 was approximately \$86 million and is reflected in various expense categories in the consolidated statement of operations and changes in net assets.

The Corporation also received payment for services provided to Stanford University including primarily building maintenance, housekeeping, and security. Costs incurred by the Corporation in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from Stanford University totaled \$33 million for the fiscal year ended August 31, 2010, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

The Corporation received certain grant monies for clinical trials from Stanford University that totaled \$6.6 million for the year ended August 31, 2010 and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and recoveries. The Corporation transferred \$6.2 million to Stanford University for academic grants. The Corporation's transfers to Stanford University are reflected in the consolidated statements of operations and changes in net assets as transfers to Stanford University.

Transactions with LPCH. The Corporation and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll, compliance, risk management and general services. The costs for these shared services are allocated between the Corporation and LPCH based on negotiated rates. For the fiscal year ended August 31, 2010, the total cost of shared services departments was approximately \$174 million, of which approximately \$20 million was reimbursed by LPCH. The reimbursement from LPCH is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

The Corporation also provides various services to LPCH, including operating room facilities and services, cardiac catheterization, interventional radiology, radiation oncology and laboratory services. The Corporation charges LPCH for the services and products purchased by LPCH based on either (i) a percentage of charges intended to approximate actual cost or (ii) on the basis of actual cost per procedure. Reimbursement from LPCH for purchased services provided by the Corporation totaled approximately \$46 million for the year ended August 31, 2010 and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other services provided by the Corporation to LPCH include services provided by interns and residents, billings and collections, building maintenance and utilities. Reimbursement of these services totaled \$21 million for the year ended August 31, 2010, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Transactions with UHA. SHC has agreed to sponsor UHA's Menlo Clinic operating division comprised of two multi-specialty clinics operated by UHA in Menlo Park, California, and in connection with such sponsorship SHC has agreed to fund UHA's general overhead costs and to supplement the operating division's revenues if necessary to fund its operating and capital costs. Management of SHC estimates that transfers of such sponsorship amounts will not be material to the financial condition of SHC.

Other Related Party Transactions. For additional information concerning related party transactions, see Note 12 of the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular.

Bed Complement

As of August 31, 2010, the licensed and operational bed complement of the Corporation was allocated among the following services:

TABLE 1
Bed Complement by Service
as of August 31, 2010

<u>Service</u>	<u>Number of Beds</u>	
	<u>Licensed</u>	<u>Operational</u>
Medical/Surgical	491	370
Intensive Care	67	58
Rehabilitation	17	0 ⁽¹⁾
Coronary Care	8	8
Psychiatric	30	30
Total	<u>613</u>	<u>466</u>

⁽¹⁾ Between August 31, 2008 and May 2009, the Corporation ceased operation of its rehabilitation service, including the 17 rehabilitation beds, to add 27 additional medical/surgical beds.

Source: Corporation Records.

Description of Admitting Medical Staff

As of August 31, 2010, the admitting medical staff of the Corporation was comprised of 1,846 physicians. Each member of the admitting medical staff is assigned to one of the medical staff departments and is granted hospital privileges to treat patients in accordance with his/her experience, training and professional capabilities. Twelve hundred and forty-six members of the admitting medical staff (approximately 67% of the total staff) are full-time members of the faculty of the School of Medicine and 600 members of the admitting medical staff are community physicians (approximately 33% of the total staff). Approximately 79% of the Corporation's admitting medical staff members are board certified in their respective specialties. The following table shows members of the admitting medical staff by specialty, average age and board certification.

TABLE 2
Medical Staff Composition
as of August 31, 2010

Specialty	Number of Staff	Average Age	Number of Staff Who are Board Certified	Percentage of Staff Who are Board Certified
Anesthesia	183	46	127	69.4%
Cardiothoracic Surgery	32	49	24	75.0%
Dermatology	42	48	38	90.5%
Medicine	500	48	437	87.4%
Neurology	56	49	47	83.9%
Neurosurgery	34	44	17	50.0%
Obstetrics & Gynecology	106	48	83	78.3%
Ophthalmology	67	51	60	89.6%
Orthopaedic Surgery	88	45	61	69.3%
Otolaryngology/Head&Neck	63	46	45	71.4%
Pathology	53	50	48	90.6%
Pediatrics	78	48	57	73.1%
Psychiatry	182	52	116	63.7%
Radiation Oncology	19	47	15	78.9%
Radiology	149	46	120	80.5%
Surgery	171	47	137	80.1%
Urology	23	50	21	91.3%
Totals	1,846		1,453	
Average Age		48		
Percentage				78.7%

Source: Corporation Records.

The following table shows the number of admitting medical staff physicians in each indicated age group, the percentage of the total admitting medical staff for each age group and the percentage of admissions for each age group for the fiscal year ended August 31, 2010.

TABLE 3

**Admissions by Physician Age Group
For the Fiscal Year Ended August 31, 2010**

Age Group	Number of Physicians in Age Group	Percent of Physicians in Age Group	Percent of Total Admissions
< 25	1	0.1%	0.0%
25-34	217	11.8	7.8
35-44	630	34.1	43.6
45-54	449	24.3	27.8
55-64	364	19.7	17.3
65+	185	10.0	3.5
Total	1,846	100.0%	100.0%

Source: Corporation Records.

The following table shows the top ten admitters based on patient admissions and listed by specialty for the fiscal year ended August 31, 2010.

TABLE 4

Top Ten Admitting Physicians Based on Patient Volume For the Fiscal Year Ended August 31, 2010

Rank	Physician Specialty	Admissions	Age
1.	Neurosurgery	376	58
2.	Orthopedic Surgery	349	59
3.	General Surgery	319	63
4.	Orthopedic Surgery	303	39
5.	Orthopedic Surgery	276	58
6.	General Surgery	275	53
7.	General Surgery	254	45
8.	Orthopedic Surgery	238	46
9.	General Internal Medicine	237	42
10.	General Surgery	231	50
	Total Admissions	2,858	
	Average Age		51

Source: Corporation Records.

Service Area

The Corporation has classified its service area into the four geographical markets identified below. In the Regional, California and National/International Markets, the Corporation provides primarily tertiary and quaternary care. The composition of these markets is described below:

Local Market—San Mateo and Santa Clara counties.

Regional Markets

- East Bay—Alameda, Contra Costa, and Solano counties
- Central Coast—Monterey, San Benito, San Luis Obispo, Santa Cruz counties
- Central Valley—Madera, Fresno, Kings, Merced, Sacramento, San Joaquin, Stanislaus and Tulare counties
- North Bay—Sonoma, Marin, Napa and San Francisco counties

California Market—Counties north and south of the Regional Markets

National and International Markets—Nevada and the Pacific Northwest are the predominant sources of national cases; Asia Pacific countries are the predominant sources of international cases.

San Mateo and Santa Clara counties comprise the Local Market for the Corporation. This two-county area has been historically the predominant source of inpatient volume for the Hospital and Clinics, accounting for about 55% of inpatient volume.

The table below provides the following information by geographic region: (1) contribution to the Corporation's outpatient volume and a break-down of outpatient charges; (2) actual and projected population and projected population change; and (3) median age and average household income.

TABLE 5

**Clinics Volume and Revenues and
Certain Demographic Information**

Local and Regional Markets	Calendar Year 2009⁽¹⁾		Actual Population 2010	Projected Population 2015	Projected Percent Population Change	Median Age 2010	Average Household Income 2010
	Percent of Outpatient Volume	Percent of Charges					
Local Market	55.4%	46.5%	2,548,221	2,650,193	4.0%	40	\$120,251
Regional Market:							
East Bay	11.4	12.9	2,988,278	3,113,378	4.2	38	95,958
Central Coast	8.7	10.1	1,010,045	1,042,848	3.2	38	84,616
Central Valley	11.3	14.3	4,591,209	4,989,241	8.7	33	62,175
North Bay	2.9	3.1	1,690,559	1,746,145	3.3	43	101,972
Outside Local and Regional Markets	10.3	13.1	—	—	—	—	—
	<u>100%</u>	<u>100%</u>					

⁽¹⁾ Most recent year for which data are available.

Source: Thomson Reuters The Market Planner Plus. Data includes 18+ population only.

The following table provides the discharge data for calendar years 2007, 2008 and 2009 (the most recent years for which such data are available) for the Corporation and the hospitals in and near the Local Market, which management has identified as competitors of the Corporation. Table 6 also provides case mix index data for calendar year 2009 (the most recent year for which such data are available). The case mix index (the "Case Mix Index") is an indicator of the complexity and intensity of the services provided.

TABLE 6**Local Market Area and Selected Regional Market Competitors
Discharges and Case Mix Index Data**

	Calendar Year 2007		Calendar Year 2008		Calendar Year 2009		CY 2009 Case Mix Index
	Discharges	% of total	Discharges	% of total	Discharges	% of total	
Stanford Hospital Santa Clara Valley Medical Center	13,029	7.3%	12,663	7.2%	13,178	7.7%	1.74
El Camino Hospital ⁽¹⁾	19,513	10.9	19,965	11.3	18,546	10.8	1.13
Kaiser Foundation Hospital - Santa Clara	14,771	8.3	14,938	8.5	15,447	9.0	1.20
Good Samaritan Hospital - San Jose	15,290	8.6	16,293	9.2	16,295	9.5	1.36
Mills-Peninsula Medical Center	14,644	8.2	13,922	7.9	14,624	8.5	1.36
O'Connor Hospital	13,328	7.5	13,691	7.7	12,854	7.5	1.27
Kaiser - Santa Teresa Community Hospital	12,991	7.3	12,729	7.2	11,944	7.0	1.22
Regional Medical Center of San Jose	11,831	6.6	10,507	5.9	10,299	6.0	1.23
Seton Medical Center	8,784	4.9	9,131	5.2	9,204	5.4	1.55
Sequoia Hospital	7,441	4.2	7,218	4.1	7,112	4.1	1.43
Kaiser – Redwood City	6,559	3.7	6,492	3.7	6,333	3.7	1.29
Kaiser – South San Francisco	5,373	3.0	5,409	3.1	5,335	3.1	1.35
Community Hospital of Los Gatos ⁽¹⁾	4,896	2.7	4,476	2.5	4,264	2.5	1.40
San Mateo County General Hospital	3,545	2.0	3,244	1.8	-	-	-
California Pacific Medical Center ⁽²⁾	3,730	2.1	3,770	2.1	3,703	2.1	1.17
University of California San Francisco Medical Center ⁽²⁾	2,341	1.3	2,283	1.3	2,244	1.3	1.34
All Other Hospitals ⁽³⁾	2,000	1.1	2,042	1.2	2,033	1.2	1.89
Total discharges	<u>18,726</u>	10.5	<u>17,907</u>	12.0	<u>18,071</u>	10.5	
	<u>178,792</u>		<u>176,680</u>		<u>171,486</u>		

⁽¹⁾ Community Hospital of Los Gatos was acquired by El Camino Hospital in 2009. The discharges and Case Mix Index data are reported under El Camino Hospital for calendar year 2009.

⁽²⁾ Although not actually within the Local Market boundaries, Corporation management identifies as a competitor comparable to other competitors within the local market.

⁽³⁾ Other hospitals include all hospitals utilized by residents of San Mateo and Santa Clara counties.

Data include all 18+ Local Market and selected Regional Market patients; Case Mix Indices (CMI) are based on Thompson Reuters 2009 MSDRG weights. CMI based on Local Market and selected Regional Market adult inpatient discharges only.

Source: Thomson Reuters The Market Planner Plus.

As indicated in the Case Mix Index data in Table 6, the Corporation has a substantially higher Case Mix Index than all but one of the identified competitor hospitals. Competitor hospitals in the Local Market primarily focus on lower complexity and intensity cases. While also providing a significant amount of care at this level, the Corporation also provides care to patients whose cases are classified as high acuity and complex cases in and near the Local Market, many of which are transferred to the Hospital and Clinics from other local hospitals. In large part, the most acute and difficult cases come to the Hospital and Clinics because the Hospital and Clinics, together with the UCSF, are the only hospitals in the San Francisco Bay Area to offer many of the treatments and procedures necessary for these patients. Management's strategic decision to concentrate on the five Strategic Clinical Services reflects its opinion that higher acuity services will produce higher operating margins than lower acuity services.

Two of the Corporation's competitors have announced or commenced expansion plans in Santa Clara and San Mateo counties, and one competitor recently completed and began operations at a replacement facility:

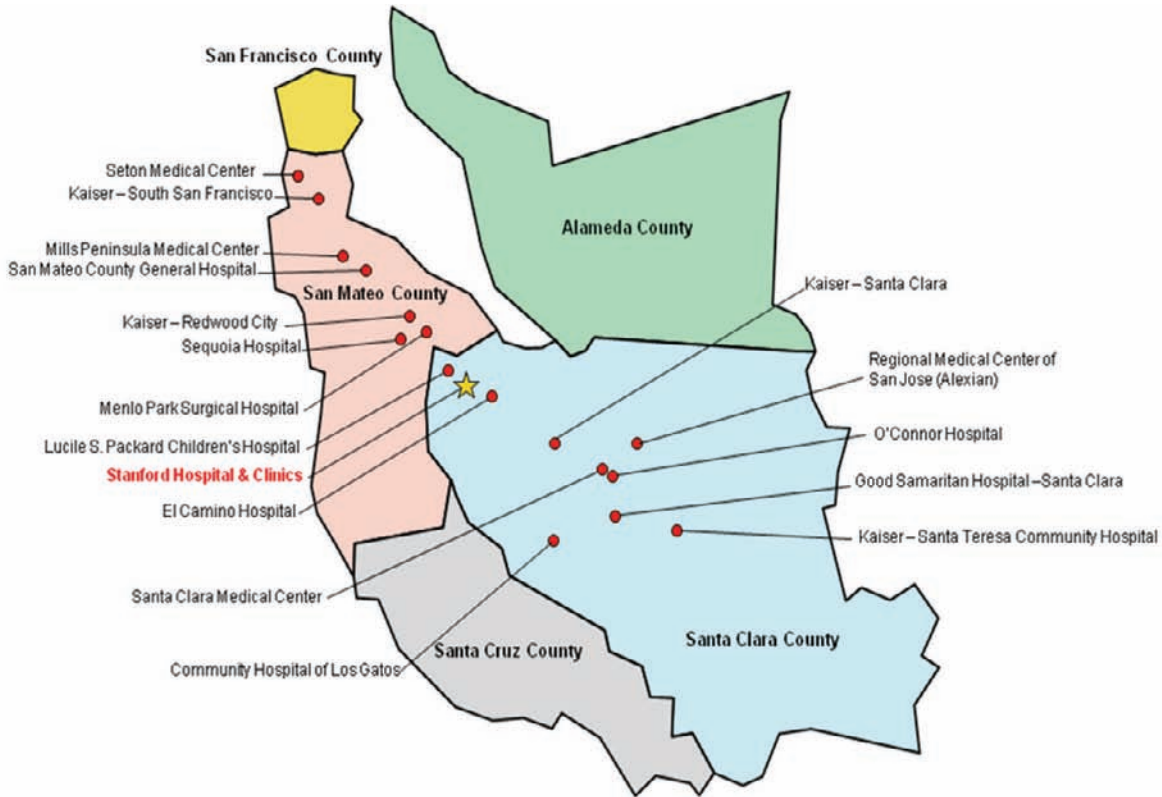
Sequoia Hospital, an acute care hospital in Redwood City operated by Catholic Healthcare West, has commenced construction on a hospital replacement and retrofit project. The redesigned campus will feature a new 167-bed hospital facility. The retrofit of the campus and completion of all projects is estimated to be complete by Spring 2013.

The Palo Alto Medical Foundation, an affiliate of Sutter Health, plans to construct a medical campus in San Carlos, 9.8 miles from the Hospital. The announced construction plans include medical offices, laboratory and radiology services, emergency care and a 97-bed, full-service, acute care hospital, to be built in two phases. The first phase will be an outpatient medical center scheduled to open in 2013. The second phase plans to add an acute care hospital at a later date.

Mills-Peninsula Health Services, an affiliate of Sutter Health, recently completed and opened a 241-bed replacement hospital in Burlingame, 21 miles from the Hospital.

Service Area Map

Below is a map of the general service area of the Corporation, including portions of the Local and Regional Market areas.



Market Strategy

Overall, the Corporation's strategic plan calls for near-term growth in the Strategic Clinical Services and other services in which the Corporation has demonstrated distinction, focusing on specific services in specific markets based upon services then available in such markets and other factors. The strategic plan also calls for strengthening Local Market presence. This strategy is intended to promote growth in higher acuity inpatient and outpatient procedures.

A principal focus of the strategic plan is the five Strategic Clinical Services: Cardiac Care, Cancer Treatment, Solid Organ Transplantation (Abdominal), Orthopedics and Neurosciences. The Corporation's goal is to grow inpatient and outpatient volume and expand national/international distinction in these services. The growth strategy is based on leveraging the Corporation's clinical innovations already being applied in these services. See "The School of Medicine" herein. The growth strategy also provides for more rapid translation of faculty research into clinical care. Leverage strategies are expected to be tailored to the opportunities in each market and are expected to include selective partnering with other institutions, management of subspecialty services for other institutions, development of outreach infrastructures that include both on-site and web-based delivery of care, and expanded contracting with payers for selected clinical services.

The Corporation's strategic plan envisions sustaining and increasing the share of the Corporation's patient care volume and revenue derived from higher-complexity tertiary and quaternary cases in the Regional, California and National and International markets, while strengthening the

Corporation's presence in the Local Market through delivery of outpatient subspecialty services in selected local communities.

The following strategies of the Corporation and the School of Medicine are intended to increase higher-complexity tertiary and quaternary cases:

- Developing more complex treatments and therapies in both inpatient and outpatient settings.
- Focusing on the more complex and challenging treatment modalities within the Strategic Clinical Services.
- Focusing growth strategies on new services and more advanced treatments and methodologies.

Current actions being taken to implement these strategies include:

- In the Cardiac Care Strategic Clinical Service, concentrating on more complex and difficult revascularization procedures, such as coronary artery bypass graft and percutaneous transluminal coronary angioplasty procedures.
- In the Cancer Treatment Strategic Clinical Service, emphasizing the distinctive treatments provided by the Corporation, including bone marrow transplants, radiation therapy, and minimally invasive surgery techniques.
- In the Solid Organ Transplantation (Abdominal) Strategic Clinical Service, emphasizing living donor approaches in liver transplantation and new immuno-suppressant therapies, as organ supply permits.
- In the Orthopedic Strategic Clinical Service, emphasizing total joint replacements, sports medicine, hand and upper extremities, foot and ankle, spine, trauma, tumor, and physiatry.
- In the Neurosciences Strategic Clinical Service, emphasizing chemo, biologic agent and gene and radiation therapies, including the CyberKnife, for spine care and neuro-oncology.

In January 2011, the Corporation, LPCH and Stanford University, acting on behalf of its School of Medicine, formed UHA to operate clinics staffed by a network of community-based physicians. In contrast to the faculty practice clinics operated by SHC and staffed by members of the faculty of the School of Medicine, UHA has been formed to support delivery of care to the communities served by SHC, LPCH and the School of Medicine by operating community-based clinics and developing a contractual network of community physicians. SHC formed UHA by converting Menlo Health Alliance, LLC ("MHA"), a limited liability company of which SHC had been the sole member, into UHA, a nonprofit membership corporation in which SHC holds one of three voting membership interests; the other voting membership interests are held by LPCH and Stanford University. Since its formation in 1993, MHA had operated two clinics in Menlo Park, California, that were staffed by the physicians of the Menlo Medical Clinic. The Corporation provides financial support for the Menlo Clinic operating division of UHA under a sponsorship agreement (see "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA" above), and may enter into similar sponsorship arrangements with UHA in the future in furtherance of the strategy of establishing contractual relationships with community-based physicians to expand the network of community-based clinics operated by UHA. In a related effort, the Corporation is in discussions with other community-based physicians regarding extending the Corporation's electronic medical record system to community physician practices.

Utilization

A summary of historical utilization data for the Corporation for the three fiscal years ended August 31, 2008, 2009 and 2010 and for the six-month periods ended February 28, 2010 and February 28, 2011 is presented in the following table.

TABLE 7
Historical Utilization

	Fiscal Years Ended August 31,			For the Six Months ended	
	2008	2009	2010	February 28, 2010	February 28, 2011
Discharges					
Acute	22,075	22,909	23,265	11,345	11,822
Behavioral Health	797	900	855	427	405
Rehabilitation/Skilled Nursing ⁽¹⁾	292	–	–	–	–
Total	23,164	23,809	24,120	11,772	12,227
Patient Days					
Acute	122,759	126,501	125,556	61,805	63,428
Behavioral Health	8,928	8,590	8,838	4,397	4,554
Rehabilitation/Skilled Nursing ⁽¹⁾	3,736	–	–	–	–
Subtotal	135,423	135,091	134,394	66,202	67,982
Short Stay Outpatient	6,620	6,126	6,569	3,307	3,314
Total	142,043	141,217	140,963	69,509	71,296
Average Daily Census					
Acute	335.4	346.6	344.0	341.5	350.4
Behavioral Health	24.4	23.5	24.2	24.3	25.2
Rehabilitation/Skilled Nursing ⁽¹⁾	10.2	–	–	–	–
Total	370.0	370.1	368.2	365.8	375.6
Average Length of Stay					
Acute	5.6	5.5	5.4	5.4	5.4
Behavioral Health	11.2	9.5	10.3	10.3	11.2
Rehabilitation/Skilled Nursing ⁽¹⁾	12.8	–	–	–	–
Average	5.8	5.7	5.6	5.6	5.6
Case Mix Index	1.96	1.98	1.97	1.96	1.97
Emergency Room Visits	46,156	48,840	50,561	25,679	25,267
Short Stay Outpatient Procedures	21,940	24,192	26,211	12,538	13,630
Other Outpatient Visits⁽²⁾	256,358	263,733	346,830	163,893	189,137
Surgeries					
Inpatient	11,453	11,514	11,996	5,837	5,966
Outpatient ⁽³⁾	11,179	11,830	13,294	6,370	6,999
Total	22,632	23,344	25,290	12,207	12,965

⁽¹⁾ Reflects elimination of rehabilitation services.

⁽²⁾ For fiscal years 2008 and 2009, data shown reflect billing events that may include multiple visits. Beginning in fiscal year 2010, new billing software was implemented, and the statistics began capturing actual number of visits. As a result, data shown for the fiscal year ended August 31, 2010, and the six-month periods ended February 28, 2010 and 2011 are not comparable data shown for the prior periods.

⁽³⁾ Psychiatry and LPCH cases have been excluded.

Source: Corporation Records.

SUMMARY OF FINANCIAL INFORMATION

The following consolidated statements of operations and changes in net assets for the fiscal years ended August 31, 2008, 2009 and 2010 have been derived from the Consolidated Financial Statements of Stanford Hospital and Clinics and Subsidiaries included in Appendix B to this Reoffering Circular. (For additional information concerning the Subsidiaries included in the consolidated financial statements, see Note 1 of such consolidated financial statements). The consolidated financial statements which are included in Appendix B have been audited by PricewaterhouseCoopers LLP, independent accountants. The summary of the three fiscal years ended August 31, 2010 should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Appendix B to this Reoffering Circular.

The information for the six-month periods ended February 28, 2010 and February 28, 2011 has been derived by management from financial statements of the Corporation for such periods. Such consolidated financial statements are unaudited but, in the opinion of the management of the Corporation, fairly reflect the results of operations for such interim periods and are presented on a basis consistent with the audited consolidated financial statements of the Corporation contained in Appendix B, with the exception of the implementation of new accounting guidance (described below) for the six-month period ended February 28, 2011.

In December 2007, the Financial Accounting Standards Board issued new guidance surrounding non-controlling interests in consolidated financial statements. This new accounting guidance requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the net asset section of the balance sheet, separate from the parent's net assets. It also requires that the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the statement of operations. The Corporation implemented the new accounting guidance on September 1, 2010, and the information for the six-month period ended February 28, 2011 is presented in accordance with such guidance. The results of SHC's three subsidiaries, MHA, SEROC and SUMIT, are consolidated with those of the Corporation for all periods. As of January 1, 2011, SHC converted MHA to UHA. The financial results of PET-CT are reported using the equity method of accounting. In management's view, the assets, liabilities and results of operations and changes in net assets of the subsidiaries are not material to the Corporation. As of August 31, 2010, MHA, SEROC and SUMIT represented in aggregate less than 3% of the Corporation's consolidated assets, total revenues and income from operations. They are not Members of the Obligated Group nor otherwise obligated with respect to the Bonds.

TABLE 8
Stanford Hospital and Clinics and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Fiscal years ended August 31			For the six months ended	
	2008	2009	2010	February 28, 2010	February 28, 2011 ⁽¹⁾
Operating Revenues					
Net patient service revenue	\$ 1,578,755	\$ 1,741,856	\$ 1,884,046	\$ 906,260	\$ 1,052,742
Premium revenue	20,755	22,960	7,296	7,270	26
Other revenue	51,225	57,666	71,193	32,735	30,285
Net assets released from restrictions used for operations	4,816	5,195	4,771	2,004	2,659
Total operating revenues	1,655,551	1,827,677	1,967,306	948,269	1,085,712
Operating Expenses					
Salaries and benefits	714,856	787,035	839,916	403,033	431,051
Professional services	24,713	22,842	22,118	10,330	11,336
Supplies	235,542	265,139	271,026	126,828	140,859
Purchased services	385,273	434,257	453,532	219,962	239,948
Provision for doubtful accounts	51,578	53,859	68,426	41,821	46,608
Depreciation and amortization	65,812	73,876	96,198	46,746	46,335
Interest	26,334	37,921	39,749	18,959	22,365
Other	120,382	139,385	153,058	74,320	106,033
Expense recoveries from related parties	(74,184)	(81,317)	(76,787)	(38,680)	(38,625)
Total operating expenses	1,550,306	1,732,997	1,867,236	903,319	1,005,910
Income from operations	105,245	94,680	100,070	44,950	79,802
Interest and investment income	21,824	3,814	4,240	2,121	2,474
Increase (decrease) in value of University managed pools	9,720	(146,481)	68,138	44,464	72,363
Interest rate swaps mark-to-market adjustments	(42,600)	(48,338)	(79,054)	11,568	78,834
Loss on extinguishment of debt	(17,855)	-	(12,994)	-	-
Excess (deficit) of revenues over expenses	76,334	(96,325)	80,400	103,103	233,473
Other changes in unrestricted net assets:					
Transfer to Stanford University	(7,670)	(8,049)	(7,956)	(3,419)	(3,523)
Transfer to University Health Alliance ⁽²⁾	-	-	-	-	(9,724)
Transfer (to) from Lucile Salter Packard Children's Hospital	(2,808)	288	-	-	1,293
Change in net unrealized (losses) gains on investments	227	237	680	405	(961)
Net assets released from restrictions used for purchase of property and equipment	599	460	11,872	4,979	2,578
Change in pension liability and postretirement	(2,212)	(75,101)	(30,467)	-	-
Other changes in unrestricted net assets	-	-	-	-	3,425
Increase (decrease) in unrestricted net assets before discontinued operations and cumulative effect of change in accounting principle	64,470	(178,490)	54,529	105,068	226,561
(Loss) income from discontinued operations	890	-	-	-	-
Increase (decrease) in unrestricted net assets	65,360	(178,490)	54,529	105,068	226,561
Changes in temporarily restricted net assets:					
Transfer from Stanford University	-	15,167	2,789	180	132
Transfer to Lucile Packard Children's Hospital	-	-	(10)	-	-
Contributions and other	8,508	5,606	34,729	2,500	21,004
Investment income	586	98	140	8	31
Gains and losses on University managed pools	1,161	(1,415)	2,106	643	1,108
Net assets released from restrictions for:					
Operations	(4,816)	(5,195)	(4,771)	(2,004)	(2,659)
Purchase of property and equipment	(599)	(460)	(11,872)	(4,979)	(2,578)
Increase (decrease) in temporarily restricted net assets	4,840	13,801	23,111	(3,652)	17,038
Changes in permanently restricted net assets:					
Contributions	981	-	-	-	-
Increase in permanently restricted net assets	981	-	-	-	-
Increase (decrease) in net assets	71,181	(164,689)	77,640	101,416	243,599
Net assets, beginning of year, as previously reported	900,514	971,695	807,006	807,006	884,646
Cumulative effect of change in accounting principle	-	-	-	-	2,316
Net assets, beginning of year, revised	900,514	971,695	807,006	807,006	886,962
Net assets, end of year	\$ 971,695	\$ 807,006	\$ 884,646	\$ 908,422	\$ 1,130,561

⁽¹⁾ The six-month period ended February 28, 2011 reflects new accounting guidance regarding non-controlling interests.

⁽²⁾ Upon SHC's conversion of MHA into UHA, SHC ceased to control MHA. In accordance with generally accepted accounting principles, the change in control of MHA was accounted for as a transfer of assets from SHC to UHA.

Management's Discussion and Analysis

In the following narrative, dollar amounts and percentages have been rounded in some cases to simplify the presentation of information; in management's view, such amounts are stated materially accurately. More specific dollar amounts are set forth in the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular.

Accounting Policies; Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management evaluates its estimates on an ongoing basis and makes changes to the estimates as experience develops or new information becomes available. Actual results could differ from those estimates.

The most significant estimates relate to patient accounts receivable allowances, amounts due to third party payors, retirement plan obligations, and self-insurance reserves. For additional information on the Corporation's use of estimates please see the notes to the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular.

Recent Initiatives

During the six-month period ended February 28, 2011, the Corporation established The Byers Eye Institute at Stanford (the "Eye Institute"), a patient-centered facility that will deliver integrated vision care services. Additionally, the Corporation formed UHA (see "Market Strategy"). Lastly, the Corporation started the Corporate Partners Program which is a collaboration between the Corporation and leading Silicon Valley technology companies which management anticipates will provide philanthropic support for the Corporation and create a global model for patient-centered, technologically advanced health care.

During the six-month period ended February 28, 2010, the Corporation also completed the implementation of the clinical information system. The system provides an electronic medical record for patients that will help promote patient safety, quality, care management, and patient communication.

Historical Performance

For the three years ended August 31, 2010, the Corporation's overall financial performance strengthened despite challenges, enhancing its ability to support investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities it serves. Higher patient revenues and improved financial market conditions contributed to the Corporation's strengthened financial position. Cumulative Operating Revenues for the three years ended August 31, 2010 were approximately \$5 billion, of which Net Patient Service Revenues accounted for 95% of this total. The cumulative Income from Operations before investment income for the three years ended August 31, 2010 was approximately \$300 million. Cumulative Investment Loss for the three years ended August 31, 2010 was approximately \$39 million, due in part to negative returns in fiscal year 2009 on the Corporation's investments held through Stanford University and adjustments to the interest rate swaps mark-to-market (hereinafter described under "Interest Rate Swap Arrangements"), which

resulted in a cumulative decrease in Net Assets for the three years ended August 31, 2010 of approximately \$16 million. Cumulative capital expenditures for the three years ended August 31, 2010 were approximately \$598 million.

***Financial Performance for the Six-Month Period Ended
February 28, 2010 and February 28, 2011 and Year to Date***

Income generated from operations before depreciation and interest expense was \$149 million for the six-month period ended February 28, 2011 as compared to \$111 million for the six-month period ended February 28, 2010. The Corporation reported income from operations before investment income of \$80 million for the six-month period ended February 28, 2011, versus \$45 million for the six-month period ended February 28, 2010. Net patient revenues included in income from operations increased by 16%, or \$146 million, while total operating expenses increased by 11%, or \$103 million. Net patient revenues mainly increased due to higher volume. Volume increased for the period ended February 28, 2011 with patient days of 71,296 versus 69,509 for the period ended February 28, 2010. Outpatient volume also continued to increase due to new and growing outpatient facilities, such as the Eye Institute and the Outpatient Center. However, the related increase in operating expenses remained consistent with prior years due to effective cost control efforts by the Corporation. Premium revenue decreased in fiscal year 2011 due to termination of an institution capitation contract during fiscal year 2010. A portion of the increase in revenues and expenses is also related to the California Hospital Fee Program ("Fee Program"). Pursuant to the Fee Program, the State of California ("State") uses funds collected from certain California hospitals to increase Medi-Cal funding for all non-specialty California hospitals and support children's health insurance programs. In fiscal year 2011, the Corporation received \$37 million in funds from the State and paid \$29 million. These funds are reflected in net patient revenues and other operating expenses, respectively, for the six-month period ended February 28, 2011.

Investment income and the increase in value of Stanford University managed pools was \$75 million for the period ended February 28, 2011 versus \$47 million for the period ended February 28, 2010. The fair value of the interest rate swaps increased by \$79 million and \$12 million for the periods ended February 28, 2011 and 2010, respectively. As a result, the Corporation's net assets increased by \$244 million and \$101 million for the periods ended February 28, 2011 and 2010, respectively.

In connection with the formation of UHA and in accordance with generally accepted accounting principles, the change in control of MHA, which had a book value of approximately \$8.3 million as of the conversion date of December 31, 2010, will be accounted for as a transfer of that amount from SHC to UHA reported in the statements of operations of SHC and Subsidiaries.

Based on preliminary, unaudited financial information for the eight months ended April 30, 2011, the Corporation generated an excess of revenues over expenses for such period which was greater than the excess of revenues over expenses for the prior eight month period ended April 30, 2010. Unrestricted Net Assets and cash and investments also increased as of April 30, 2011 over the period ended February 28, 2011. Financial results for and as of the eight months ended April 30, 2011 are subject to the completion of the Corporation's closing procedures and therefore may change and also may not be indicative of future operating results.

Consistent with the Corporation's reporting practices, results of operations for the nine months ended May 31, 2011 are expected to be released on or around July 31, 2011.

Financial Performance in Fiscal Year 2010

The Corporation's net assets increased \$78 million to \$885 million as of August 31, 2010. In 2010, the Corporation generated an \$80 million excess of revenues over expenses compared to a deficiency of revenues over expenses of \$96 million in 2009. Investment income and change in value of Stanford University managed pools increased by \$215 million, resulting in a gain of \$72 million due to positive returns on the Corporation investments held through Stanford University.

Net patient revenues increased by 8% to \$1.9 billion in fiscal year 2010. Inpatient revenues, which make up 51% of total revenue, grew by 3% on continuing increases in patient volume. Outpatient revenues increased by 14%, accounting for 49% of total revenue. Operating expenses increased 8% in fiscal year 2010 to \$1.9 billion. Salaries and benefits increased 7% to \$840 million in response to growth in patient volumes and a full year of operations for the Outpatient Center in Redwood City. In addition, other operating expenses were up 8% to \$619 million largely as a result of costs related to increased patient activity and enhanced IT infrastructure.

Financial Performance in Fiscal Year 2009

Despite income from operations of \$95 million, the Corporation's net assets decreased \$165 million to \$807 million as of August 31, 2009. In 2009, the Corporation generated a \$96 million deficiency of revenues over expenses compared to an excess of revenues over expenses of \$76 million in 2008. Investment income and change in value of Stanford University managed pools decreased by \$174 million from the fiscal year ended August 31, 2008, resulting in a loss of \$143 million due to negative returns on the Corporation investments held through Stanford University.

Net patient revenues increased by 10% to \$1.7 billion in fiscal year 2009. Inpatient revenues, which make up 54% of total revenue, grew by 9% on continuing increases in patient volume. Outpatient revenues increased by 12%, accounting for 46% of total revenue.

Financial Performance in Fiscal Year 2008

The Corporation's net assets increased \$71 million to \$972 million as of August 31, 2008. In 2008, the Corporation generated \$76 million in excess revenues over expenses compared to \$248 million in 2007. Investment income and change in value of Stanford University managed pools decreased to \$32 million, down from \$112 million as a result of lower returns on the Corporation investments held through Stanford University.

During the year, the Corporation sold certain assets and liabilities of its clinical laboratory testing outreach business for \$30 million, plus the assumption of several property leases valued at approximately \$2 million in aggregate. The sales proceeds, net of sales expense and exit costs, were \$21 million.

Net patient revenues increased by 8% to \$1.6 billion in fiscal year 2008. Despite significant capacity limitations, total patient days increased by 2%. Patient discharges were flat compared to fiscal year 2007. Inpatient revenues, which make up 55% of total revenue, grew by 11% on continuing increases in patient volume and favorable negotiations of payor contracts. Outpatient revenues increased by 4%, accounting for 45% of total revenue.

Pension Funding Requirements

The majority of the Corporation's eligible employees are covered by the Corporation's 403(b) Retirement Plan, which is a defined contribution plan with contributions based on a percentage of an eligible employee's annual compensation.

In addition, certain employees are covered by a noncontributory defined benefit plan, the Staff Pension Plan (the "SPP"), that was closed to new participants in 1997. Benefits are based on years of service and an employee's compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The financial performance of pension fund investments of the SPP can have a significant impact on the amount of pension expense and the recorded pension liability, as well as the amount and timing of pension contributions. Other factors can also have a significant impact on pension expense and contributions, such as interest rate levels and salary inflation. Taken together, these factors can have a material impact on both the results of operations and liquidity. As of August 31, 2010, the SPP had a net benefit liability recognized in the amount of \$74.6 million

The Corporation anticipates contributing approximately \$19 million to the SPP during the fiscal year ending August 31, 2011 and expects to fund approximately \$45 million over the next five years to bring the SPP to a funding status of 100%, based upon current estimates. As of January 1, 2011, the Corporation's funded status with respect to the SPP was 80% based on the actuarial study conducted at the end of the calendar year. The funded status assumes a discount rate on SPP assets of 6.28%. The Corporation's investment policy for the SPP assets targets a portfolio mix of 50% equity and 50% long-term debt.

The Corporation also provides post-retirement health insurance coverage for employees meeting specific criteria in the plan, the Postretirement Medical Benefit Plan (the "PMBP"). As of August 31, 2010, the Corporation recognized a net benefit liability of \$73.1 million for the PMBP recorded as a liability within the self-insurance reserves and other on the consolidated balance sheet.

For additional information on the Corporation's retirement plans and the PMBP see Note 10 of the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular.

Capitalization

The table below, prepared by management of the Corporation, sets forth the consolidated capitalization of the Corporation and Subsidiaries as of August 31, 2010 and as of the six months ended February 28, 2011. The information included in the table below with respect to the fiscal year ended August 31, 2010 has been derived from information that is contained in the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular, and the information included with respect to the six months ended February 28, 2011 has been derived by management from unaudited financial statements of the Corporation for such period.

TABLE 9

**Consolidated Capitalization
(Dollars in Thousands)**

	<u>As of August 31, 2010</u>	<u>As of February 28, 2011</u>
Existing Net Long-Term Debt ⁽¹⁾	\$ 826,187	\$ 820,508
Unrestricted Net Assets	785,092	1,012,898
Total Consolidated Capitalization	<u>\$1,611,279</u>	<u>\$1,833,406</u>
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	<u>51.3%</u>	<u>44.8%</u>

⁽¹⁾ Existing net long-term debt includes debt subject to short-term remarketing arrangements classified as current liabilities in the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular.

Source: Corporation Records.

Cash and Investments

As of August 31, 2010, the Corporation's funds were invested across three portfolios that included: a liquidity portfolio, consisting of cash and cash equivalents; a short-term portfolio, invested in a short-term treasury mutual fund; and a long-term portfolio that invests in shares of the pools managed by Stanford University. The shares in Stanford University's pooled funds are invested in cash and cash equivalents, government and corporate debt securities, equity securities, mutual funds, real estate, investments in partnerships and other investments. The Corporation's investments in the pooled funds managed by Stanford University are carried on its financial statements based on a value per share in such funds. Gains or losses are realized only upon the sale of such shares. For additional information regarding the composition of the Corporation's investments at August 31, 2010, accounting for the Corporation's interest in pooled funds managed by Stanford University and earnings therefrom, see Note 2 and Note 6 of the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular.

Liquidity

The following table, prepared by management of the Corporation, sets forth the consolidated cash position and liquidity of the Corporation and its subsidiaries as of August 31, 2010 and as of the six months ended February 28, 2011.

TABLE 10

**Consolidated Liquidity
(Dollars in Thousands)**

	As of August 31, 2010	As of February 28, 2011
Cash and Cash Equivalents	\$334,344	\$380,520
Investments	80,817	100,571
Investments in Stanford University Managed Pools ⁽¹⁾	676,598	749,658
Less Temporarily and Permanently Restricted Assets	(46,657)	(69,348)
Total Liquid Assets	\$1,045,102	\$1,161,401
Days Cash on Hand ⁽²⁾	215.4	226.2

⁽¹⁾ Under an agreement with Stanford Management Company, the Corporation can liquidate on a same-day basis up to 60% of the share value of its investments in Stanford University's managed pools, not to exceed \$200 million, to supplement the liquid assets in the Corporation's operating and reserve accounts available to fund the purchase price of variable-rate demand bonds and multi-annual put bonds that are tendered for purchase by beneficial owners or subject to mandatory purchase. The agreement expires in November 2011, and there is no guarantee that the Corporation will extend the agreement for an additional term. See Note 2 and Note 6 of the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular for a description of the managed pools of Stanford University in which the Corporation has invested.

⁽²⁾ Total liquid assets times 365 days divided by the total operating expenses net of depreciation and amortization. As of February 28, 2011, the total operating expenses net of depreciation reflects the twelve-month period ended February 28, 2011.

Source: Corporation Records.

Debt Service Coverage

The following table, prepared by management of the Corporation, sets forth the actual maximum debt service coverage for the Corporation on a consolidated basis for fiscal years ended August 31, 2009 and 2010, and pro forma debt service coverage taking into account the increase in Maximum Annual Debt Service resulting from the reoffering of the Bonds, in each case calculated based on the assumptions set forth in footnote 1 below.

TABLE 11
Maximum Annual Debt Service Coverage
(Dollars in Thousands)

	Actual		Proforma
	2009	2010	
(Deficiency) excess of revenues over expenses	\$(96,325)	\$80,400	\$80,400
Depreciation and Amortization	73,876	96,198	96,198
Interest Expense	37,921	39,749	39,749
Change in value of Stanford University Managed Pools	146,481	(68,138)	(68,138)
Interest Rate Swap Mark-to-Market Adjustments	48,338	79,054	79,054
Loss on Extinguishment of Debt	–	12,994	12,994
Funds Available for Debt Service	\$210,291	\$240,257	\$240,257
Maximum Annual Debt Service ⁽¹⁾	\$44,429	\$47,109	\$50,368
Coverage of Maximum Annual Debt Service	4.73	5.10	4.77

⁽¹⁾ Assumes that interest on certain outstanding bonds with variable interest rates is payable at the rate determined in accordance with the related interest rate swap transaction for such series to the final maturity of the related interest rate swap transaction. For subsequent periods after the maturity of the interest rate swap transaction until maturity of the related bonds, assumes that interest is payable at 4.0% per annum.

Source: Corporation Records.

Interest Rate Swap Arrangements

The Corporation enters into interest rate swap contracts (“Swaps”) from time to time to increase or decrease its variable rate debt exposure and to achieve a targeted mix of fixed and floating rate indebtedness. As of August 31, 2010 and February 28, 2011, the Corporation had Swaps outstanding with a notional amount of \$749 million of floating-to-fixed rate Swaps, under which the Corporation pays a fixed rate and receives a variable rate from the swap counterparty. Each of the Swaps may be terminated by the Corporation at its option at any time. Swap counterparties may also terminate Swaps upon the occurrence of certain “termination events” or “events of default.” If either the Corporation or a counterparty terminates a Swap with a negative market value, the Corporation may be required to make a termination payment to such counterparty, and such payment could be material in amount. The estimated fair values of the Swaps are determined using available market information and valuation methodologies. The Corporation recognizes changes in the fair value of Swaps in excess (deficiency) of revenue over expenses. As of August 31, 2010 and February 28, 2011, the Corporation’s mark-to-market liability on the Swaps totaled approximately \$166 million and \$88 million, respectively. In addition, the Corporation is required to post collateral under several of its Swaps to secure its obligations to the Swap counterparty when the counterparty’s exposure exceeds certain stated thresholds. The Corporation maintains stand-by

letters of credit in the amount of \$20 million to satisfy its collateral posting obligations and obviate the need to retain liquidity to support the collateral obligations. As of August 31, 2010 and February 28, 2011, the Corporation was not required to post any collateral other than standby letters of credit. See Note 2 and Note 9 of the audited consolidated financial statements of the Corporation included in Appendix B to this Reoffering Circular for more information related to the Corporation's Swaps.

Sources of Revenue

Payments are made to the Corporation on behalf of patients by the federal government under the Medicare program administered by the Centers for Medicare and Medicaid of the United States Department of Health and Human Services, the State of California under the Medi-Cal program, certain commercial insurance and managed care programs, as well as by patients on their own behalf.

The following table, prepared by management of the Corporation, summarizes the percentage of gross patient revenues by source of payment to the Corporation for the fiscal years ended August 31, 2008, 2009 and 2010.

TABLE 12

Gross Patient Service Revenues

Source	Fiscal years ended August 31,		
	2008	2009	2010
Medicare	28%	29%	32%
Medi-Cal	5	6	5
Managed Care	53	53	52
Commercial and Other	14	12	11
Total	100%	100%	100%

Source: Corporation Records.

Gross patient service revenue is composed of usual and customary charges for services provided to all patients. Services provided to patients covered by the Medicare, Medi-Cal and a number of managed care programs are typically paid at amounts that are less than usual and customary charges.

See "BONDHOLDERS' RISKS" in the forepart of the Reoffering Circular for a more detailed discussion of the sources of revenue for the Corporation and certain other risks associated with certain sources of revenue.

Managed Care Initiatives

The Corporation maintains contracts with most managed care plans operating in Northern California. Management monitors the financial performance under these contracts on a regular basis and pursues renegotiation when appropriate and where feasible with the objective of operating within the financial constraints of its managed care contracts.

The largest volume commercial payers for the Corporation in fiscal year 2010 were Aetna, Anthem Blue Cross, Blue Shield of California, Cigna, HealthNet, and United/PacifiCare. All commercial

agreements are fee-for-service. Fee-for-service reimbursement employs the traditional methodologies including percent of charges, per diems, case rates, surgical schedules and stop-loss.

ACCREDITATION, LICENSURE, MEDICARE AND MEDICAL CERTIFICATION

The California Department of Public Health licenses the Hospital as a general acute care facility. The Corporation is accredited by The Joint Commission which conducted its last on-site survey in July 2010. The Joint Commission no longer conducts on site surveys on a predictable cycle; therefore, it is not known when the next on-site accreditation survey will occur.

PROFESSIONAL LIABILITY AND OTHER INSURANCE

The Corporation maintains coverage for professional and comprehensive general liability and other coverages through programs of self-insurance and reinsurance. Primary layers of such liability are insured through SUMIT, an insurer controlled and owned by the Corporation and LPCH. SUMIT provides hospital professional liability insurance, general liability, medical malpractice liability, employment practices liability and errors and omissions liability to the Corporation and LPCH and hospital professional and medical malpractice liability insurance to the School of Medicine (including the clinical activities of its faculty and residents).

For the policy year September 1, 2010 to September 1, 2011, SUMIT retains 100% of the risk related to the first \$15 million of aggregate losses by the Corporation, LPCH and the School of Medicine. SUMIT has obtained \$115 million of excess reinsurance jointly covering the Corporation, LPCH and the School of Medicine. For policy years before September 1, 2005, SUMIT provided occurrence-based coverage of the risk related to the primary loss layer in amounts varying year to year since SUMIT was established in April 2000.

In addition to coverage provided by SUMIT, the Corporation obtains coverage of various risks under policies issued by commercial insurers. These policies typically name LPCH as a named insured as well. As a result, claims brought against one named insured reduce limits available to the other on each claim. The Corporation secures workers compensation coverage jointly with LPCH under commercial policies for amounts in excess of a deductible, \$750,000 per claim for the current fiscal year. The Corporation also obtains property insurance under commercial policies with limits that are shared with LPCH in an aggregate blanket amount of \$500 million of coverage per claim, subject to various exclusions, terms and conditions for property loss caused by risks such as flood, business interruption and certain acts of terrorism, among others. The Corporation does not currently purchase insurance coverage for earthquakes. The Corporation obtains directors and officers' liability coverage under commercial policies in aggregate of \$80 million with limits shared with LPCH, subject to a self-insured retention of \$250,000 per claim in the current fiscal year.

LITIGATION AND REGULATORY MATTERS

At any given time, the Corporation has lawsuits pending and threatened against it that may or may not be covered in whole or in part by insurance. It is the opinion of management that, other than as disclosed in the Reoffering Circular, there is no litigation now pending or, to the knowledge of management, threatened, that, if successful, would materially adversely affect the ability of the Corporation to make payments with respect to the Bonds as and when due. See "ACCREDITATION, LICENSURE, MEDICARE AND MEDICAL CERTIFICATION" above and "BONDHOLDERS' RISKS" in the forepart of this Reoffering Circular for a description of certain material litigation and governmental proceedings.

There is not now pending or threatened any litigation restraining or enjoining the reoffering of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they were issued. Neither the creation, organization or existence of the Corporation nor the title of the present directors or officers of the Corporation to their respective offices is being contested. The Corporation is not now a party to any pending litigation, and is not aware of any circumstances that would likely result in such litigation that in any manner questions the right of the Corporation to use the proceeds of the Bonds as described in this Reoffering Circular, including the section entitled “BONDHOLDERS’ RISKS,” and in accordance with the provisions of the Act and the Indenture.

EMPLOYEES

As of August 31, 2010, the Corporation employed 5,187 full-time, 818 regular part time and 363 per diem/PRN (as needed) staff, equivalent to 5,519 full-time equivalent (“FTE”) employees excluding leased employees to LPCH.

As of August 31, 2010, the Corporation employed 2,007 full and part time registered nurses (“RNs”), consisting of 1,630 FTE registered nurses (“RNs”), 12 FTE licensed practical nurses. Turnover rate for the nursing staff for the past twelve months was approximately 6.9% for RNs.

The Corporation leases 2,750 employees (2,234 FTE) to LPCH and 949 (882 FTE) work in shared services. For additional information concerning shared services, see “FACILITIES, OPERATIONS AND SERVICES—Operational Relationships among the Corporation, Stanford University and LPCH” herein.

As of August 31, 2010, approximately 42% of the Corporation’s employees (excluding LPCH leased employees) were covered by collective bargaining arrangements, with two bargaining units represented by Committee for Recognition of Nursing Achievement (“CRONA”) and Service Employees International Union (“SEIU”). The current CRONA contract is in force through March 31, 2013. The contract with SEIU expires in August 2011. Negotiations of a new contract are expected to begin in the near future.

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APPENDIX B

**CONSOLIDATED FINANCIAL STATEMENTS OF THE
CORPORATION AND SUBSIDIARIES**

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Stanford Hospital and Clinics and Subsidiaries

**Consolidated Financial Statements
August 31, 2010 and 2009**

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August 31, 2010 and 2009

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Report of Independent Auditors

To the Board of Directors
Stanford Hospital and Clinics and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Stanford Hospital and Clinics and subsidiaries ("SHC") at August 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of SHC's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



December 15, 2010

Stanford Hospital and Clinics and Subsidiaries
Consolidated Balance Sheets
August 31, 2010 and 2009
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 334,344	\$ 331,502
Assets limited as to use, held by trustee	280	280
Patient accounts receivable, net of allowance for doubtful accounts of \$78,000 and \$71,000 at August 31, 2010 and 2009, respectively	258,553	253,299
Other receivables	28,562	11,925
Inventories	19,148	18,725
Prepaid expenses and other	9,893	8,553
Total current assets	<u>650,780</u>	<u>624,284</u>
Investments	80,817	76,584
Investments in University managed pools	676,598	533,518
Assets limited as to use, held by trustee, net of current portion	712	48,828
Property and equipment, net	860,273	840,955
Other assets	63,521	60,715
Total assets	<u>\$ 2,332,701</u>	<u>\$ 2,184,884</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 102,723	\$ 129,750
Accrued salaries and related benefits	101,378	91,835
Due to related parties	22,885	33,840
Third-party payor settlements	19,907	19,433
Current portion of long-term debt	4,969	8,713
Debt subject to short-term remarketing arrangements	358,000	266,764
Self-insurance reserves and other	21,892	18,303
Total current liabilities	<u>631,754</u>	<u>568,638</u>
Self-insurance reserves and other, net of current portion	104,168	90,811
Other long-term liabilities	174,286	96,244
Pension liability	74,629	65,188
Long-term debt, net of current portion	463,218	556,997
Total liabilities	<u>1,448,055</u>	<u>1,377,878</u>
Net assets:		
Unrestricted	785,092	730,563
Temporarily restricted	93,062	69,951
Permanently restricted	6,492	6,492
Total net assets	<u>884,646</u>	<u>807,006</u>
Total liabilities and net assets	<u>\$ 2,332,701</u>	<u>\$ 2,184,884</u>

The accompanying notes are an integral part of these consolidated financial statements.

Stanford Hospital and Clinics and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended August 31, 2010 and 2009
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Net patient service revenue	\$ 1,884,046	\$ 1,741,856
Premium revenue	7,296	22,960
Other revenue	71,193	57,666
Net assets released from restrictions used for operations	4,771	5,195
Total operating revenues	<u>1,967,306</u>	<u>1,827,677</u>
Operating expenses:		
Salaries and benefits	839,916	787,035
Professional services	22,118	22,842
Supplies	271,026	265,139
Purchased services	453,532	434,257
Provision for doubtful accounts, net	68,426	53,859
Depreciation and amortization	96,198	73,876
Interest	39,749	37,921
Other	153,058	139,385
Expense recoveries from related parties	(76,787)	(81,317)
Total operating expenses	<u>1,867,236</u>	<u>1,732,997</u>
Income from operations	100,070	94,680
Interest and investment income	4,240	3,814
Increase (decrease) in value of University managed pools	68,138	(146,481)
Interest rate swaps mark to market adjustments	(79,054)	(48,338)
Loss on extinguishment of debt	(12,994)	-
Excess (deficiency) of revenues over expenses	<u>80,400</u>	<u>(96,325)</u>
Other changes in unrestricted net assets:		
Transfer to Stanford University, net	(7,956)	(8,049)
Transfer from Lucile Salter Packard Children's Hospital	-	288
Change in net unrealized gains on investments	680	237
Net assets released from restrictions used for:		
Purchase of property and equipment	11,872	460
Change in pension and postretirement liability	(30,467)	(75,101)
Increase (decrease) in unrestricted net assets	<u>54,529</u>	<u>(178,490)</u>
Changes in temporarily restricted net assets:		
Transfer from Stanford University	2,789	15,167
Transfer to Lucile Salter Packard Children's Hospital	(10)	-
Contributions and other	34,729	5,606
Investment income	140	98
Gains (losses) on University managed pools	2,106	(1,415)
Net assets released from restrictions for:		
Operations	(4,771)	(5,195)
Purchase of property and equipment	(11,872)	(460)
Increase in temporarily restricted net assets	<u>23,111</u>	<u>13,801</u>
Increase (decrease) in net assets	77,640	(164,689)
Net assets, beginning of year	<u>807,006</u>	<u>971,695</u>
Net assets, end of year	<u>\$ 884,646</u>	<u>\$ 807,006</u>

The accompanying notes are an integral part of these consolidated financial statements.

Stanford Hospital and Clinics and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended August 31, 2010 and 2009
(in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 77,640	\$ (164,689)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	12,994	-
Depreciation and amortization of bond premiums/discounts	96,535	74,564
Provision for doubtful accounts	68,426	53,859
Change in fair value of interest rate swaps	79,054	48,338
(Increase) decrease in value of University managed pools	(68,138)	146,481
Unrealized (gains) losses on investments	(1,755)	2,357
Realized (gains) losses on investments	(110)	185
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	(25,779)	(3,720)
Transfer from Lucile Salter Packard Children's Hospital	-	(288)
Premiums received from bond issuance	14,236	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(73,680)	(66,169)
Due to related parties	(4,933)	10,749
Other receivables, inventory, other assets, prepaid expenses and other	(10,036)	877
Accounts payable, accrued liabilities and pension liabilities	(9,285)	58,187
Accrued salaries and related benefits	9,543	9,016
Third-party payor settlements	474	4,729
Self-insurance reserves	16,946	8,884
Other long-term liabilities	-	597
Cash provided by operating activities	<u>182,132</u>	<u>183,957</u>
Cash flows from investing activities:		
Purchases of investments	(20,095)	(24,857)
Sales of investments	16,660	8,652
Purchases of investments in University managed pools	(78,099)	(4,179)
Sales of investments in University managed pools	4,530	9,775
Decrease in assets limited as to use and other	48,116	114,642
Purchases of property and equipment	(124,300)	(220,791)
Cash used in investing activities	<u>(153,188)</u>	<u>(116,758)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt	366,415	70,500
Costs of issuance of debt	(3,665)	-
Payment of long-term debt and capital lease obligation	(390,661)	(79,591)
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	1,809	4,525
Cash used in financing activities	<u>(26,102)</u>	<u>(4,566)</u>
Net increase in cash and cash equivalents	2,842	62,633
Cash and cash equivalents, beginning of year	331,502	268,869
Cash and cash equivalents, end of year	<u>\$ 334,344</u>	<u>\$ 331,502</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 40,042	\$ 39,975
Supplemental disclosures of non cash information:		
Payables for property and equipment	\$ (8,784)	\$ (12,660)
Increase (decrease) in value of interest in University managed pools	68,138	(146,481)
Equity transfers from related parties, net	6,022	-
Assets acquired under capital leases	-	597

The accompanying notes are an integral part of these consolidated financial statements.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

1. Organization

Stanford Hospital and Clinics (“Stanford Hospital”) operates a licensed acute care hospital and a cancer center in Palo Alto, California, along with numerous outpatient physician clinics in the San Francisco Bay Area, in community settings, and in association with regional hospitals. Stanford Hospital is a principal teaching affiliate of the Stanford University School of Medicine (“SoM”) and provides primary and specialty health services to adults, including cardiac care, cancer treatment, solid organ transplantation services, neurosciences, and orthopedics services designated by management as Stanford Hospital’s “Strategic Clinical Services”. Stanford Hospital, together with Lucile Salter Packard Children’s Hospital at Stanford (“LPCH”), operates the clinical settings through which the SoM educates medical and graduate students, trains residents and clinical fellows, supports faculty and community clinicians and conducts medical and biological sciences research.

The Board of Trustees of Leland Stanford Junior University (the “University”) is the sole corporate member of Stanford Hospital and LPCH. As part of their ongoing operations, Stanford Hospital and LPCH engage in certain related party transactions as described further in Note 12.

The consolidated financial statements include Stanford Hospital’s interest in Menlo Health Alliance, LLC (“MHA”), SUMIT Insurance Company Ltd (“SUMIT”), and Stanford Emanuel Radiation Oncology Center, LLC (“SEROC”) (collectively “SHC”).

Stanford Hospital’s interest in MHA was 100% for the years ended August 31, 2010 and 2009. MHA is a wholly owned California limited liability company that operates two outpatient clinics.

Stanford Hospital’s share of net assets in SUMIT, a captive insurance carrier, was 97.1% and 83.6% for the years ended August 31, 2010 and 2009, respectively. LPCH’s share of net assets in SUMIT was 2.9% and 16.4% for the years ended August 31, 2010 and 2009, respectively. This is recorded as a minority interest in accounts payable and accrued liabilities on the consolidated balance sheets.

SEROC is a joint venture between Stanford Hospital and Emanuel Medical Center (“EMC”). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. Stanford Hospital’s interest in SEROC was 60% during the years ended August 31, 2010 and 2009. The remaining interest of 40% is recorded as a minority interest in accounts payable and accrued liabilities on the consolidated balance sheets.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of SHC include the accounts of Stanford Hospital and its subsidiaries, MHA, SUMIT and SEROC, which are controlled and owned more than 50% by Stanford Hospital. All significant inter-company accounts and transactions are eliminated in the consolidation.

Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting. Net assets of SHC and changes therein have been classified and are reported as follows:

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (continued)

- **Unrestricted net assets** — Unrestricted net assets represent those resources of SHC that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of SHC and the purposes specified in its articles of incorporation or bylaws and, limits resulting from contractual agreements, if any.
- **Temporarily restricted net assets** — Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of SHC pursuant to those stipulations or by the passage of time.
- **Permanently restricted net assets** — Permanently restricted net assets represent contributions that are subject to donor-imposed restrictions that they be maintained permanently by SHC. Generally, the donors of these assets permit SHC to use all or part of the investment return on these assets.

Expenses are generally reported as decreases in unrestricted net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Temporarily restricted contributions are recorded as restricted revenue when received and when the restriction expires, the net assets are shown as released from restriction on the consolidated statements of operations and changes in net assets. Investment income on temporarily or permanently restricted assets that is restricted by donor or law is recorded within the respective net asset category, and when the restriction expires, the net assets are shown as released from restriction.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash equivalents consist primarily of demand deposits and money market mutual funds.

Assets Limited as to Use, Held by Trustee

Assets limited as to use include various accounts held with a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of cash and cash equivalents. Amounts required to fund current liabilities of SHC have been classified as current assets in the consolidated balance sheets at August 31, 2010 and 2009.

Inventories

Inventories, which consist primarily of hospital operating supplies and pharmaceuticals, are stated at the lower of cost or market value determined using the first-in, first-out method.

Investments

Investments held directly by SHC consist of cash and cash equivalents and mutual funds and are stated at fair value. Fair value is determined in accordance with current accounting guidance as further described in Note 7. Investment earnings (including realized gains and losses on investments, interest, dividends and impairment loss on investment securities) are included in investment income unless the income or loss is restricted by donor or law. Income on investments of donor restricted funds is added to or deducted from the appropriate net asset category based on the donor's restriction. Unrestricted unrealized gains and losses on other than trading securities are separately reported below the excess of revenues over expenses.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Investments in University managed pools

Investments in University managed pools consist of funds invested in the University's Merged Pool ("MP"), Expendable Funds Pool ("EFP"), and Active Cash Fund ("ACF") (collectively the "Pools"). Under the terms of SHC's agreement with the University, the University has discretion to invest the funds in the Pools. SHC may deposit funds in the Pools at its discretion. Withdrawals from the MP and EFP require advance notice to the University. SHC accounts for its share of the Pools in accordance with current accounting guidance. The value of its share of the Pools is determined by the University and is based on the fair value of the underlying assets in the Pools. In fiscal year 2010, the ACF pool was closed.

The University allocates investment earnings to SHC from the University managed pools based on SHC's share of the Pools. Earnings include interest, dividends, distributions, investment gains and losses, and the increases or decreases in the value of SHC's share of the pools. In accordance with current accounting guidance, all investment gains and losses and increases and decreases in share value are treated as realized and included in the excess of revenues over expenses.

The increases or decreases in the value of SHC's share of the Pools are recorded as income and gains on University managed pools unless the income is restricted by donor or law. Income on investments of donor restricted funds invested in the University managed pools is added to or deducted from the appropriate net asset category based on the donor's restriction.

Property and Equipment

Property and equipment are stated at cost except for donated assets, which are recorded at fair market value at the date of donation. Depreciation and amortization of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

Land improvements	10 to 25 years
Buildings and improvements	7 to 40 years
Equipment	3 to 20 years

Significant replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon sale or disposal of property and equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the consolidated statements of operations and changes in net assets.

Equipment includes medical equipment, furniture and fixtures and computer software and hardware.

Equipment under capital leases is recorded at present value at the inception of the leases and is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. The amortization of the assets recorded under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized, net of any interest earned, as a component of the cost of acquiring those assets.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently accreted over the useful lives of the related assets. SHC recorded current period accretion expense of \$324 and \$328 in the consolidated statements of operations and changes in net assets for the years ended August 31, 2010 and 2009, respectively. ARO liability of \$6,782 and \$6,458 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2010 and 2009, respectively.

Other Assets

Other assets include deferred financing costs, long-term portion of contributions receivable, investments in Waverley Surgery Center, L.P. ("Waverley"), investments in Stanford PET-CT ("PET-CT") and other long-term assets.

Deferred financing costs represent costs incurred in conjunction with the issuance of SHC's long-term debt. These costs are amortized on a straight-line basis, which approximates the effective interest method, over the life of the debt.

Waverley is a California limited partnership which operates an ambulatory surgical center in Palo Alto, providing outpatient surgical and related health care services. PET-CT is a California limited liability company which provides radiological services to patients of the community, including patients served by SHC and physicians affiliated with the SoM. SHC and the University each appoint one-half of the members of the governing board of PET-CT and are its only members.

In November 2009, SHC sold its interest in Waverley. SHC's interest in Waverley was 33.70% for the year ended August 31, 2009. SHC's interest in PET-CT was 50% for the years ended August 31, 2010 and 2009. As SHC has 50% or less ownership and does not have control, these investments are recorded using the equity method.

Contributions Receivable

Unconditional promises to give ("contributions") are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as either temporary or permanently restricted net assets and are included as restricted contributions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the promises are received, and recorded in their respective net asset category. In accordance with current accounting guidance, the discount rates were determined using the risk free rate adjusted for the risk of donor default. Amortization of the discount is included in contributions in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

Contributions receivable as of August 31, 2010 and 2009 were \$46,663 and \$28,636, respectively. Current portion of contributions receivable of \$11,551 and \$1,247 is included in other receivables in the consolidated balance sheets as of August 31, 2010 and 2009, respectively. Long term portion of contributions receivable of \$35,112 and \$27,389 is included in other assets in the consolidated balance sheets as of August 31, 2010 and 2009, respectively.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Premiums and Discounts on Long-Term Debt

Premiums and discounts arising from the original issuance of long-term debt are amortized on either the effective interest method or the straight-line basis, which approximates the effective interest method, over the life of the debt. The unamortized portion of these premiums and discounts are included in long-term debt on the consolidated balance sheets.

Interest Rate Swap Agreements

SHC has entered into several interest rate swap agreements, also known as risk management or derivative instruments, to reduce the effect of interest rate fluctuation on its variable rate bonds. SHC designates at inception whether the swap agreement is considered hedging or non-hedging for accounting purposes in accordance with current accounting guidance. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. The net cash payments or receipts under the interest rate swap agreements have been recorded as an increase (decrease) to interest expense.

Changes in the fair value of the interest rate swaps that are effective and qualify as a cash flow hedge are recorded as change in unrestricted net assets. Changes in the fair value of interest rate swaps not designated as hedges are included in excess of revenues over expenses.

Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is included in excess of revenues over expenses.

Excess of Revenues over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, include transfers of assets to and from affiliates for other than goods and services, change in unrealized gains and losses on marketable investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and changes in pension and postretirement liability.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Contracts, laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Premium Revenue

SHC has capitated agreements with various health maintenance organizations (“HMOs”) to provide medical services to enrollees. Under these agreements, monthly payments are received based on the number of health plan enrollees. These receipts are recorded as premium revenue in the consolidated statements of operations and changes in net assets. Costs are accrued when services are rendered under these contracts, including cost estimates of incurred but not reported (“IBNR”) claims. The IBNR accrual (which is included in accounts payable and accrued liabilities in the consolidated balance sheets) includes an estimate of the costs of services for which SHC is responsible, including referrals to outside healthcare providers.

Charity Care

SHC provides either full or partial charity care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. SHC also provides services to other indigent patients under Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. The difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care.

Income Taxes

SHC is a not-for-profit corporation and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The estimated tax liability pertaining to unrelated business taxable income associated with Waverley has been recorded as \$549 and \$653 at August 31, 2010 and 2009, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheets.

Self-Insurance Plans

SHC self-insures for professional liability risks, postretirement medical benefits, workers’ compensation, health and dental. These liabilities are reflected as self-insurance reserves in the consolidated balance sheets.

- **Professional Liability** — SHC is self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC also maintains professional liability reserves for claims not covered by SUMIT which totals \$6,608. For the policy period September 1, 2009 to September 1, 2010, SUMIT retains 100% of the risk related to the first \$15,000 per occurrence. The next \$115,000 is transferred to various reinsurance companies. For the period from September 1, 2005 to September 1, 2009, SHC maintained the same coverage limits as fiscal year 2010. Prior to September 1, 2005, SHC maintained various coverage limits.
- **Postretirement Medical Benefits** – Liabilities for post-retirement medical claims for current and retired employees are actuarially determined.
- **Workers’ Compensation** — SHC purchases insurance for workers’ compensation claims with a \$750 deductible per occurrence. Workers’ compensation insurance provides statutory limits for the State of California. An actuarial estimate of retained losses (or losses retained within the deductible) has been used to record a liability.
- **Health and Dental** — Liabilities for health and dental claims for current employees are based on estimated costs.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

Due to the short-term nature of cash and cash equivalents, accounts payable and accrued liabilities, and accrued salaries and related benefits, their carrying value approximates their fair value. The fair value of the amounts payable under third-party reimbursement contracts is not readily determinable. The fair value of long-term debt is estimated based on quoted market prices for the bonds or similar financial instruments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, amounts due to third party payers, retirement plan obligations, and self insurance reserves. Actual results could differ from those estimates.

Recent Pronouncements

The Financial Accounting Standards Board (FASB) is the authoritative source of Generally Accepted Accounting Principles (GAAP) in the United States. The consolidated financial statements as of and for the year ended August 31, 2010 reflect several new pronouncements that became effective during the year. These include the effect of the FASB Accounting Standards Codification (ASC), additional disclosures on pensions and other post retirement benefits, and derivatives and hedging activities. The FASB ASC is now the sole source of authoritative non-governmental GAAP in the United States. The ASC did not change any accounting principles, but effective fiscal year 2010, impacts the way in which GAAP is referenced in the financial statements.

Recent accounting guidance now requires entities with defined benefit or other postretirement plans to provide disclosure of assets by level and by major asset category, and describe the valuation techniques and inputs for each major asset category, including a description of how investment allocation decisions are made, the target allocation ranges or percentages employed, the investment goals and risk management practices, and significant risk concentrations within asset categories. SHC adopted this policy during the year ended August 31, 2010. These disclosures are discussed in Note 10.

New GAAP also requires entities that utilize derivative instruments or hedges to include enhanced disclosures about these activities in their financial statements, including their objectives for using derivative instruments in terms of underlying risk and accounting designation, the fair values of derivative instruments and related gains and losses, and information about credit-risk-related contingent features. These disclosures are discussed in Note 9.

The following pronouncements are effective for the fiscal year ending August 31, 2011. SHC is assessing the impact of these pronouncements.

The FASB has issued new guidance surrounding noncontrolling interests in consolidated financial statements. The objective is to improve relevance, comparability and transparency of financial information in consolidated financial statements. This new guidance requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the net asset section of the balance sheet, separate from the parent's net assets. It also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the statement of operations.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements (continued)

There is also new guidance surrounding fair value measurements and disclosures. This guidance requires disclosure of, and reasons for, significant transfers between levels 1 and 2. It also clarifies some existing requirements. It now requires an increased level of disaggregation when providing fair value measurement disclosures and additional disclosures about input and valuation techniques for level 2 and 3 assets and liabilities.

3. Net Patient Service Revenue

SHC has agreements with third-party payers that provide for payments at amounts different from SHC's established rates. A summary of payment arrangements with major third-party payers follows:

- **Medicare** — Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare reimburses hospitals for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. SHC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review.

Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. SHC is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year examination is substantially completed. SHC's Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2003.

Professional services are reimbursed based on a fee schedule.

- **Medi-Cal** — Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a contract at a prospectively determined negotiated per diem rate. Outpatient services are reimbursed based upon prospectively determined fee schedules. Professional services are reimbursed based on a fee schedule.
- **Other** — SHC has entered into agreements with numerous non-government third-party payers to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:
 - Commercial insurance companies, including workers' compensation plans, which reimburse SHC at negotiated charges.
 - Managed care contracts such as those with HMOs and PPOs, which reimburse SHC at contracted or per diem rates, which are usually less than full charges.
 - Counties in the State of California, which reimburse SHC for certain indigent patients covered under county contracts.

Stanford Hospital and Clinics and Subsidiaries
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3. Net Patient Service Revenue (Continued)

Amounts due from Blue Cross represent 20% and 17% of net patient accounts receivable at August 31, 2010 and 2009, respectively. Amounts due from Medicare represent 15% and 16% of net patient accounts receivable at August 31, 2010 and 2009, respectively. SHC does not believe there are significant credit risks associated with this health care payor or this government agency.

SHC recognized net patient service revenue of \$5,271 and \$5,759 as a result of prior years favorable developments related to reimbursement for the years ended August 31, 2010 and 2009, respectively. SHC also recognized revenues of \$2,662 and \$12,734 as a result of prior years appeals settled during the years ended August 31, 2010 and 2009, respectively.

Net patient service revenue, including premium revenue, by major payor for the years ended August 31 is as follows:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 380,837	\$ 356,042
Medi-Cal	32,175	30,097
Managed Care - Capitation	7,296	22,960
Managed Care - Discounted Fee for Services	1,252,327	1,141,866
Self pay and other	173,204	160,844
Related party	45,503	53,007
Total	<u>\$ 1,891,342</u>	<u>\$ 1,764,816</u>

4. Charity Care and Uncompensated Costs

SHC engages in numerous community benefit programs and services. These services include health research, education and training and other benefits for the larger community that are excluded from the information below.

Uncompensated charity care is provided to vulnerable populations. Additionally, Medi-Cal and Medicare program reimbursements do not cover the estimated costs of services provided.

Information related to SHC's charity care for the years ended August 31 is as follows:

	<u>2010</u>	<u>2009</u>
Charity care at established rates	\$ 72,665	\$ 60,303
Estimated cost of charity care	\$ 18,839	\$ 16,469

Estimated cost of services in excess of reimbursement for the years ended August 31 is as follows:

	<u>2010</u>	<u>2009</u>
Charity care	\$ 18,839	\$ 16,469
Medi-Cal	85,406	76,112
Medicare	94,804	65,753
Total	<u>\$ 199,049</u>	<u>\$ 158,334</u>

Stanford Hospital and Clinics and Subsidiaries
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5. Assets Limited As to Use, Held by Trustee

The composition of assets limited as to use at August 31 is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 992	\$ 992	\$ 49,108	\$ 49,108
Less: Current portion of assets limited as to use, held by trustee		(280)		(280)
Assets limited as to use, held by trustee, net of current portion		<u>\$ 712</u>		<u>\$ 48,828</u>

In prior years, SHC was required to maintain a debt service reserve fund with the trustee in connection with the 2003 bonds. However, as of August 31, 2010, this reserve fund is no longer required as a result of SHC meeting certain thresholds set forth in the trust indenture pursuant to which the 2003 bonds were issued.

6. Investments and Investments in University Managed Pools

The composition of investments held directly by SHC at August 31 is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investments:				
Cash and cash equivalents	\$ 34,634	\$ 34,634	\$ 33,955	\$ 33,955
Mutual funds	44,137	46,183	41,168	42,629
Total	<u>\$ 78,771</u>	<u>\$ 80,817</u>	<u>\$ 75,123</u>	<u>\$ 76,584</u>

The composition of investments in University managed pools at August 31 is as follows:

	<u>Fair Value</u>	
	<u>2010</u>	<u>2009</u>
Investments in University Managed Pools:		
Merged Pool	\$ 672,495	\$ 525,986
Active Cash Fund	-	3,632
Expendable Funds Pool	4,103	3,900
Total	<u>\$ 676,598</u>	<u>\$ 533,518</u>

The Merged Pool ("MP") is the primary investment pool in which funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value. The MP's investments at August 31, 2010 and 2009 consist of approximately 4% and 1% cash and cash equivalents, 2% and 1% fixed income, 22% and 25% public equity securities, 9% and 10% real estate, 9% and 11% natural resources, 30% and 30% absolute returns, and 24% and 22% private equity securities, respectively.

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7. Fair Value Measurements

Current accounting guidance defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk.

In addition to defining fair value, this guidance expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds and interest rate swap instruments.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates. SHC has no investments that are categorized as level 3.

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7. Fair Value Measurements (Continued)

The following table summarizes SHC's assets and liabilities measured at fair value on a recurring basis as of August 31, based on the inputs used to value them:

	<u>2010</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 334,344	\$ -	\$ 334,344
Assets limited as to use, held by trustee	992	-	992
Investments	34,634	46,183	80,817
Investments in University managed pools	-	676,598	676,598
Total assets	<u>\$ 369,970</u>	<u>\$ 722,781</u>	<u>\$1,092,751</u>
Liabilities			
Interest rate swap instruments	<u>\$ -</u>	<u>\$ 166,365</u>	<u>\$ 166,365</u>
	<u>2009</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 331,502	\$ -	\$ 331,502
Assets limited as to use, held by trustee	49,108	-	49,108
Investments	33,955	42,629	76,584
Investments in University managed pools	-	533,518	533,518
Total assets	<u>\$ 414,565</u>	<u>\$ 576,147</u>	<u>\$ 990,712</u>
Liabilities			
Interest rate swap instruments	<u>\$ -</u>	<u>\$ 87,311</u>	<u>\$ 87,311</u>

8. Property and Equipment

Property and equipment consist of the following as of August 31:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 27,369	\$ 27,364
Buildings and improvements	809,558	773,532
Equipment	605,355	479,815
	<u>1,442,282</u>	<u>1,280,711</u>
Less: Accumulated depreciation	(729,273)	(647,514)
Construction-in-progress	147,264	207,758
Property and equipment, net	<u>\$ 860,273</u>	<u>\$ 840,955</u>

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
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8. Property and Equipment (Continued)

Depreciation and amortization expense totaled \$96,198 and \$73,876 for the years ending August 31, 2010 and 2009, respectively, and is included in the consolidated statements of operations and changes in net assets.

As of August 31, 2010, medical equipment acquired under capital leases totaled \$6,472 and is included in property and equipment in the consolidated balance sheet. Amortization expense under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets. Accumulated amortization was \$3,900 and \$2,605 as of August 31, 2010 and 2009, respectively.

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. Capitalized interest expense net of capitalized investment income was \$1,283 and \$2,049 for the years ended August 31, 2010 and 2009, respectively.

9. Long-Term Debt

SHC's outstanding debt at August 31 is summarized below:

	<u>Year of Maturity</u>	<u>Interest Rates 2010/2009</u>	<u>Outstanding Principal</u>	
			<u>2010</u>	<u>2009</u>
Fixed Rate Obligations				
1998 Series B Revenue Bonds	-	-/5.00%	\$ -	\$ 163,435
2003 Series A Revenue Bonds	2023	2.00% to 5.00%	83,400	88,015
2008 Series A1 Refunding Revenue Bonds	2040	2.25% to 5.15%/0.55%	70,360	70,500
2010 Series A Refunding Revenue Bonds	2031	4.00% to 5.75%	149,345	-
2010 Series B Refunding Revenue Bonds	2036	4.50% to 5.75%	146,710	-
Promissory note	2014	7.03%	704	857
Variable Rate Obligations				
2003 Series B, C and D Revenue Bonds	-	-/0.67%	-	150,000
2008 Series A2 Refunding Revenue Bonds	2040	0.26%/0.24%	104,100	104,100
2008 Series A3 Refunding Revenue Bonds	2040	3.45%/3.45%	85,700	85,700
2008 Series B Refunding Revenue Bonds	2045	0.24%/0.16%	168,200	168,200
Total principal amounts			808,519	830,807
Unamortized original issue premiums/discounts, net			17,668	1,667
Current portion of long-term debt			(4,969)	(8,713)
Debt subject to short-term remarketing arrangements			(358,000)	(266,764)
Long-term portion, net of current portion			<u>\$ 463,218</u>	<u>\$ 556,997</u>

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

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9. Long-Term Debt (Continued)

In June 2008, the California Health Facilities Financing Authority ("CHFFA"), on behalf of SHC, issued Variable Rate Demand Bonds ("VRDB's") in the aggregate principal amount of \$428,500 (the "2008 Bonds") to refund its previously issued 2006 Bonds. The 2008 Bonds were comprised of \$260,300 of 2008 Series A VRDB's that were issued as Series A-1, Series A-2, and Series A-3; and \$168,200 of 2008 Series B VRDB's that were issued as Series B-1 and Series B-2.

In June 2009, SHC remarketed the 2008 Series A-1 bonds in the aggregate principal amount of \$70,500. In June 2010, SHC converted the 2008 Series A-1 bonds from an annual put mode to a long-term fixed interest rate mode. The remarketing of the 2008 Series A-1 Bonds at a long-term interest generated an original issue premium of approximately \$140; that, pursuant to the requirements of the underlying documents, was used to reduce the principal amount of the bonds from \$70,500 to \$70,360.

Additionally in June 2010, CHFFA, on behalf of SHC, issued fixed rate revenue bonds in the aggregate principal amount of \$296,055 (the "2010 Bonds") to refund the 1998 Series B Bonds and the 2003 Series B, C and D Bonds. The 2010 Bonds were comprised of \$149,345 of 2010 Series A bonds, proceeds of which were used to refund the 1998B Bonds, and \$146,710 of 2010 Series B bonds, proceeds of which were used to refund the 2003 Series B, C and D bonds. As a result of the bond refinancing, the unamortized bond issuance costs to the 1998 and 2003 and unamortized original issue discount related to the 1998 Bonds were included in loss on extinguishment of debt of \$12,994 for the year ended August 31, 2010.

The 2008 Series A-2 Bonds, in the aggregate principal amount of \$104,100, are in a weekly interest rate mode and secured by a direct pay letter of credit which expires June 2011. The 2008 Series B Bonds are in a weekly interest rate mode and supported by SHC's self-liquidity. The Bonds in a weekly interest rate mode are remarketed every 7 days at the then prevailing interest rate. Holders of bonds in a weekly mode have the option of tendering their bonds on a weekly basis. The 2008 Series A-3 Bonds, in the aggregate principal amount of \$85,700, are in a multi-annual long-term mode and subject to a mandatory tender in June 2011. In order to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket, SHC entered into a liquidity agreement with the University. The agreement allows access on a same-day basis to up to \$200,000 of SHC's investments in University managed pools. All of the 2008 Series A-2, Series A-3 and Series B Bonds are classified as current liabilities.

The 2010 Bonds, together with the 2008 Bonds and 2003 Bonds are collectively referred to as the "Revenue Bonds". The Revenue Bonds are limited obligations of CHFFA and are payable solely from payments made by SHC. Payments of principal and interest on the Revenue Bonds are collateralized by a pledge against the revenues of SHC secured under a master trust indenture between SHC and the master trustee. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem the Revenue Bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of \$807,815 and \$829,950 as of August 31, 2010 and 2009, respectively.

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
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9. Long-Term Debt (Continued)

Scheduled principal payments on long-term debt including unsecured promissory notes are summarized below:

	Scheduled Maturities	Bonds Supported by SHC Liquidity	Bonds Supported by Credit Facilities	Total
2011	\$ 4,969	\$ 253,900	\$ 104,100	\$ 362,969
2012	9,746	-	-	9,746
2013	10,330	-	-	10,330
2014	10,739	-	-	10,739
2015	11,075	-	-	11,075
Thereafter	403,660	-	-	403,660
	<u>\$ 450,519</u>	<u>\$ 253,900</u>	<u>\$ 104,100</u>	<u>\$ 808,519</u>

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term obligations, including debt subject to short term remarketing arrangements, includes payments scheduled to be made in 2011, the VRDB's supported by SHC's liquidity and that portion of credit facilities that would be due in the event the bondholders tendered the bonds to those facilities. The VRDB's supported by self liquidity provide the bondholder with an option to tender the bonds to SHC. The VRDB's supported by credit facilities provide the bondholder the option of tendering the bonds to the credit facilities. Generally accepted accounting principles require that bonds backed by credit facilities expiring within one year of the balance sheet date and bonds supported by SHC's liquidity be classified as current liabilities.

The estimated fair value of the Revenue Bonds as of August 31, 2010 and 2009 was \$832,180 and \$823,864, respectively.

In 1998, SHC advance refunded its 1993 and 1995 bonds in the amount of \$111,014 by issuing the 1998 bonds. As of August 31, 2010 and 2009, \$27,295 of advance refunded bonds, which are considered extinguished, remain outstanding.

Interest Rate Swap Agreements

SHC has entered into various interest rate swap agreements ("swap agreements") with varying maturities through November 2045. SHC uses swap agreements, also known as risk management or derivative instruments, principally to manage interest rate risk and has entered into derivatives to lock in fixed rates for anticipated issuance and refunding of debt. By using swap agreements to manage the risk of changes in interest rates, SHC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes SHC, which creates credit risk. When the fair value of a derivative contract is negative, SHC owes the counterparty and, therefore, it does not possess credit risk. SHC minimizes its credit risk by entering into derivative agreements with at least two counterparties and requiring the counterparty to post collateral for the benefit of SHC based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Stanford Hospital and Clinics and Subsidiaries
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9. Long-Term Debt (Continued)

Interest Rate Swap Agreements (continued)

SHC maintains interest rate swap programs on certain of its variable rate revenue bonds. These bonds expose SHC to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, SHC entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. Certain of these agreements involve the exchange of fixed rate payments for variable rate payments based on a percentage of the One Month London Interbank Offered Rate ("LIBOR"). SHC has also entered into agreements for the basis exchange of variable rate payments by SHC based on a fixed percentage of LIBOR for variable rate payments from a counterparty based on scaled percentage of LIBOR. As of August 31, 2010 and 2009, this scaled percentage was 93% of One Month LIBOR, but can range from 61% to 93% based upon the One Month LIBOR Rate on the reset date. The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2010:

<u>Description</u>	<u>Current Notional</u>	<u>Maturity Date</u>	<u>Rate Paid</u>	<u>Rate Received</u>
Series 2003B	\$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
Series 2003C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
Series 2003D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
Series 2003B	48,800	11/15/2036	70% 1-month LIBOR	93% 1-month LIBOR
Series 2003C	48,700	11/15/2036	70% 1-month LIBOR	93% 1-month LIBOR
Series 2003D	52,500	11/15/2036	70% 1-month LIBOR	93% 1-month LIBOR
Subtotal Basis Swaps	150,000 *			
Series 2008A1	70,500	11/01/2040	3.693%	70% 1-month LIBOR
Series 2008A2	104,100	11/01/2040	3.714%	70% 1-month LIBOR
Series 2008A3	85,700	11/01/2040	3.716%	70% 1-month LIBOR
Series 2008B1	84,100	11/15/2016	3.627%	70% 1-month LIBOR
Series 2008B2	84,100	11/15/2016	3.627%	70% 1-month LIBOR
Subtotal LIBOR Swaps	428,500			
Series 2010 A	68,350	11/15/2045	3.942%	70% 1-month LIBOR
Series 2010 B	68,375	11/15/2045	3.936%	70% 1-month LIBOR
Series 2010 C	34,175	11/15/2045	3.900%	70% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	\$ 749,400 *			

* Overlay swaps not included in total notional amount.

SHC designates its interest rate swaps that are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions caused by changes in interest rates as hedging instruments at the inception of each contract, with the intention of maintaining hedge accounting treatment over the term of the agreement. However, circumstances may arise whereby the representations made at the inception of the agreement became invalid, or the structure of the bonds is changed, resulting in de-designation of the hedge. In June 2008, the underlying bonds that were being hedged were refinanced and as a result, none of the swap agreements are treated as a hedge for accounting purposes.

Stanford Hospital and Clinics and Subsidiaries
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9. Long-Term Debt (Continued)

Interest Rate Swap Agreements (continued)

The fair value of interest rate swaps (all of which are designated as non-hedging instruments) is shown on the balance sheets as of August 31 as follows:

Description	Fair Value		Balance Sheet Location
	2010	2009	
Fixed Payment Swaps	\$ (166,677)	\$ (87,419)	Other long-term liabilities
Basis Swaps	312	108	Other long-term liabilities
Total	<u>\$ (166,365)</u>	<u>\$ (87,311)</u>	

The change in fair value of the interest rate swaps (all of which are designated as non-hedging instruments) is shown on the consolidated statements of operations and changes in net assets for the years ended August 31 as follows:

Description	Unrealized Gains (Losses)		Statement of Operations Location
	2010	2009	
Fixed Payment Swaps	\$ (79,258)	\$ (51,090)	Interest rate swap mark to market adjustments
Basis Swaps	204	2,752	Interest rate swap mark to market adjustments
Total	<u>\$ (79,054)</u>	<u>\$ (48,338)</u>	

Certain swap agreements require posting of collateral by SHC or the counterparties should the fair market value of the swap agreements exceed a predetermined threshold dollar amount. The collateral thresholds reflect the current credit ratings issued by major credit rating agencies on SHC's and the counterparty's debt. Declines in SHC's or the counterparty's credit ratings would result in decreases in the collateral thresholds and consequently, the potential for additional collateral postings by SHC or the counterparty. In fiscal year 2009, SHC obtained standby letters of credit in the amount of \$85,000 to support collateral requirements under certain interest rate swap agreements. In fiscal year 2010, the stated amount of the letters of credit related to the swap agreements was reduced to \$75,000. No amounts have been drawn on these letters of credit as of August 31, 2010. Other than the stand-by letters of credit, SHC was not required to post additional collateral as of August 31, 2010.

Upon the occurrence of certain events of default or termination events identified in the derivative contracts, either SHC or the counterparty could terminate the contracts in accordance with their terms. Termination results in the payment of a termination amount by one party that attempts to compensate the other party for its economic losses. If interest rates at the time of termination are lower than those specified in the derivatives contract, SHC will make a payment to the counterparty. Conversely, if interest rates at such time are higher, the counterparty will make a payment to SHC.

Stanford Hospital and Clinics and Subsidiaries
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9. Long-Term Debt (Continued)

Bond Interest Expense

The components of bond interest expense for the years ended August 31 are as follows:

	<u>2010</u>	<u>2009</u>
Interest and fees	\$ 19,684	\$ 21,918
Swap settlements	19,641	15,550
Bond interest expense	<u>\$ 39,325</u>	<u>\$ 37,468</u>
Interest capitalized as a cost of construction	\$ 1,283	\$ 2,049
Bond interest income	\$ 19	\$ 711

10. Retirement Plans

SHC provides retirement benefits through defined benefit and defined contribution retirement plans covering substantially all benefit eligible employees.

In fiscal year 2009, in order to comply with current accounting guidance, which requires measurement of the plan assets and benefit obligations of SHC's defined benefit and postretirement medical benefit plans as of SHC's fiscal year end, the measurement date was changed from June 30 to August 31.

Defined Contribution Retirement Plan

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees excluding LPCH leased employees (see Note 12) totaling \$42,550 and \$38,593 for the years ended August 31, 2010 and 2009, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

Defined Benefit Pension Plan

Certain employees of the Hospitals are covered by a noncontributory defined benefit pension plan (the "Staff Pension Plan"). Benefits are based on years of service and the employee's compensation. Contributions to the plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

As of August 31, 2004, SHC assumed the pension liability of the employees leased to LPCH. SHC received \$2,527 in cash during the year ended August 31, 2005, which represented the pension liability as of August 31, 2004. In addition, SHC received \$477 and \$433 in cash for the years ending August 31, 2010 and 2009, respectively, which represented the current year pension expense related to LPCH leased employees, and another \$72 for the year ending August 31, 2009 which represented the gap period from July 1, 2008 to August 31, 2008, as a result of the change in measurement date.

Postretirement Medical Benefit Plan

SHC currently provides health insurance coverage for SHC employees upon retirement as early as age 55, with years of service as defined by specific criteria. The health insurance coverage for retirees who are under age 65 is the same as that provided to active employees. A Medicare supplement option is provided for retirees over age 65.

Stanford Hospital and Clinics and Subsidiaries
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10. Retirement Plans (Continued)

Postretirement Medical Benefit Plan (continued)

SHC implemented a postretirement medical benefit plan change effective January 2009. This change added a Retiree Health Reimbursement Account for certain participants. As a result of this plan amendment, the benefit obligation increased by \$3,632 for the year ended August 31, 2009.

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2010 and 2009, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH leased employees. The total postretirement medical benefit liability was \$90,850 and \$78,828 as of August 31, 2010 and 2009, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of \$73,110 and \$63,227 as of August 31, 2010 and 2009, respectively, which represents the liability for SHC employees excluding LPCH leased employees.

The change in pension and other post-retirement plan assets and the related change in benefit obligations, using a measurement date of August 31, as of and for the years ended August 31 are as follows:

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2010	2009	2010	2009
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 112,203	\$ 140,777	\$ -	\$ -
Adjustment due to change in measurement date				
Changes due to gap period benefit payments	-	(1,134)	-	(575)
Actual return on plan assets	13,876	(23,171)	-	-
Employer contributions	13,750	3,075	3,298	4,490
Plan settlements	(2,348)	-	-	-
Participants contributions	-	-	782	665
Benefits paid	(7,193)	(7,344)	(4,080)	(4,580)
Fair value of plan assets at end of year	<u>\$ 130,288</u>	<u>\$ 112,203</u>	<u>\$ -</u>	<u>\$ -</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 177,391	\$ 146,828	\$ 78,828	\$ 63,543
Adjustments due to change in measurement date				
Service and interest costs during gap period	-	2,008	-	962
Changes due to gap period benefit payments	-	(1,134)	-	(575)
Service cost	1,723	1,497	2,357	1,427
Interest cost	10,559	10,548	4,458	4,343
Plan settlements	(1,872)	-	-	-
Participants contributions	-	-	782	665
Benefits paid	(7,193)	(7,344)	(4,080)	(4,580)
Plan amendment	-	-	-	3,632
Actuarial loss	24,309	24,988	8,505	9,411
Benefit obligation at end of year	<u>\$ 204,917</u>	<u>\$ 177,391</u>	<u>\$ 90,850</u>	<u>\$ 78,828</u>

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2010	2009	2010	2009
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	\$ (74,629)	\$ (65,188)	\$ (90,850)	\$ (78,828)
Net benefit liability recognized	<u>\$ (74,629)</u>	<u>\$ (65,188)</u>	<u>\$ (90,850)</u>	<u>\$ (78,828)</u>
Amounts recognized in consolidated balance sheets consist of:				
Current liabilities	\$ -	\$ -	\$ (4,827)	\$ (4,739)
Noncurrent liabilities	(74,629)	(65,188)	(86,023)	(74,089)
Net benefit liability recognized	<u>\$ (74,629)</u>	<u>\$ (65,188)</u>	<u>\$ (90,850)</u>	<u>\$ (78,828)</u>
Amounts recognized in accumulated other comprehensive income:				
Prior service cost (credit)	\$ -	\$ -	\$ 2,594	\$ 2,020
Net loss (gain)	87,960	65,583	9,895	1,495
Accumulated other comprehensive income	<u>\$ 87,960</u>	<u>\$ 65,583</u>	<u>\$ 12,489</u>	<u>\$ 3,515</u>

The estimated net loss for the staff pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$4,896.

The estimated net loss and prior service credit for the postretirement medical plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$696 and \$574, respectively.

Total benefit obligation at the end of the year for Postretirement Medical Benefits excluding Medicare Part D subsidiary increased to \$98,959.

The accumulated benefit obligation for the defined benefit pension plan was \$200,545 and \$173,319 as of August 31, 2010 and 2009, respectively.

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

Net benefit expense related to the plans for the years ended August 31 includes the following components:

	Staff Pension Plan Obligations	
	2010	2009
Service cost	\$ 1,723	\$ 1,497
Interest cost	10,559	10,548
Expected return on plan assets	(12,588)	(11,914)
Amortization	1,120	-
Total net periodic benefit cost	<u>\$ 814</u>	<u>\$ 131</u>

	Postretirement Medical Benefits			
	Net of Medicare Part D Subsidy		Excluding Medicare Part D Subsidy	
	2010	2009	2010	2009
Service cost	\$ 2,357	\$ 1,427	\$ 2,367	\$ 1,541
Interest cost	4,458	4,343	4,891	4,869
Amortization of prior service cost	(574)	(834)	(574)	(834)
Recognized net actuarial loss (gain)	105	(905)	225	(593)
Total net periodic benefit cost	<u>\$ 6,346</u>	<u>\$ 4,031</u>	<u>\$ 6,909</u>	<u>\$ 4,983</u>

Changes recognized in other comprehensive income for the years ended August 31 include the following components:

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2010	2009	2010	2009
Prior service cost arising during period	\$ -	\$ -	\$ -	\$ 3,632
Net loss arising during period	23,497	62,059	8,505	9,411
Amortizations				
Prior service credit	-	-	574	973
(Loss) gain	(1,120)	-	(105)	1,056
Total recognized in other comprehensive income	<u>\$ 22,377</u>	<u>\$ 62,059</u>	<u>\$ 8,974</u>	<u>\$ 15,072</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 23,191</u>	<u>\$ 62,190</u>	<u>\$ 15,320</u>	<u>\$ 19,103</u>

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

Actuarial Assumptions

The weighted-average assumptions used to determine benefit obligations are as follows for the years ended August 31:

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2010	2009	2010	2009
Weighted-average assumptions				
Discount rate	4.99%	6.10%	4.70%	5.83%
Rate of compensation increase	5.50%	5.50%	N/A	N/A

The discount rate, expected rate of return on plan assets, and the projected covered payroll growth rates used in determining the above net benefit expense are as follows for the years ended August 31:

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2010	2009	2010	2009
Weighted-average assumptions				
Discount rate	6.10%	7.38%	5.83%	7.12%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	5.50%	5.50%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. The historical return of the plan assets from inception through June 30, 2010 averaged 8.1%. An independent investment consulting firm provided SHC with an estimate of the future expected returns for each asset class based on SHC's asset allocation targets. The evaluation of the historical returns and the future expected returns resulted in the use of 8.0% as the assumption for the expected return on plan assets.

To determine the accumulated post-retirement benefit obligation as of August 31, 2010, an 8.5% annual rate of increase in the pre-65 per capita costs, an 8.5% annual rate of increase in the post-65 prescription drug per capita costs, and a 7.0% rate of increase in the post-65 per capita cost of all other medical benefits were assumed for 2010, all declining gradually to 4.75% by 2024, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the post-retirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post-retirement benefit obligation by \$3,257 and the aggregate service and interest cost by \$251. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post-retirement benefit obligation by \$2,940 and the aggregate service and interest cost by \$227.

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Assets

SHC's staff pension plan weighted-average asset allocations as of the measurement date August 31, 2010 and 2009, respectively, by asset category are as follows:

<u>Asset Category</u>	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Equity securities	44%	42%
Debt securities	50%	42%
Real estate	6%	7%
Other	0%	9%
Total	100%	100%

The following table summarizes SHC's staff pension plan assets measured at fair value on a recurring basis as of August 31, 2010, based on the inputs used to value them as defined in Note 7:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 607	\$ -	\$ -	\$ 607
Mutual funds	122,223	-	-	122,223
Real estate	-	-	7,458	7,458
Total assets	\$ 122,830	\$ -	\$ 7,458	\$ 130,288

The following table summarizes the changes in the fair value of the staff pension plan Level 3 assets as of August 31, 2010:

	<u>Real estate</u>
Balance, beginning of year	\$ 8,301
Realized gains	473
Unrealized losses	(1,170)
Purchases, sales, issuances and settlements (net)	(146)
Balance, end of year	\$ 7,458

Plan Investments

The investment objective of the staff pension plan funds is to maximize the total rate of return (income and appreciation) within the limits of prudent risk taking and Section 404 of the Employee Retirement Income Security Act. The funds are diversified across asset classes to achieve an optimal balance between risk and return and between income and capital appreciation. Many of the pension liabilities are long term. The investment horizon is also long-term; however, the investment plan also ensures adequate near-term liquidity to meet benefit payments.

The allowable asset mix range and target asset allocations are:

<u>Asset Category</u>	<u>Acceptable Range</u>	<u>Target Allocation</u>
Equity securities	28% to 60%	46%
Debt securities	36% to 60%	44%
Real estate	0% to 12%	10%
Cash equivalents	0% to 4%	< 1%

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Investments (continued)

Appropriate investments include common, preferred and convertible equities of domestic and foreign companies, mutual and commingled trust funds, top tier commercial paper, certificates of deposit, and fixed income securities whose assets are rated investment grade or better. Financial futures and options on futures traded on exchanges are also permitted for hedging purposes. Prohibited investments include commodities, unregistered securities and short sales. Derivative products may not be used to leverage a portfolio or to speculate. All assets must have readily ascertainable market value and be easily marketable.

Portfolios are expected to be well diversified with respect to industry and economic sectors. Equity investments in any one company shall be limited to the greater of 5% of the market value of the portfolio at time of purchase or twice the applicable benchmark weighting of the security. The investment manager shall not hold more than 15% of any company's outstanding equity.

Fixed income investments may consist of U.S. government, U.S. government guaranteed, and U.S. government agency securities. Corporate bond holdings must have an investment grade credit rating at the time of purchase and during the holding period. No single issuer of fixed income or cash equivalent securities (with the exception of the U.S. Government and its Agencies) will account for more than 10% of the market value of the fixed income securities in a manager's portfolio.

Investments in any one real estate investment trust company shall be limited to the greater of 5% of the market value of the portfolio at time of purchase or twice the applicable benchmark weighting of that security. The investment manager shall not hold more than 15% of any company's outstanding shares.

Concentration of Risk

SHC manages a variety of risks, including market, credit, and liquidity risks, across plan assets through investment managers. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying our exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2010, SHC did not have concentrations of risk in any single entity, manager, counterparty, sector, industry or country.

Expected Contributions

SHC expects to contribute \$26,086 to its Staff Pension Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2011. SHC expects to contribute \$4,827 to its Postretirement Medical Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2011.

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

Expected Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid for the fiscal years ending August 31:

	Pension Benefits	Postretirement Medical Benefits	
		Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2011	\$ 9,044	\$ 4,827	\$ 5,330
2012	9,733	5,363	5,927
2013	10,355	5,920	6,547
2014	11,036	6,395	7,086
2015	11,789	6,744	7,504
2016 - 2020	67,147	34,974	39,807

11. Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at August 31:

	2010	2009
Plant replacement and expansion	\$ 66,579	\$ 48,767
Other patient services	14,134	8,457
Indigent care	5,653	6,318
Clinical services	3,483	3,382
Education	3,213	3,027
Total	\$ 93,062	\$ 69,951

Permanently Restricted Net Assets

In 2009, California adopted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). SHC has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SHC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, SHC considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund.
2. The purposes of SHC and the donor restricted endowment fund.
3. General economic conditions.

Stanford Hospital and Clinics and Subsidiaries
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(in thousands of dollars)

11. Temporarily and Permanently Restricted Net Assets (Continued)

4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

Endowment funds by net asset classification as of August 31, 2010 and 2009 are as follows:

	2010			2009		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment						
Donor restricted endowment	\$ 5,435	\$ 5,611	\$ 11,046	\$ 4,373	\$ 5,611	\$ 9,984
Pledge receivable	-	881	881	-	881	881
Total endowment	\$ 5,435	\$ 6,492	\$ 11,927	\$ 4,373	\$ 6,492	\$ 10,865

Changes in SHC's endowment for the years ended August 31, 2010 and 2009 are as follows:

	2010			2009		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Change in endowment net assets						
Endowment net assets, beginning of year	\$ 4,373	\$ 6,492	\$ 10,865	\$ 7,007	\$ 6,492	\$ 13,499
Investment return:						
Investment income	98	-	98	22	-	22
Mark to market adjustments	1,075	-	1,075	(2,594)	-	(2,594)
Total investment return	1,173	-	1,173	(2,572)	-	(2,572)
Expenditures	(111)	-	(111)	(62)	-	(62)
Endowment net assets, end of year	\$ 5,435	\$ 6,492	\$ 11,927	\$ 4,373	\$ 6,492	\$ 10,865

The following provides descriptions of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only). The portion of endowment funds that is required to be retained permanently or temporarily, either by explicit donor stipulation or by California UPMIFA, as of August 31, 2010 and 2009 is as follows:

	2010			2009		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Endowment classified as net assets						
Restricted for:						
Clinical services	\$ 279	\$ 4,000	\$ 4,279	\$ (97)	\$ 4,000	\$ 3,903
Education	2,109	1,235	3,344	1,749	1,235	2,984
Plant replacement and expansion	2	901	903	(1)	901	900
Indigent care and other	3,045	356	3,401	2,722	356	3,078
Total endowment classified as net assets	\$ 5,435	\$ 6,492	\$ 11,927	\$ 4,373	\$ 6,492	\$ 10,865

Most of SHC's endowment, \$11,927 and \$10,865, are invested in the MP at August 31, 2010 and 2009, respectively. The funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

Return Objectives and Risk Parameters

The return objective for the endowment assets is to generate optimal total return while maintaining an appropriate level of risk established by the University.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

11. Temporarily and Permanently Restricted Net Assets (Continued)

Strategies Employed for Achieving Investment Objectives

SHC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gain) and current yield (interest and dividend) managed by the MP.

12. Related-Party Transactions

Transactions with the University and SoM

SHC has various transactions with the University and the SoM. SHC records expense transactions where direct and incremental economic benefits are received by SHC.

Expenses paid to the University and the SoM are reported as operating expenses in the consolidated statements of operations and changes in net assets and are management's best estimates of SHC's arms-length payments of such amounts for its market specific circumstances. To the extent that payments to the University and the SoM exceed an arms-length estimated amount relative to the benefits received by SHC, they are recorded as transfers to the University and the SoM in other changes in net assets.

SHC purchases certain services from the University and the SoM. Payment for these services is based on management's best estimate of its market specific circumstances.

Services provided by the SoM include physician services that benefit SHC, such as emergency room coverage, physicians providing medical direction to SHC, and physicians providing service to the clinical practice, which are covered by the Professional Services Agreement ("PSA"). Such expenses are reflected as purchased services in the consolidated statements of operations and changes in net assets, and total \$264,846 and \$249,237 for the years ended August 31, 2010 and 2009, respectively.

Services provided by the University include telecommunications, transportation, utilities, blood products, and certain administrative services, which consist of legal and internal audit. Total costs incurred by SHC were \$86,214 and \$85,833 for the years ended August 31, 2010 and 2009, respectively, and are reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC paid service fees to the University in the amount of \$3,564 and \$4,155 for the years ended August 31, 2010 and 2009, respectively. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements, parking garages and generators and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 23 years total \$42,479. Annual service fees range from approximately \$3,491 for the year ending August 31, 2011 to \$453 for the year ending August 31, 2033.

SHC also received payment for services provided to the University including primarily building maintenance, housekeeping, and security. Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from the University totaled \$32,564 and \$33,910 for the years ended August 31, 2010 and 2009, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

12. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)

In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled \$6,613 and \$4,912 for the years ended August 31, 2010 and 2009, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and recoveries.

During the year ended August 31, 2004, SHC paid \$5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short term portion of \$108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2010 and 2009. The remaining amount included in other assets in the consolidated balance sheets is \$4,457 and \$4,565 as of August 31, 2010 and 2009, respectively.

For the years ended August 31, 2010 and 2009, SHC transferred \$6,249 and \$7,459, respectively, to the University related to academic grants.

SHC received equity transfers of \$2,789 and \$15,167 during the years ended August 31, 2010 and 2009, respectively, which represented gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC capital projects.

Transactions with LPCH

Shared Services - SHC and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll, compliance, risk management and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled \$20,438 and \$20,161 for the years ended August 31, 2010 and 2009, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Purchased Services - SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled \$45,503 and \$53,007 for the years ended August 31, 2010 and 2009, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other Services - Other services provided by SHC include services provided by interns and residents, billings and collections, building maintenance and utilities. Reimbursement of these services totaled \$21,197 and \$25,559 for the years ended August 31, 2010 and 2009, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries. SHC also leased 2,750 and 2,732 full time and part time employees to LPCH during the years ended August 31, 2010 and 2009, respectively.

Transfers to LPCH

In 2008, SHC agreed to execute an equity transfer of \$2,001 to LPCH which represents a fixed allocation of 18% of the total net assets of SUMIT as of August 31, 2007. Previously net assets were allocated relative to the percentage of the premiums paid to SUMIT in each fiscal year. In 2009, \$288 was transferred to SHC which represents 18% of the initial capital contribution made by SHC of which SHC owns 100%.

Stanford Hospital and Clinics and Subsidiaries
Notes to Consolidated Financial Statements
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13. Operating and Capital Leases

SHC leases various equipment and facilities under non-cancelable lease agreements expiring at various dates. Total rental expense (included in other expense in the consolidated statements of operations and changes in net assets) under these leases for the years ended August 31, 2010 and 2009 was \$36,559 and \$35,575, respectively.

Net minimum future lease payments under all non-cancelable operating leases and capital lease obligations for periods subsequent to August 31, 2010 are as follows:

Year Ending August 31,	<u>Operating</u>	<u>Capital</u>
2011	\$ 26,560	\$ 1,396
2012	26,080	976
2013	25,304	136
2014	18,459	57
2015	15,182	-
Thereafter	96,677	-
	<u>\$ 208,262</u>	<u>2,565</u>
Less amount representing interest		(90)
Subtotal		<u>2,475</u>
Current portion		(1,336)
Long-term portion, net of current portion		<u>\$ 1,139</u>

Capital lease obligations totaled \$2,475 of which \$1,336 is included in accounts payable and accrued liabilities on the consolidated balance sheet. The remaining capital lease obligation of \$1,139 is included in other long term liabilities on the consolidated balance sheets.

SHC leases space in its medical office building to others under non-cancelable operating lease arrangements. Future minimum base rentals to be received under these leases in place as of August 31, 2010 are as follows:

Year Ending August 31,	
2011	\$ 897
2012	352
2013	135
2014	56
	<u>\$ 1,440</u>

14. Commitments and Contingencies

SHC is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on SHC's financial position.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

14. Commitments and Contingencies (Continued)

SHC has irrevocable standby letters of credit in the amount of \$14,386, which are required as security for the workers' compensation self-insurance arrangement and a direct pay letter of credit for the 2008 Series A-2 debt in the amount of \$105,674. No amounts have been drawn on these letters of credit as of August 31, 2010.

At August 31, 2010, SHC had contractual obligations of approximately \$71,480 primarily related to the construction of the new Hospital and other capital projects to support SHC's operations.

Effective September 1, 2004, SHC entered into a seven year agreement with a worldwide provider of information technology services and business solutions, pursuant to which SHC will receive certain information technology services. Under the terms of the 2008 amended agreement, SHC will be charged a fixed annual service charge including expenses, payable monthly, for core services as defined, and additional fees plus expenses for special projects. The annual fixed service charges are subject to adjustment under certain conditions, but unless so adjusted, amount to approximately \$39,705 for the year ending August 31, 2011.

Effective April 1, 2008, SHC entered into a five year agreement with a global management consulting, technology services and outsourcing company, pursuant to which SHC will receive certain information technology services. Effective September 1, 2010, SHC entered into a new eight year agreement with this global company. Under the terms of the new agreement, SHC will be charged a fixed annual service charge including expenses, payable monthly, for core services as defined, and additional fees plus expenses for special projects. The annual fixed service charges are subject to adjustment under certain conditions, but unless so adjusted, amount to approximately \$24,005 for the year ending August 31, 2011, with the remaining amount of \$273,710 due over the life of the contract. SHC has certain rights to reduce the scope of services to be purchased and to terminate the agreement early for a termination fee. The amount of the termination fee depends on when the right to terminate is exercised and changes monthly from \$7,450 for the month ending September 30, 2010, up to \$14,550 for the month ending September 30, 2011, and then decreasing gradually to \$1,350 for the month ending February 28, 2018.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as to regulatory actions unknown or unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations that could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. SHC is subject to similar regulatory reviews, and while such reviews may result in repayments and/or civil remedies that could have a material effect on SHC's financial results of operations in a given period, management believes that such repayments and/or civil remedies would not have a material effect on SHC's financial position.

The percentage of SHC employees excluding LPCH leased employees that are covered by collective bargaining arrangements is approximately 36%. The agreement with CRONA expired during fiscal year 2010 and negotiations are ongoing.

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. Facilities classified by the State of California as non-compliant in the event of an earthquake must be retrofitted, replaced or removed from acute-care service by applicable deadlines in 2013, 2015, 2020 or 2030.

Stanford Hospital and Clinics and Subsidiaries
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14. Commitments and Contingencies (Continued)

The California Office of Statewide Health Planning and Development (“OSHPD”) has classified a substantial portion of Stanford Hospital as compliant with seismic safety structural standards until 2030 and beyond. Patient care activities are located in facilities that are structurally compliant until 2030. However, these facilities have utility and other connections to facilities that are only compliant until 2013, or 2015 under prescribed circumstances. Stanford Hospital plans to construct a new hospital facility to address seismic safety requirements and other needs. Applications for state and local approvals are pending.

Recent amendments of the Hospital Seismic Safety Act permit OSHPD to extend the structural compliance deadline for eligible hospitals from 2013 until January 1, 2016 due to local planning delays. In addition, such legislation authorizes OSHPD to grant two additional one-year extensions, until January 1, 2018, to facilities that meet certain criteria in the legislation. Management of Stanford Hospital expects Stanford Hospital to be eligible for such extensions. Based on current estimated schedules for obtaining local approvals and for the construction of the new hospital, management currently projects that the new hospital construction will be complete by January 1, 2018.

15. Functional Expenses

Expenses are categorized on a functional basis for the years ended August 31:

	<u>2010</u>	<u>2009</u>
Patient services	\$ 1,699,045	\$ 1,592,313
Management and general	163,578	136,049
Fundraising	4,613	4,635
Total functional expenses	<u>\$ 1,867,236</u>	<u>\$ 1,732,997</u>

16. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 15, 2010, the date the financial statements were issued.

Hospital Fee Program

AB 1383 of 2009, as amended by AB 1653 on September 8, 2010, establishes a series of Medicaid supplemental payments funded through a “Quality Assurance Fee” and a “Hospital Fee Program”, which are imposed on certain California hospitals. The effective date of the Hospital Fee Program is April 1, 2009 through December 31, 2010 and is predicated in part on the enhanced Federal Medicaid Assistance Percentage (“FMAP”) contained in the American Reinvestment and Recovery Act (“ARRA”). The Hospital Fee Program would make supplemental payments to hospitals for various health care services and support the State’s effort to maintain health care coverage for children. Supplemental payments are anticipated to be made by California Department of Health Care Services (“CDHS”) and managed health care plans in FY11.

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture of Trust, dated as of December 1, 1990 (as supplemented and amended, the "Master Indenture"), between Stanford University Hospital, currently known as Stanford Hospital and Clinics (the "Corporation"), First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. as master trustee (the "Master Trustee"), the Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008 (the "Supplemental Master Indenture"), between the Corporation and the Master Trustee, the Indenture, dated as of June 1, 2008 (as supplemented and amended, the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee, and the Loan Agreement, dated as of June 1, 2008 (the "Loan Agreement"), between the Authority and the Corporation. This summary does not purport to be complete or definitive, is supplemental to the summary of other provisions of such documents described elsewhere in this Reoffering Circular and is qualified in its entirety by reference to the full terms of the Master Indenture, the Supplemental Master Indenture, the Indenture and the Loan Agreement. All capitalized terms used and not otherwise defined in this Reoffering Circular have the meanings assigned to such terms in the Indenture or, if not set forth in the Indenture, in the Master Indenture.

As indicated in the front portion of this Reoffering Circular, the Corporation intends to amend and restate the Master Indenture when the Corporation secures the consent of the Holders of a majority in aggregate principal amount of Obligations Outstanding under the Master Indenture, which the Corporation anticipates will occur upon completion of the reoffering of the 2008 Series A-2 Bonds, the 2008 Series A-3 Bonds and the 2008 Series B-2 Bonds. The form of the proposed Amended and Restated Master Indenture of Trust is set forth in Appendix H to the Reoffering Circular.

DEFINITIONS OF CERTAIN TERMS

Account Control Agreement means an agreement providing for control of deposit accounts within the meaning of Division 9 of the California Commercial Code, including Section 9104 of the California Commercial Code, entered into by one or more Members of the Obligated Group, the Master Trustee and a Depository Bank.

Accountant means, for purposes of the Indenture, any independent certified public accountant or firm of such accountants of national reputation selected by the Corporation.

Accountant means, for purposes of the Master Indenture, any firm of nationally recognized independent certified public accountants selected by the Corporation, as Obligated Group Representative, and not objected to by the Master Trustee.

Act means the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

Additional Indebtedness means any Indebtedness (including all Obligations) incurred subsequent to the issuance of the first Obligations issued under the first Related Supplement executed pursuant to the Master Indenture. Additional Indebtedness shall not include Obligations issued to secure Master Indenture Obligation Payments.

Additional Payments means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Loan Agreement.

Administrative Fees and Expenses means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee, including Additional Payments.

Affiliate means: (1) a nonprofit corporation, a majority of the members of the Governing Body of which are (a) the same as the corporate members or directors of a Member, (b) subject to election or appointment by a

Member, (c) subject to election or appointment by a corporation that has the power to elect or appoint at least 50% of the members of the Governing Body of a Member, or (d) that has the power to elect or appoint a majority of the members of the Governing Body of a Member; or (2) a for-profit corporation, at least 50% of whose voting stock is owned by a Member or an Affiliate.

Agreement or Loan Agreement means that certain Loan Agreement, dated as of June 1, 2008, between the Authority and the Corporation, as originally executed as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

Alternate Credit Facility means a Credit Facility delivered to the Trustee or the Tender Agent, as applicable, in accordance with the provisions of the Loan Agreement which replaces a Credit Facility then in effect.

Alternate Liquidity Facility means a Liquidity Facility delivered to the Trustee or the Tender Agent, as applicable, in accordance with the provisions of the Loan Agreement which replaces a Liquidity Facility then in effect.

Alternate Rate means, on any Business Day, the SIFMA Municipal Swap Index or, if the SIFMA Municipal Swap Index is no longer published, an index or rate agreed upon by the Authority and the Remarketing Agent for the applicable Series of Bonds, but in no event a rate in excess of the Maximum Interest Rate.

Annual Debt Service means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest on Long-Term Indebtedness; provided that if a Qualified Financial Products Agreement or Interest Rate Exchange Agreement has been entered into by any Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product payments payable in such Fiscal Year minus any Financial Product Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service. In addition, any so-called mark-to-market charge or credit attributable to any Qualified Financial Products Agreement or Interest Rate Exchange Agreement that is not actually payable shall be excluded from calculation of revenues and expenses, in each case, of each Member of the Obligated Group and all related definitions and financial covenants for all purposes of the Master Indenture.

Architect's Certificate means a certificate signed by a duly authorized officer or agent of the architects, engineers or supervising contractors selected by a Member in connection with the construction or equipping of any project for which Long-Term Indebtedness is issued.

Authority means the California Health Facilities Financing Authority created pursuant to, and as defined in, the Act, and its successor.

Authorized Denomination means with respect to a Series or Subseries of Bonds in the Commercial Paper Rate, any denomination constituting an integral multiple of \$500, with respect to a Series of Bonds in the Daily Rate and Weekly Rate, \$100,000 and any larger denomination constituting an integral multiple of \$5,000, and means with respect to a Series of Bonds in the Long Term Rate, \$5,000 or any integral multiple thereof.

Authorized Representative means with respect to the Corporation, the Chair or Vice Chair of its governing body, its chief executive officer, its chief operating officer, its chief financial officer, or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation, signed by its chief executive officer, its chief operating officer or its chief financial officer and filed with the Trustee.

Authorized Representative of the Obligated Group Representative means the chairman of the governing body or the chief executive officer or the chief financial officer or any other person designated as an Authorized Representative of the Obligated Group Representative by a certificate of the Obligated Group

Representative signed by the chairman of the governing body, the chief executive officer or the chief financial officer of the Obligated Group Representative and filed with the Master Trustee.

Available Moneys means, (a) if a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds, (i) moneys drawn under the Credit Facility which at all times since their receipt by the Trustee or the Tender Agent were held in a separate segregated account or accounts or subaccount or subaccounts in which no moneys (other than those drawn under the Credit Facility) were at any time held, (ii) moneys which have been paid to the Trustee or the Tender Agent by the Corporation and have been on deposit with the Trustee or the Tender Agent for at least one hundred twenty-four (124) days (or, if paid to the Trustee or the Tender Agent by an "affiliate," as defined in Section 101(2) of the Bankruptcy Code, of the Corporation, three hundred sixty-six (366) days) during and prior to which no Event of Bankruptcy shall have occurred, (iii) any other moneys, if, in the opinion of nationally recognized counsel experienced in bankruptcy matters (which opinion shall be acceptable to each Rating Agency then rating the Bonds), the application of such moneys will not constitute a voidable preference in the event of the occurrence of an Event of Bankruptcy, and (iv) investment earnings on any of the moneys described in clauses (i), (ii) and (iii) of this definition; and (b) if a Credit Facility in the form of a letter of credit is not in effect with respect to a Series of Bonds, "Available Moneys" means any moneys deposited with the Trustee or the Tender Agent.

Balloon Indebtedness means Long-Term Indebtedness of a Member, 25% or more of the principal of which becomes due (either by maturity or mandatory redemption) during any period of 12 consecutive months, which portion of the principal is not required by the documents governing such Indebtedness to be amortized by redemption prior to such date.

Bankruptcy Code means Title 11 of the United States Code, as amended, and any successor statute.

Bondholder or **Holder**, whenever used with respect to a Bond, means the person in whose name such Bond is registered.

Bond Counsel means any nationally recognized municipal bond counsel acceptable to the Authority and the Corporation.

Bonds means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1, 2008 Series A-2, 2008 Series A-3, 2008 Series B-1 and 2008 Series B-2 authorized by, and at any time Outstanding pursuant to, the Indenture.

Bond Trustee or **Trustee** means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, and any successor to its duties under the Indenture.

Book Value means, when used in connection with Property, Plant and Equipment or other Property of any Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such Member and in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such property of each Member determined in such a way that no portion of such value of property of any Member is included more than once.

Business Day means any day other than: (a) a Saturday, Sunday or legal holiday, (b) a day on which banks located in any city in which the Principal Office of the Trustee or, as and to the extent applicable, the Principal Office of the applicable Credit Facility Provider, the applicable Liquidity Facility Provider, the applicable Remarketing Agent or the Tender Agent is located are required or authorized by law to remain closed, or (c) a day on which the New York Stock Exchange or the Securities Depository is closed.

Certificate, Statement, Request and Requisition of the Authority or the Corporation mean, respectively, a written certificate, statement, request or requisition signed in the name of the Authority by its Chairman, any Deputy to the Chairman, the Executive Director, the Deputy Executive Director or such other person as may be authorized to sign for the Authority and designated by the Chairman, any Deputy to the Chairman, the Executive

Director or the Deputy Executive Director in writing to the Trustee, or in the name of the Corporation by an Authorized Representative of the Corporation.

Children's Agreement means that certain agreement, dated as of November 4, 1982, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof, among LPCH, the Corporation and Stanford University.

Code means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

Commercial Paper Mode means, with respect to a Series of Bonds, the period with respect to such Series of Bonds when Commercial Paper Rates are in effect.

Commercial Paper Rate means, with respect to any Bond in a Commercial Paper Mode, the interest rate determined for such Bond during each Commercial Paper Rate Period which is established pursuant to the provisions of the Indenture.

Commercial Paper Rate Period means, with respect to any Bond in a Commercial Paper Mode, each Interest Period established pursuant to the provisions of the Indenture, which shall be not less than one (1) calendar day nor more than two hundred seventy (270) calendar days, during which such Bond shall bear interest at a Commercial Paper Rate.

Collateral means all of the following whether now existing or hereafter created or acquired (a) all Gross Revenues, (b) all accounts comprising the Gross Revenue Fund, (c) all accounts and accounts receivable, including health-care-insurance receivables, and (d) all proceeds of any of the foregoing. The terms "accounts" and "health-care-insurance receivables" are used herein with meanings as defined in the California Commercial Code Division 9. Notwithstanding the foregoing, "Collateral" shall not include Restricted Assets.

Completion Indebtedness means any Long-term Indebtedness incurred by the Obligated Group or any Member for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, (i) to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and (ii) in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, (iii) modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken, such necessity as described in clause (i) and such conformity as described in clause (iii) to be certified in an Officer's Certificate and such accord as described in clause (ii) to be certified in an Architect's Certificate, both delivered to the Master Trustee prior to the incurrence of such Completion Indebtedness.

Construction Index means the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency or, if such index is no longer published, another index that is certified to be comparable and appropriate by the Obligated Group Representative in an Officer's Certificate delivered to the Master Trustee and which other index is acceptable to the Master Trustee.

Continuing Disclosure Agreement means, with respect to the 2008 Series A-2 Bonds, the 2008 Series A-3 Bonds and the 2008 Series B-2 Bonds, that certain Continuing Disclosure Agreement, dated June __, 2011, between the Corporation and Wells Fargo Bank, National Association, as trustee and as dissemination agent, as originally executed and as it may be supplemented, modified or amended in accordance with its terms.

Conversion means, with respect to any Series of Bonds, any conversion of such Series of Bonds from one Interest Rate Mode to another Interest Rate Mode in accordance with the terms of the Indenture.

Conversion Date means the date on which any Conversion becomes effective.

Corporation means Stanford Hospital and Clinics, a nonprofit public benefit corporation duly organized and validly existing under the laws of the State of California, or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

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

Counsel means an attorney duly admitted to practice law before the highest court of any state.

Credit Facility means, with respect to a Series of Bonds, any insurance, letter of credit or other instrument or agreement which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, bank or other financial institution, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Facility for such Series of Bonds, such Alternate Credit Facility.

Credit Facility Fund means, a fund by that name established pursuant to the provisions of the Indenture.

Credit Facility Provider means, with respect to a Series of Bonds, the bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the entities obligated, under) a Credit Facility then in effect with respect to such Series of Bonds, and, upon the effectiveness of an Alternate Credit Facility for such Series of Bonds, shall mean the bank, insurance company, pension fund or other financial institution or financial institutions then party to the Credit Facility.

Credit Facility Provider Failure means a failure of a Credit Facility Provider to pay a properly presented and conforming draw or request for advance under the Credit Facility or the filing or commencement of any bankruptcy or insolvency proceedings by or against a Credit Facility Provider or a Credit Facility Provider shall declare a moratorium on the payment of its unsecured debt obligations or shall repudiate the Credit Facility.

Current Value means: (a) with respect to Property, Plant and Equipment: (i) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser acceptable to the Master Trustee and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than 3 years prior to the date as of which Current Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated; plus (ii) the Book Value of any Property, Plant and Equipment acquired since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated; minus (iii) the greater of the Book Value or the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date as of which such Book Value was determined or the date of such report, as the case may be, to the earlier of the date of disposition of such Property, Plant and Equipment or the date as of which Current Value is to be calculated; and (b) with respect to any other Property, the fair market value of such Property, which fair market value shall be evidenced in a manner acceptable to the Master Trustee.

Daily Mode means, with respect to a Series of Bonds, the period with respect to such Series of Bonds when Daily Rates are in effect.

Daily Rate means, for each Interest Period within a Daily Mode, the interest rate borne by a Series of Bonds which is established pursuant to the provisions of the Indenture.

Daily Rate Period means, with respect to a Series of Bonds, each Interest Period with respect to such Series of Bonds which is established pursuant to the provisions of the Indenture.

Debt Service means, with respect to the period of time for which calculated, the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid during such period on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during such period to pay principal or interest on Long-Term Indebtedness.

Depository Bank means a financial institution which has entered into an Account Control Agreement with one or more Members and the Master Trustee.

DTC means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and its successors and assigns.

Electronic Notice means notice by telegram, telex, telecopy, electronic mail or other telecommunications or electronic telecommunications device capable of creating a written notice that is operative as between the parties and acceptable for use by them.

Eligible Bonds means any Bonds other than Credit Facility Bonds, Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the Authority or the Corporation or any other Member of the Obligated Group or any affiliate of any of them.

Environmental Laws means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to Hazardous Materials to which the Corporation or any property of the Corporation is subject.

Event of Bankruptcy means any of the following events:

(1) the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture, Obligation No. 19 or any agreement entered into in connection with a Credit Facility, or an "affiliate" of the Corporation as defined in Section 101(2) of the Bankruptcy Code) or the Authority shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation (or such other Person) or the Authority or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(2) a proceeding or case shall be commenced, without the application or consent of the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture, Obligation No. 19 or any agreement entered into in connection with a Credit Facility, or an "affiliate" of the Corporation as defined in Section 101(2) of the Bankruptcy Code) or the Authority in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding up, or composition or adjustment of debts, of the Corporation (or any such other Person) or the Authority, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation (or any such other Person) or the Authority or of all or any substantial part of their respective property, or (c) similar relief in respect of the Corporation (or any such other Person) or the Authority under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

Event of Default, for purposes of the Indenture, means any of the events of default specified in the Indenture and, for purposes of the Master Indenture, means any of the events of default specified in the Master Indenture.

Expiration Date means (i) the date upon which a Credit Facility or a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Credit Facility or Liquidity Facility, from time to time) in accordance with its terms, including, without limitation, termination upon the effective date of an Alternate Credit Facility or Alternate Liquidity Facility delivered in

accordance with the provisions of the Loan Agreement, and (ii) the date upon which a Credit Facility or a Liquidity Facility terminates following voluntary termination by the Corporation pursuant to the provisions of the Loan Agreement.

Favorable Opinion of Bond Counsel means an opinion of Bond Counsel, addressed to the Trustee, to the effect that the action proposed to be taken is authorized or permitted by the Indenture and will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

Financial Product Payments means regularly scheduled payments required to be paid to a counterparty by a Member pursuant to an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement or pursuant to contractual obligations to reimburse insurers or sureties of such payments.

Financial Product Receipts means regularly scheduled payments required to be paid to a Member by a counterparty pursuant to an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement.

Financial Product Extraordinary Payments means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated group Member under an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement, which payments are not Financial Product Payments.

Financing means a borrowing in connection with which an Obligation is issued under the Master Indenture.

Fiscal Year means that period adopted by the Obligated Group Representative as the annual accounting period for which consolidated or combined financial statements of the Obligated Group will be prepared pursuant to the provisions of the Master Indenture.

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

Governing Body means when used with respect to any Member, its board of directors, board of trustees, or other board or group of individuals in which all of the powers of such Person are vested except for those powers reserved to the corporate membership thereof the articles of incorporation or bylaws of such Person.

Government Issuer means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds under the Master Indenture.

Government Obligations means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully guaranteed by the United States of America; (2) certificates that evidence ownership of the right to the payment of the principal of and/or interest on obligations described in clause (1), provided that such obligations are held in the custody of a bank or trust company acceptable to the Master Trustee in a special account separate from the general assets of such custodian; and (3) obligations (a) the interest on which is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (b) the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2), and (c) that are rated in the highest rating category (without regard to any refinement or graduation by a numerical modifier or otherwise) by S&P and Moody's (in each case if such rating agency is then rating any Related Bonds).

Gross Revenues means all revenues, income, receipts and money now existing or hereafter received by each Member, including (a) gross revenues collected from its operations and possession of and pertaining to its

properties, (b) gifts, grants, bequests, donations and contributions, (c) proceeds derived from (i) condemnation, (ii) insurance, (iii) accounts and accounts receivable, including health-care-insurance receivables, (iv) payment intangibles, (v) inventory and other tangible and intangible property, (vi) medical reimbursement programs and agreements, (vii) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Member, and (d) rentals received from the lease of real estate. Notwithstanding the foregoing, "Gross Revenues" shall not include Restricted Assets.

Gross Revenue Fund means the fund by that name established pursuant the provisions of the Master Indenture.

Guaranty means all loan commitments and all obligations of any Member guarantying in any manner whatever, whether directly or indirectly, any obligation of any other Person that would, if such other Person were a Member, constitute Indebtedness.

Hazardous Materials means dangerous, toxic or hazardous pollutants, contaminants, chemicals, waste, materials or substances (as defined in Environmental Laws), and also any urea formaldehyde, polychlorinated biphenyls, asbestos, asbestos containing materials, nuclear fuel or waste, radioactive materials, explosives, carcinogens and petroleum products, or any other waste, material, substance, pollutant or contaminant the improper storage, disposal or release of which would subject the person so storing, disposing or releasing (or the owner of the property on which such action occurs) to any damages, penalties or liabilities under any applicable law, regulation, requirement or rule.

Historical Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Debt Service for such period.

Historical Pro Forma Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness then Outstanding and the Long-Term Indebtedness proposed to be issued.

Holder or **Bondholder**, whenever used with respect to a Bond, means the person in whose name such Bond is registered.

Holder or **Obligation Holder**, whenever used with respect to an Obligation, means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form that is not registered or is registered to bearer.

Income Available for Debt Service means, with respect to the Obligated Group, as to any period of time, the excess of revenues over expenses (or, in the case of for-profit Members, net income after taxes) of the Obligated Group for such period, to which shall be added depreciation, amortization and interest, all as determined in accordance with generally accepted accounting principles; provided that no such determination shall include: (i) any gain or loss resulting from (a) the extinguishment of Indebtedness, (b) any disposition of capital assets not made in the ordinary course of business, (c) any discontinued operations, (d) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles or (e) any reappraisal, revaluation or write-up or write-down of assets or liabilities, including without limitation termination payments paid or received with respect to Interest Rate Exchange Agreements and other interest rate hedge and similar agreements; (ii) unrealized gains or losses on marketable securities held by any Member as of the last date of such period of time; (iii) any nonrecurring items that do not involve the receipt, expenditure or transfer of assets, including any Interest Rate Exchange Agreements or other interest rate hedge and similar arrangements; or (iv) any revenue or expenses of an Affiliate which is not a Member.

Indebtedness means: (1) any Guaranty (other than any Guaranty by any Member of Indebtedness of any other Member); and (2) any indebtedness or obligation of any Member of the Obligated Group for borrowed money, as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, rental obligations under leases that are considered capital leases under generally accepted accounting principles, except for obligations of a Member to another Member; provided, however, that if more than one Member shall have incurred or assumed a Guaranty of a Person other than a

Member, or if more than one Member shall be obligated to pay any obligation, for purposes of computations or calculations under the Master Indenture such Guaranty or obligations shall be included only one time. Interest Rate Exchange Agreements and Qualified Financial Products Agreements shall not constitute Indebtedness.

Indenture means that certain Indenture, dated as of June 1, 2008, between the Authority and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Independent Consultant means a firm (but not an individual) that: (1) is in fact independent; (2) does not have any direct financial interest or any material indirect financial interest in any Member or any Affiliate; and (3) is not connected with any Member or any Affiliate as an officer, employee, promoter, trustee, partner, director or person performing similar functions, and designated by the Obligated Group Representative and approved by the Master Trustee, qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the Obligated Group and having a favorable reputation for skill and experience in the financial affairs of such facilities.

Industry Restrictions means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Members.

Insurance Consultant means a person or firm (which may be an insurance broker or agent of a Member) who is not, and no member, director, officer or employee of which is, an officer or employee of any Member, designated by the Obligated Group Representative and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations, which Insurance Consultant may be the Risk Manager of the Corporation unless the Master Trustee shall require otherwise.

Interest Fund means the fund by that name established pursuant to the provisions of the Indenture.

Interest Rate Mode or Mode means for any Series of Bonds any Daily Mode, Weekly Mode, Commercial Paper Mode, Long Term Rate Mode or Auction Mode.

Interest Rate Exchange Agreement means an agreement, commonly known as an "interest rate swap", whereby the Obligated Group or any Member of the Obligated Group agrees with a third party to pay such third party's interest on a mutually agreed upon notional amount in exchange for such third party's agreement to pay the Obligated Group's or such Member of the Obligated Group's interest on such amount, all at such interest rates and over such periods of time as may be mutually agreed upon; provided that no such agreement shall entail any exchange of principal or any assumption of liability for the payment of the principal of or interest on any Indebtedness of the Obligated Group, such Member of the Obligated Group, or such third party, as the case may be.

Investment Securities means any of the following which at the time are legal investments under the laws of the State of California for moneys held under the Indenture and then proposed to be invested therein:

- (1) United States Government Obligations;
- (2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America: (a) Export-Import Bank; (b) Rural Economic Community Development Administration; (c) U.S. Maritime Administration; (d) Small Business Administration; (e) U.S. Department of Housing & Urban Development (PHAs); (f) Federal Housing Administration; and (g) Federal Financing Bank;
- (3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (a) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); (b) obligations of the Resolution Funding Corporation (REFCORP); and (c) senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, federal fund and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than three hundred sixty (360) calendar days after the date of purchase;

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" or "A-1+" by S&P and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(6) Investments in money market funds rated "AAAm" or "AAm-G" or better by S&P;

(7) Pre-refunded municipal obligations defined as any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (a) which are rated, based on irrevocable escrow account or fund (the "escrow"), in the highest Rating Category of Moody's or S&P or any successors thereto; or (b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or United States Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; and

(8) Municipal obligations rated "Aaa/AAA" or general obligations of states of the United States of America with a rating of "A2/A" or higher by both Moody's and S&P.

Issue Date means June 2, 2008.

Lease or Stanford Lease means that certain Restatement and Assignment of Lease (Hospital and Hoover Pavilion), dated November 1, 1997, as amended by Amendment of Lease, dated March 31, 2000, among Stanford University, as lessor, the Corporation, as lessee, and UCSF Stanford Health Care, as assignee, which amended and restated that certain Lease and License Agreement, dated as of April 20, 1984, between Stanford University, as lessor, and the Corporation, as lessee.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, excluding Liens applicable to Property in which any Member has only a leasehold interest unless the Lien is with respect to such leasehold interest.

Liquidity Facility means a line of credit, letter of credit, standby bond purchase agreement or similar liquidity facility issued by a Liquidity Facility Provider which, by its terms, provides for the payment of the Purchase Price of a Series of Bonds tendered for purchase and not remarketed, delivered to the Tender Agent in accordance with the provisions of the Loan Agreement, or, in the event of the delivery of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Account means an account by that name in a Purchase Fund established pursuant to the provisions of the Indenture.

Liquidity Facility Bonds means any Bond purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the Liquidity Facility provided with respect to such Bond.

Liquidity Facility Provider means, with respect to a Series of Bonds, the bank, savings and loan association, insurance company, pension fund or other financial institution or any for profit corporation, nonprofit corporation or trust, including any educational institution, or combination thereof, which provides (or having

primary obligation or acting as agent for the entities obligated, under) a Liquidity Facility then in effect with respect to a Series of Bonds.

Liquidity Facility Rate means the rate per annum, if any, specified in the Liquidity Facility as applicable to Liquidity Facility Bonds.

Loan Agreement or **Agreement** means that certain Loan Agreement, dated as of June 1, 2008, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

Loan Default Event means any of the events specified as such in the Loan Agreement.

Loan Repayments means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

Long-Term Conversion Date means each date on which the Bonds of any Series begin to bear interest at a Long Term Rate pursuant to the provisions of the Indenture.

Long-Term Indebtedness means Indebtedness having an original maturity greater than one (1) year or renewable at the option of a Member for a period greater than one (1) year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each calendar year.

Long-Term Indebtedness Ratio means the ratio determined by dividing the Obligated Group's total Long-Term Indebtedness by the sum of (a) such Long-Term Indebtedness and (b) the Obligated Group's total unrestricted fund balances (as reflected in or derived from the most recent audited combined financial statements of the Obligated Group prepared in accordance with generally accepted accounting principles).

Long Term Rate means, with respect to a Series of Bonds, an interest rate on such Series of Bonds which is established pursuant to the provisions of the Indenture.

Long Term Rate Mode means, with respect to each Series of Bonds, each period with respect to such Series of Bonds when a Long Term Rate is in effect.

Long Term Rate Period means, with respect to a Series of Bonds, each Interest Period established by the Corporation pursuant to the provisions of the Indenture and beginning on, and including, as applicable, the Issue Date for such Series of Bonds or the Long Term Conversion Date for such Series of Bonds and ending on, and including, the day preceding the last Interest Payment Date for such Long Term Rate Period.

LPCH means Lucile Salter Packard Children's Hospital at Stanford, a nonprofit public benefit corporation duly organized and validly existing under the laws of the State.

Mandatory Credit/Liquidity Tender means the mandatory tender of Bonds pursuant to the provisions of the Indenture upon receipt by the Trustee of written notice from a Credit Facility Provider or a Liquidity Facility Provider, as applicable, that: (i) an event with respect to the Credit Facility or the Liquidity Facility, as applicable, has occurred which requires or gives such Credit Facility Provider or Liquidity Facility Provider the option to cause a mandatory tender of the Bonds of the applicable Series or the option to terminate such Credit Facility or Liquidity Facility upon notice and directing the Tender Agent to call Bonds of the applicable Series for mandatory tender; or (ii) the amount of an interest drawing under a Credit Facility will not be reinstated and directing the Tender Agent to call the Bonds of the applicable Series for mandatory tender. Mandatory Credit/Liquidity Tender shall not include circumstances, if any, where a Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

Mandatory Sinking Account Payment means the amount required by the Indenture to be paid by the Authority on any single date for the redemption or payment at maturity of Bonds of any Series.

Master Indenture means that certain Master Indenture of Trust, dated as of December 1, 1990, between the Corporation and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as master trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Master Indenture Obligation Payments means payments (however designated) required under any Obligation then Outstanding that secures an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement and that does not constitute Indebtedness.

Master Trustee means The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. as successor-in-interest to BNY Western Trust Company, as successor master trustee to First Interstate Bank, LTD., a national banking association organized and existing under the laws of the United States of America, or its successor, as master trustee under the Master Indenture.

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) there shall be excluded from the calculation of Maximum Annual Debt Service (i) 80% of the Annual Debt Service on all obligations for which a Member has entered into a Guaranty or (ii) 100% of the Annual Debt Service on all obligations of a Person for which a Member has entered into a Guaranty if Income Available for Debt Service of the guaranteed Person is at least equal to 1.35 times Maximum Annual Debt Service of such Person (each quantity calculated as if such Person were a Member) for each of such Person's immediately preceding 3 fiscal years; provided that no Annual Debt Service shall be excluded with respect to a Guaranty of the Indebtedness of an Affiliate; and provided further that no such exclusion shall be permitted in any Fiscal Year in which the Member has made a payment with respect to the Guaranty;

(b) for any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, be made on the assumption that such Indebtedness will be amortized in accordance with such credit arrangement;

(c) for any Balloon Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Indebtedness is to be amortized over a period specified by the Obligated Group Representative up to 30 years in duration, beginning on the date of maturity of such Indebtedness or such earlier date as may be specified by the Obligated Group Representative, assuming level debt service and a rate of interest (determined as of the time of calculation of Maximum Annual Debt Service) equal to a rate certified by an independent financial advisor to be the rate at which the Obligated Group could reasonably expect to borrow by issuing an Obligation with a term of 30 years;

(d) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to a rate certified by an independent financial advisor to be the rate at which the Obligated Group could reasonably expect to borrow by issuing an Obligation with a term of 30 years;

(e) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness that is payable in the then-current Fiscal Year from sources other than the proceeds of such Long-Term Indebtedness and other amounts on deposit in escrow to be applied to pay principal or interest on such Long-Term Indebtedness; and

(f) if moneys or Government Obligations have been deposited irrevocably with a trustee in an amount, together with earnings thereon, sufficient to pay all or a part of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall be excluded from the calculation of Maximum Annual Debt Service.

Maximum Interest Rate means with respect to all Bonds of any Series in the Daily Rate, the Weekly Rate, the Commercial Paper Rate and the Long-Term Rate, 12% per annum; provided, however, that the Maximum Interest Rate shall not exceed the maximum interest rate permitted by law from time to time.

Member means each signatory to the Master Indenture (other than the Master Trustee), together with each other Person that is obligated under the Master Indenture to the extent and in accordance with the provisions of the Master Indenture, from and after the date upon which such Person joins the Obligated Group, but excluding any Member of the Obligated Group that withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal.

Members means the Corporation and each other Person that is then obligated under the Master Indenture.

Mode or Interest Rate Mode means for any Series of Bonds any Daily Mode, Weekly Mode, Commercial Paper Mode, Long Term Rate Mode or Auction Mode.

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

Net Revenues means the sum of total net operating revenues, plus net non-operating revenues, as shown on the consolidated or combined financial statements of the Obligated Group, as determined in accordance with generally accepted accounting principles, plus any investment income that is offset against interest expense in accordance with generally accepted accounting principles and as a result is not included in total operating revenues or non-operating revenues.

Non-Recourse Indebtedness means any Indebtedness that is not a general obligation and that is secured by a Lien, liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member.

Obligated Group means the Corporation and each other Person which becomes a Member of, and has not withdrawn from, the Obligated Group, in each case pursuant to the terms of the Master Indenture.

Obligated Group Representative means the Corporation or such other Member (or Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by all of the Members.

Obligation means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, loan agreements, leases, notes, reimbursement agreements, Interest rate Exchange agreements or Qualified Financial Products Agreements. Reference to a Series of Obligations or to Obligations of a Series shall mean Obligations or Series of Obligations issued pursuant to a single Related Supplement.

Obligation Holder or Holder, whenever used with respect to an Obligation, means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form that is not registered or is registered to bearer.

Obligation No. 19 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 19.

Officer's Certificate means a certificate signed by the Authorized Representative of the Obligated Group Representative

Opinion of Bond Counsel, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Master Indenture, means a written opinion signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

Opinion of Counsel, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Indenture or the Loan Agreement, means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority.

Opinion of Counsel, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Master Indenture, means a written opinion signed by an attorney or firm of attorneys (who may be counsel for the Obligated Group Representative) or other counsel acceptable to the Master Trustee.

Optional Redemption Account means the account by that name in the Redemption Fund established pursuant to the provisions of the Indenture.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture concerning disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the defeasance provisions of the Indenture; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been executed and delivered by the Trustee pursuant to the provisions of the Indenture; and (4) Bonds paid pursuant to the provisions of the Indenture relating to mutilated, lost, destroyed or stolen Bonds.

Outstanding, when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than: (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation; (b) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; (c) any Obligation held by any Member of the Obligated Group; and (d) Indebtedness deemed paid and no longer outstanding pursuant to the terms of the Master Indenture; provided, however, that if two or more obligations that constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit that secures such Related Bonds) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation that produces the greater amount of Debt Service to be included in the calculation of such covenants. Any Obligation relating to an Interest Rate Exchange Agreement or Qualified Financial Products Agreement shall be deemed to be Outstanding under the Master Indenture equally and ratably with all other Obligations Outstanding under the Master Indenture and for consideration in applying the provisions of Article VII of the Master Indenture regarding defeasance and shall not be entitled to exercise any rights under the Master Indenture except as may be set forth in the Related Supplement pertaining thereto as provided in Section 2.02 of the Master Indenture.

Permitted Encumbrances means and includes:

(a) Any judgment lien or notice of pending action against any Member so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (ii) any liens on any Property for taxes, assessment, levies, fees, water and sewer charges, and other governmental and

similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, that are not due and payable or that are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than 60 days; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property that do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof; and (v) to the extent that it affects title to any Property, the Master Indenture;

(c) Any Lien described in Exhibit A of the Master Indenture that is existing on the date of execution thereof, provided that no such Lien or the amount of Indebtedness secured thereby (other than Liens described in clause (b) of this definition) may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Encumbrance under the Master Indenture;

(d) Any Lien in favor of the Master Trustee securing all Obligations (other than Non-Recourse Indebtedness) on a parity basis;

(e) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(f) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien in the nature of a banker's lien or right of setoff with respect to deposits that any Member is required to maintain with the bank in question;

(g) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness;

(h) Any Lien on the proceeds of Indebtedness in favor of the trustee with respect to such Indebtedness prior to the application of such proceeds;

(i) Liens on moneys deposited by patients or others with any Member as security for or as prepayment for the cost of patient care;

(j) Liens on Property received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon, up to the fair market value of such Property;

(k) Statutory rights of the United States of America by reason of federal funds made available under 92 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(l) Liens securing Non-recourse Indebtedness;

(m) Liens on Property acquired by a Member if an Officer's Certificate is delivered to the Master Trustee certifying that (i) the Lien and the Indebtedness secured thereby were created and incurred by a Person other than a Member prior to the acquisition of such Property by a Member, and (ii) the Lien was created prior to the decision of the Member to acquire the Property and was not created for the purpose of enabling a Member to avoid the limitations as set forth in the Indenture on creation of Liens on Property of the Obligated Group;

(n) Liens resulting from a Person's becoming a Member pursuant to the provisions of the Master Indenture or from a consolidation, merger or acquisition of assets pursuant to the provisions of the Master Indenture;

(o) Liens on accounts receivable and the proceeds thereof, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member selling the same; and, provided, further, that immediately following the creation of such Lien, the aggregate amount of accounts receivable subject to all such Liens does not exceed 25% of the amount of all of the accounts receivable of the Obligated Group and all transactions must be at fair market value;

(p) Leases that relate to Property of a Member, as lessor, that is of a type that is customarily the subject of such leases, such as office space for physicians, health care and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments; any leases entered into in accordance with the provisions of the Master Indenture; leases, licenses or similar rights existing as of the date of the initial execution and delivery of the Master Indenture to use Property owned on such date by any Person who was a Member on such date, and any renewals and extensions thereof; and any leases, licenses or similar rights to use Property whereunder a Member is lessee, licensee or the equivalent thereof;

(q) Liens on Property due to rights of third party payors for recoupment of excess reimbursement amounts paid to any Member;

(r) Liens created on Property in connection with the sale/leaseback or lease/leaseback financing of such Property, provided that a first mortgage lien on such Property satisfying the requirements of the Master Indenture is granted in connection therewith;

(s) Any other Lien on Property provided that:

(i) the Current Value of all Property encumbered by all Liens permitted by this clause (s) does not exceed 10% of the Current Value of all Property of the Obligated Group at the time of creation of such Lien; or

(ii) the Book Value of all Property encumbered by all Liens permitted by the this clause (s) does not exceed 10% of the Book Value of all Property of the Obligated Group at the time of creation of such Lien; or

(iii) the principal amount of Indebtedness secured by all Liens permitted by this clause (s) does not exceed 10% of the lesser of the Current Value and the Book Value of all Property of the Obligated Group at the time of creation of such Lien; or

(iv) after giving effect to all Liens permitted by this clause (s), the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the incurrence of such Lien; and

(t) Liens or encumbrances contemplated by or created in connection with or arising out of the Lease or the Children's Agreement.

Notwithstanding any other provision of the Master Indenture to the contrary, for so long as any Bond remains Outstanding, the sum of all Liens permitted in clauses (l), (m), (n), (o), (s) and (t) may not exceed 15% of the Book Value of all Property.

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

Prevailing Market Conditions means, in connection with the determination of the rate of interest with respect to any Series of Bonds, without limitation, the following factors: existing short-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indices of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to such Series of Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions, economic conditions in the health care industry and financial conditions that may affect or be relevant to such Series of Bonds; and such other facts, circumstances and conditions as the applicable Remarketing Agent, in its sole discretion, shall determine to be relevant to the remarketing of such Series of Bonds at the principal amount thereof.

Principal Fund means the fund by that name established pursuant to the provisions of the Indenture.

Principal Office means with respect to the Trustee, the corporate trust office of the Trustee located at 333 Market Street, 18th Floor, San Francisco, California 94105, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee from time to time.

Primary Obligor means that Member or those Members primarily obligated to make Required Payments with respect to any particular Obligation as set forth in a Related Supplement.

Program means the Authority's program of making loans under the Act.

Projected Debt Service Coverage Ratio means, for any future period of time, the ratio determined by dividing the projected Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness expected to be Outstanding during such period.

Property means any and all rights, titles and interests in and to any and all property of a Member whether real or personal, tangible or intangible and wherever situated.

Property, Plant and Equipment means all Property of the Obligated Group that is considered property, plant and equipment of such Persons under generally accepted accounting principles.

Purchase Date means, with respect to Bonds of any Series, (i) if the Interest Rate Mode is the Daily Mode or the Weekly Mode, any Business Day, and (ii) each day that such Bond is subject to mandatory purchase; provided, however, that the date of the stated maturity of such Bond shall not be a Purchase Date.

Purchase Fund means a fund by that name created and established pursuant to the provisions of the Indenture.

Rate Adjustment Date for Bonds of each Series means the first day on which each Auction Rate, Daily Rate, Weekly Rate, Commercial Paper Rate, or Long Term Rate shall become effective with respect to such Series of Bonds.

Rate Period means any period during which a single interest rate is in effect for a Bond.

Qualified Financial Products Agreement means an Interest Rate Exchange Agreement.

Rating Agency means, as and to the extent applicable, any nationally recognized securities rating service, including Fitch or Moody's or S&P, then maintain a rating on the Bonds at the request, or upon application, of the Corporation.

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

Rebate Fund means the fund by that name established pursuant to the provisions of the Indenture.

Redemption Fund means the fund by that name established pursuant to the provisions of the Indenture.

Redemption Price means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Regular Record Date means (a) with respect to any Interest Period during which the Interest Rate Mode is the Daily Mode or the Weekly Mode, the close of business on the last Business Day of such Interest Period, (b) with respect to any Interest Period during which the Interest Rate Mode is the Auction Mode, one Business Day preceding an Interest Payment Date for such Interest Period, (c) with respect to any Interest Period during which the Interest Rate Mode is the Long Term Rate Mode, the first day (whether or not a Business Day) of the calendar month during which the Interest Payment Date for such Interest Period occurs, and (d) with respect to any Interest Period during which the Interest Rate Mode is the Commercial Paper Mode, the Interest Payment Date for such Interest Period.

Related Bonds means the revenue bonds or other obligations issued by any Government Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are lent or otherwise made available to the Corporation or another Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer or the Related Bond Trustee.

Related Bond Indenture means any indenture, bond resolution or other comparable instrument pursuant to which a Series of Related Bonds is issued.

Related Bond Issuer means the Government Issuer of any issue of Related Bonds.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

Related Supplement means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

Remarketing Agent means any entity appointed to serve as a remarketing agent for a Series of Bonds pursuant to the provisions of the Indenture, and its successors or assigns.

Remarketing Agreement means any remarketing agreement entered into between the Corporation and a Remarketing Agent, providing for the remarketing of any Series of Bonds tendered for purchase, as originally executed and as from time to time amended or supplemented in accordance with the terms thereof.

Remarketing Proceeds Account means an account by that name established in a Purchase Fund.

Repository means any Nationally Recognized Municipal Securities Information Repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Representation Letter means the Blanket Issuer Letter of Representation delivered to DTC by the Authority and any supplements and amendments thereto or any replacement therefor.

Required Payment means any payment required to be made by any Member under the Master Indenture, any Related Supplement, or any Obligation, whether at maturity, by acceleration, upon proceeding for redemption or otherwise.

Required Stated Amount means with respect to a Credit Facility or a Liquidity Facility provided for any Series of Bonds, at any time of calculation, an amount equal to the aggregate principal amount of all of such Series of Bonds then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to twelve percent (12%) per annum) for the period specified in a Certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating such Series of Bonds as necessary to obtain (or maintain) a specified short-term rating for such Series of Bonds.

Restricted Assets means any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or the payment of operating expenses.

Revenues means all amounts received by the Authority or the Trustee for the account of the Authority under the Indenture pursuant or with respect to the Loan Agreement or the Obligation No. 19, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any Administrative Fees and Expenses, any moneys required to be deposited or on deposit in the Rebate Fund and any Purchase Fund or any amounts paid by the Corporation pursuant to the Loan Agreement.

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

Securities Depository means DTC and its successors and assigns, or any other securities depository selected pursuant to the provisions of the Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

Series or Series of Bonds* means all bonds issued under the Indenture and designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such bonds as provided in the Indenture.

Short-Term Indebtedness means all Indebtedness that has an original term less than or equal to one (1) year and that is not renewable or extendable at the option of a Member to a date or for a period ending more than one (1) year after the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each Fiscal Year.

SIFMA Municipal Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association (SIFMA), or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee, and effective from such date.

* Assuming conversion of the Interest Rate Mode for the 2008 Series B-2 Bonds to the Commercial Paper Mode occurs as described in the front portion of this Reoffering Circular under the caption "Related Reoffering," upon conversion to the Commercial Paper Mode, the 2008 Series B-2 Bonds will be divided into the 2008 Series B-2 Bonds Subseries 1 Bonds and the 2008 Series B-2 Bonds Subseries 2 Bonds, each Subseries to be in an aggregate principal amount equal to 50% of the aggregate principal amount of the 2008 Series B-2 Bonds Outstanding on the date of conversion. As and to the extent applicable, upon such conversion and division of the 2008 Series B-2 Bonds into Subseries, all references to a Series of Bonds in the Indenture shall be read to include a reference to each Subseries of the 2008 Series B-2 Bonds.

Sinking Account means each account by that name in the Principal Fund established pursuant to the provisions of the Indenture.

Special Record Date means the date established by the Trustee pursuant to the provisions of the Indenture as a record date for the payment of defaulted interest on the Bonds.

Special Redemption Account means the account by that name in the Redemption Fund established pursuant to the provisions of the Indenture.

Stanford University or **University** means the Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State.

State means the State of California.

Subordinated Indebtedness means Indebtedness that by its terms is specifically subordinated with respect to any security therefor and with respect to right of payment upon default to all Outstanding Obligations and all other obligations of a Member not containing such subordination provision.

Subseries means all of the Bonds designated in the Indenture as being part of the same subseries, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as in the Indenture provided.

Supplemental Indenture means any supplemental indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Supplement or **Supplement No. 19** means that certain Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008, between the Corporation and the Master Trustee.

Supplement No. 19 or **Supplement** means that certain Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008, between the Corporation and the Master Trustee.

Tax Agreement means that certain Tax Certificate and Agreement, dated the Issue Date, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms of the Tax Agreement.

Tender Agent means the Trustee or any successor thereto, as Trustee under the provisions of the Indenture.

Trustee or **Bond Trustee** means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, or any successor to its duties under the Indenture.

2006 Series Project means the acquisition, construction, renovation and/or equipping of the health care facilities of the Corporation, as more fully described in an exhibit to the Loan Agreement.

2006 Series Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2006 Series A-1, 2006 Series A-2, 2006 Series A-3, 2006 Series B-1 and 2006 Series B-2.

2006 Series Trustee means Wells Fargo Bank, National Association.

2008 Series A-1 Bonds means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1, authorized by, and at any time Outstanding pursuant to, the Indenture.

2008 Series A-2 Bonds means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2, authorized by, and at any time Outstanding pursuant to, the Indenture.

2008 Series A-3 Bonds means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-3, authorized by, and at any time Outstanding pursuant to, the Indenture.

2008 Series B-1 Bonds means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series B-1, authorized by, and at any time Outstanding pursuant to, the Indenture.

2008 Series B-2 Bonds means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series B-2, authorized by, and at any time Outstanding pursuant to, the Indenture.

Undelivered Bonds means any Bond which constitutes an Undelivered Bond under the provisions of the Indenture.

United States Government Obligations means obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest, including, but not limited to: (i) U.S. treasury obligations; (ii) all direct or fully guaranteed obligations; (iii) Farmers Home Administration; (iv) General Services Administration; (v) Guaranteed Title XI financing; (vi) Government National Mortgage Association (GNMA); and (vii) State and Local Government Series.

University or Stanford University means the Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State.

Unrestricted Liquid Funds means unrestricted cash, cash equivalents, and unrestricted marketable securities of the Obligated Group as of such date, from which there shall be subtracted the aggregate principal amount of all Short-Term Indebtedness of the Obligated Group outstanding as of such date and the aggregate amount of any collateral posted in connection with an Interest Rate Exchange Agreement or Qualified Financial Products Agreement as of such date.

Unsecured means, when used in connection with Indebtedness, not secured by a Lien; or, if secured by a Lien, that portion of such Indebtedness, if any, by which, at the date the Lien was granted, the amount of such Indebtedness exceeded the fair market value of the Property, securing such Indebtedness, as determined in good faith by the Obligated Group Representative.

Unsecured Debt Ratio means, as of any date of calculation, the ratio determined by dividing the Book Value, or (at the option of the Obligated Group Representative) the Current Value, of Property that is not subject to a Lien, by the aggregate principal amount of all Unsecured Indebtedness then Outstanding.

Variable Rate Indebtedness means Indebtedness that is payable or required to be purchases or redeemed upon demand of the holder thereof, prior to its stated maturity date.

Weekly Mode means, with respect to a Series of Bonds, the period with respect to such Series of Bonds when Weekly Rates are in effect.

Weekly Rate means, for each Interest Period within a Weekly Mode, the interest rate borne by a Series of Bonds which is established pursuant to the provisions of the Indenture.

Weekly Rate Period means, with respect to a Series of Bonds, each Interest Period with respect to such Series of Bonds when a Weekly Rate is in effect.

MASTER INDENTURE

General

The Master Indenture authorizes the issuance of Obligations by the Obligated Group. An Obligation is stated in the Master Indenture to be a joint and several obligation of each Member of the Obligated Group.

Proposed Amendment and Restatement of Master Indenture

As indicated in the front portion of this Reoffering Circular, the Corporation intends to amend and restate the Master Indenture when the Corporation secures the consent of the Holders of a majority in aggregate principal amount of Obligations Outstanding under the Master Indenture, which the Corporation anticipates will occur upon completion of the reoffering of the 2008 Series A-2 Bonds, the 2008 Series A-3 Bonds and the 2008 Series B-2 Bonds. The form of the proposed Amended and Restated Master Indenture of Trust is set forth in Appendix H to the Reoffering Circular.

Authorization and Issuance of Obligations

Pursuant to the provisions of the Master Indenture, each Member authorizes the issuance from time to time of Obligations or a Series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, which Obligations or Series of Obligations shall be subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement. Pursuant to the provisions of the Master Indenture, the Obligated Group Representative, acting on behalf of the Obligated Group, may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement, subject to satisfaction of the terms, conditions and limitations of the Master Indenture. The Corporation is currently the only Member of the Obligated Group and has been designated the Obligated Group Representative pursuant to the provisions of the Master Indenture.

Interest Rate Exchange Agreements

From time to time, subject to the terms, limitations and conditions Master Indenture, the Obligated Group Representative may issue an Obligation or Series of Obligations securing an Interest Rate Exchange Agreement or Qualified Financial Products Agreement by entering into a Related Supplement. Such Related Supplement must name the Holder of the Obligation, state whether payments under the Obligation are subordinate in right of payment to any other Required Payments under the Master Indenture, and provide that Holder of such Obligation shall not be entitled to exercise any rights under the Master Indenture, including without limitation the right to vote or control remedies, other than the right to receive payment equally and ratably with all other Obligations, unless provided otherwise by the Related Supplement. The Obligated Group Representative and the Master Trustee may, without the consent of or notice to any of the Holders, but with the consent of the Holder of the Obligation identified in the Related Supplement, modify, alter, add to or rescind, in any particular, any of the terms or provisions contained therein.

Covenants

Payment of Principal and Interest. The Members jointly and severally covenant and agree to pay or cause to be paid promptly all Required Payments, including the principal of, and premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in said Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Maintenance of Properties. Each Member agrees that:

(a) That it will operate and maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Member shall be required to comply with any law, ordinance, approval or regulation

as long as it shall in good faith contest the validity thereof. Each Member, respectively, further covenants and agrees that it will maintain and operate its Property, Plant and Equipment and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of its Property, Plant and Equipment in good repair, working order and condition, and that it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the operations of such Members will not be materially and adversely impaired.

(b) That it will pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges that may be or have been assessed or that may have become liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Property, Plant and Equipment or any part thereof; provided, however, that no Member shall be required to pay any tax, assessment, rate or charge as herein provided as long as it shall in good faith contest the validity thereof, provided that such Member shall have set aside reserves with respect thereto that, in the opinion of the Governing Body of the Obligated Group Representative, are adequate.

(c) That it will pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith.

(d) That it will at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Properties or any part thereof or securing any of its Indebtedness that would have a material adverse effect on the operations of the Obligated Group or its Properties.

(e) That it will use its best efforts (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) to maintain all permits, licenses and other governmental approvals necessary for the operation of its Properties and to maintain its qualification for participation in and payment under private insurance programs having broad application and federal, state and local governmental programs providing for payment or reimbursement for services rendered.

(f) That it will take no action or suffer any action to be taken by others that would result in the interest on any Related Bond becoming subject to federal income taxation.

Insurance. Each Member agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts that are customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size. The Obligated Group Representative shall employ an Insurance Consultant at least once every 2 years to review the insurance requirements of the Members. If the Insurance Consultant makes recommendations for the increase of any of the Obligated Group's insurance coverage, the Obligated Group Representative shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In lieu of maintaining insurance coverage, the Members shall have the right to adopt alternative risk management programs that the Governing Body of the Obligated Group Representative determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as shall be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter.

Negative Pledge. Each Member agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group, and each Member further agrees that if such a Lien is created or assumed by any

Member, it will obtain the written consent of the Obligated Group Representative and will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien; provided, however, that, each Member may create, assume or suffer to exist Permitted Encumbrances.

Limitations on Additional Indebtedness. Each Member, agrees that it will not incur any Additional Indebtedness except as follows:

(a) Long-Term Indebtedness, provided that:

(i) the aggregate principal amount of such Long-Term Indebtedness and all other Outstanding Long-Term Indebtedness incurred pursuant to this clause (i) does not exceed 25% of the Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available immediately preceding the issuance of such Long-Term Indebtedness (provided that to the extent Long-Term Indebtedness initially incurred pursuant to this clause subsequently complies with any other incurrence requirement such Long-Term Indebtedness shall thereafter not be deemed to be incurred pursuant to this clause); or

(ii) there is delivered to the Master Trustee

(A) an Officer's Certificate certifying the Historical Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, and such Historical Debt Service Coverage Ratio is not less than 1.10:1.0; and

(B) an Officer's Certificate (accompanied by the written report of an Independent Consultant unless the Projected Debt Service Coverage Ratio for each of the Fiscal Years specified below is at least 1.50:1.0)

(1) stating (and certifying the calculation of) the Projected Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements (or the portion of such Long Term Indebtedness allocated in such Officer's Certificate to such use), the next Fiscal Year succeeding the date on which such capital improvements are expected to be in operation and (y) in the case of Long-Term Indebtedness not being incurred to finance capital improvements (or the portion of such Long-Term Indebtedness allocated in such Officer's Certificate to such use), the next Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred (it being understood that, if any such allocations are made, the portions described in clauses (x) and (y) must sum to 100% of the proposed Long-Term Indebtedness), and

(2) certifying that the Projected Debt Service Coverage Ratio for such Fiscal Year is not less than 1.10:1.0, as shown by forecasted statements of revenues and expenses for such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or

(iii) there is delivered to the Master Trustee the written report of an Independent Consultant stating that Industry Restrictions have or will make it impossible for the ratios described in clause (ii) above to be met, and that such ratios are not less than 1.0:1.0 and shall apply to the actual debt service on all Long-Term Indebtedness for such Fiscal Year rather than Maximum Annual Debt Service; or

(iv) there is delivered to the Master Trustee an Officer's Certificate certifying that the Historical Pro Forma Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, was at least 1.25:1.0 for the most recent Fiscal Year for which audited financial statements are available; or

- (v) there is delivered to the Master Trustee an Officer's Certificate certifying that the Long-Term Indebtedness Ratio of the Obligated Group, taking into account the Long-Term Indebtedness to be incurred, does not exceed 0.67:1.0.
- (b) Completion Indebtedness in an aggregate principal amount not exceeding 20% of the aggregate principal amount of Long-Term Indebtedness originally issued to finance the project to be completed.
- (c) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness if prior to incurrence thereof the Master Trustee receives an Officer's Certificate stating that the issuance of such Long-Term Indebtedness will not increase Maximum Annual Debt Service by more than 15%.
- (d) Short-term Indebtedness, provided that:
- (i) the total amount of such Indebtedness does not exceed 20% of Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available; and
- (ii) with respect to Short-Term Indebtedness, in every Fiscal Year, there shall be at least a 20-day period when the balance of all such Short-Term Indebtedness is reduced to an amount that does not exceed 5% of Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements of the Obligated Group are available.
- (e) Non-recourse Indebtedness without limitation.
- (f) Balloon Indebtedness, provided that the conditions described in subsection (a) above are satisfied with respect to the incurrence of such Balloon Indebtedness utilizing the assumptions specified in clause (c) of the definition of "Maximum Annual Debt Service" set forth above.
- (g) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit or liquidity facilities used to secure or provide liquidity for Indebtedness.
- (h) Liabilities for contributions to alternative risk management programs described above under the caption "Master Indenture - Covenants of the Members - Insurance."
- (i) Liabilities incurred in connection with an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement.
- (j) Variable Rate Demand Indebtedness provided that the conditions described in subsection (a) above are met with respect to such Variable Rate Demand Indebtedness when it is assumed that such Variable Rate Demand Indebtedness bears interest at the rate described in clause (d) of the definition of "Maximum Annual Debt Service" set forth above.
- (k) Liabilities incurred in connection with a sale of accounts receivable with recourse consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such liabilities permitted hereby shall not exceed the aggregate sales price of such accounts receivable; any limitation described under this subsection (k) being applicable only if such liabilities (in accordance with generally accepted accounting principles) constitute Indebtedness.
- (l) Subordinated Indebtedness without limit.

So long as any Bond shall remain Outstanding, notwithstanding any other provision of the Master Indenture to the contrary, an Historical Debt Service Coverage Ratio of not less than 1:25:1.0 shall be required in order to incur Long-Term Indebtedness; provided that the Authority may waive, modify or amend such requirement without the consent of the Holder of any Obligation, the Master Trustee, the registered owner of any Bond or the Trustee; provided however that such Historical Debt Service Coverage Ratio shall not be less than the Historical Debt Service Coverage Ratio specified in the provisions of the Master Indenture described above.

Restrictions on Guaranties. Each Member agrees that it will not enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty except:

(a) Guaranties of Indebtedness or Interest Rate Exchange Agreements or Qualified Financial Products Agreements of another Member;

(b) Guaranties of Obligations issued under the Master Indenture; and

(c) Any other Guaranty, provided that the conditions described in subsection (a) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness" are satisfied with respect to the issuance of such Guaranty utilizing the assumptions specified in clause (a) of the definition of "Maximum Annual Debt Service."

Rates and Charges; Debt Coverage. (a) Each Member agrees to fix, charge and collect, commencing with the first full Fiscal Year following the execution of the Master Indenture and subject to applicable requirements or restrictions imposed by law or regulation, such rates, fees and charges for the use of its facilities and for the services furnished or to be furnished that, together with all other receipts and revenues of the Obligated Group and any other funds available therefor, will be reasonably projected to be sufficient in each Fiscal Year so that the Historical Debt Service Coverage Ratio of the Obligated Group as a whole at the end of such Fiscal Year is not less than 1.10:1.0.

(b) Within 150 days after the end of each Fiscal Year (commencing with the first full Fiscal Year following the execution of the Master Indenture), the Obligated Group Representative shall compute Income Available for Debt Service, Annual Debt Service, and the Historical Debt Service Coverage Ratio for such Fiscal Year and shall promptly furnish to the Master Trustee a Certificate setting forth the results of such computation. The Obligated Group Representative further agrees that, if at the end of such Fiscal Year the Historical Debt Service Coverage Ratio shall have been less than 1.10:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Members or the methods of operation of the Members. Each Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination by its Governing Body that such recommendations (in whole or in part) are in the best interests of the Member, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If the Members comply in all material respects with the reasonable recommendations of the Independent Consultant in respect to said rates, fees, charges and methods of operation or collection, the Members will be deemed to have complied with the covenants of the Master Indenture described under this caption for such Fiscal Year notwithstanding that Income Available for Debt Service shall be less than the amount required as described in subsection (a) above; provided that the Members shall not be excused from taking any action or performing any duty required under the Master Indenture and that no other Event of Default shall be waived by the operation of the provision described in the Master Indenture.

(c) If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the ratio described in subsection (a) above to be met and that the Obligated Group has generated the maximum amount of Income Available for Debt Service that, in the opinion of such Independent Consultant, could reasonably have been generated given such Industry Restrictions, then such ratio shall be reduced to 1.0:1.0.

(d) Notwithstanding the foregoing, a Member may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the governing body of such Member, to the extent necessary for maintaining its tax exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any instrumentality thereof, or in compliance with any recommendation for free services that may be made by an Independent Consultant.

So long as any Bond shall remain Outstanding, notwithstanding any other provision of the Master Indenture to the contrary, an Historical Debt Service Coverage Ratio of not less than 1:25:1.0 shall be required;

provided, however, that the Authority may waive, modify or amend such requirement without the consent of the Holder of any Obligation, the Master Trustee, the registered owner of any Bond or the Trustee; provided however that such Historical Debt Service Coverage Ratio shall not be less than the Historical Debt Service Coverage Ratio specified in the provisions of the Master Indenture described above.

Sale, Lease or Other Disposition of Property. Each Member agrees that it will not, in any consecutive 12-month period, sell, lease or otherwise dispose of any of its Property that, together with all other Property transferred by Members during such 12-month period in transactions other than those described in subsection (a) through (g) below, totals for any consecutive 12-month period an amount in excess of 10% of the Property of the Obligated Group (calculated on the basis of the Book Value of the assets as shown on the most recent audited financial statements), except for transfers of Property:

(a) To any Person if prior to such sale, lease or other disposition, the Master Trustee receives an Officer's Certificate to the effect that such assets shall be or within the next 2 years become inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group and the disposition thereof will not materially and adversely impair the operations of the Members;

(b) To another Member of the Obligated Group;

(c) In the ordinary course of business, for the fair market value of the Property so disposed of, or in return for other Property of equal or greater value and usefulness;

(d) To a Person that is not a Member if such Person shall become a Member pursuant to the provisions of the Master Indenture substantially simultaneously with such transfer;

(e) To any Person, if such Property consists solely of assets that are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment of an Obligation or Long-Term Indebtedness or operating expenses;

(f) To another Person in connection with a sale/leaseback or lease/leaseback financing transaction relating to such Property, provided that the Member so transferring or leasing such Property grants a first mortgage lien, subject only to Permitted Encumbrances, to the Master Trustee securing the Member's obligations under the Master Indenture or which first mortgage lien shall be prior in interest to the transfer or lease of such Property to such other Person;

(g) To any Person upon delivery to the Master Trustee of: (i) an Officer's Certificate demonstrating that during the Fiscal Year immediately preceding the proposed disposition for which financial statements have been audited, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking into account such disposition, would not have been reduced to less than 1.75:1.0 or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such disposition, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such disposition had not occurred, or (iii) (A) a written report from an Independent Consultant stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such disposition, would not be less than 1.20:1.0, or an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for the full Fiscal Year immediately following delivery of such Officer's Certificate, taking into account such disposition, would not be less than 1.35:1.0 and (B) the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report or Officer's Certificate, as the case may be, taking into account such disposition, would not be lower than 65% of the Projected Debt Service Coverage Ratio for the Obligated Group determined as if such disposition had not occurred; or

(h) To any Person in connection with posting of collateral under an Interest Rate Exchange Agreement or Qualified Financial Products Agreement.

The foregoing provisions described in subsection (a) through (g) above notwithstanding, the Members further agree that no Member will sell, lease or otherwise dispose of Property if (a) the Unsecured Debt Ratio of the Obligated Group, as a result of such disposition, would be reduced from a ratio that was greater than 1.25:1.0 to a ratio that is less than 1.25:1.0 or, if such ratio was less than 1.25:1.0, would be reduced from what it was immediately prior to the sale, lease or other disposition, or (b) such disposition could reasonably be expected to result in a reduction of the Historical Debt Service Coverage Ratio for the Obligated Group such that the Obligated Group Representative would be obligated to retain an Independent Consultant pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture - Covenants of the Members - Rates and Charges; Debt Coverage," or (c) an Independent Consultant has been retained pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture - Covenants of the Members - Rates and Charges; Debt Coverage," and such disposition, in the opinion of such Independent Consultant, will have an adverse effect on the Income Available for Debt Service of the Obligated Group.

Nothing in the Master Indenture shall prohibit any Member from making secured or unsecured loans, provided that any such loan (i) is evidenced in writing and (ii) the Master Trustee receives an Officer's Certificate stating that (a) the Obligated Group Representative reasonably expects such loan to be repaid and (b) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

Consolidation, Merger, Acquisition, Sale or Conveyance. Each Member covenants that it will not merge or consolidate with any other corporation not a Member or acquire substantially all of the assets of a Person not a Member or sell or convey all or substantially all of its assets to any Person not a Member unless:

(a) After giving effect to the merger, consolidation, acquisition, sale or conveyance (hereinafter referred to under this caption as the "transaction"), the successor or surviving corporation (hereinafter, the "Surviving Corporation") will be the Member, or, if not, the Surviving Corporation shall be a corporation organized and existing under the laws of the United States of America or a State thereof and such Surviving Corporation shall become a Member pursuant to the provisions of the Master Indenture and shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing corporation under the Master Indenture, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture;

(b) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the date of the proposed merger, consolidation, acquisition, sale or conveyance, would be in default as a result of such merger, consolidation, acquisition, sale or conveyance in the performance or observance of any covenant or condition of the Master Indenture;

(c) So long as any Related Bonds are Outstanding, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such transaction would not cause interest payable on any Related Bonds to be includable in gross income for federal income tax purposes and that such transaction and the assumption of rights and obligations thereafter, complies with the provisions of the Master Indenture;

(d) The Master Trustee shall have received (i) an Officer's Certificate (and, if required by subsection (a) (ii) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness," a written report of an Independent Consultant) to the effect that the Obligated Group would be able to incur at least \$1.00 of Long-Term Indebtedness immediately after such transaction pursuant to subsection (a) (ii), (iv) or (v) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness" (after giving effect to subsection (a) (iii) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness"), or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such transaction, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such transaction had not occurred; and

(e) After giving effect to the transaction, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than the Unsecured Debt Ratio for the Obligated Group immediately prior to the transaction.

In case of any such consolidation, merger, sale or conveyance, and upon such assumption of obligations, the Surviving Corporation shall be substituted for its predecessor in interest in all agreements, indentures, and Obligations then in effect, and the Surviving Corporation shall, upon the request of the Master Trustee, execute and deliver to the Master Trustee such documents and endorsements as the Master Trustee may reasonably require in order to effect the said substitution. From and after the effective date of such substitution as determined by the Master Trustee, the Surviving Corporation shall, subject to the terms, conditions and limitations prescribed in the Master Indenture, be treated as though it were a Member of the Obligated Group as at the date of the execution of the Master Indenture and shall thereafter have the right to participate in Financings and in the securing of Master Indenture Obligation Payments hereunder to the same extent as the Members of the Obligated Group; and all Financings and the securing of Master Indenture Obligation Payments undertaken on behalf of a Surviving Corporation in all respects have the same legal rank and benefit under the Master Indenture as though undertaken by the Obligated Group in the absence of such merger, consolidation, sale or conveyance.

Gross Revenue Fund

Each Member agrees that, as long as any of the Obligations remain Outstanding, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in deposit accounts designated as the "Gross Revenue Fund" which the Obligated Group Representative shall establish and maintain, subject to the provisions of the Master Indenture described in the following paragraph, at such banking institution as the Obligated Group Representative shall from time to time designate, in writing, for such purpose (herein called the "Depository Bank") and which has entered into an Account Control Agreement with the Members of the Obligated Group and the Master Trustee. As security for the payment of Required Payments and the performance by each of the Members of its other obligations under the Master Indenture, each Member pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to all Collateral, including Gross Revenues and the Gross Revenue Fund. Each of the Members shall execute the Account Control Agreement, shall execute and cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain the perfection of such security interest. Each Member irrevocably authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral. Each Member covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives 30 days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by each Member at any time for any lawful purpose, except as otherwise provided in the Master Indenture. In the event that any Member is delinquent for more than one (1) Business Day in the payment of any Required Payment, the Master Trustee shall notify the Obligated Group Representative of such delinquency, and, if such Required Payment is not paid within ten (10) days after receipt of such notice, the Master Trustee shall be entitled to deliver an Order (as such term is defined in the Account Control Agreement) to the Depository Bank. Upon delivery of the Order with respect to the Gross Revenue Fund, exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided pursuant to the provisions of the Master Indenture described in the preceding paragraph and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Required Payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor. During any period that the Gross Revenue Fund are subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make Required Payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Obligations, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Member shall be entitled to use

or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Member; provided, however, that Members may submit requests to the Master Trustee as to which expenses to pay and in which order. Each Member agrees to execute and deliver all instruments as may be required to implement the provisions of the Master Indenture described under this caption. Each Member further agrees that a failure to comply with the terms of the Master Indenture described under this caption shall cause irreparable harm to the Master Trustee from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Obligated Group Representative, to take immediate action to compel the specific performance of the obligations of each of the Members as provided pursuant to the provisions of the Master Indenture described under this caption.

Upon receipt of Gross Revenues, each Member covenants and agrees: (i) to deposit in all Gross Revenues in the Gross Revenue Fund and not in any other fund or account; (ii) that the Gross Revenue Fund will be held as a deposit account at the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

Obligated Group Membership and Withdrawal

Membership in Obligated Group. Additional Members may be added to the Obligated Group from time to time provided that:

(a) There shall have been delivered to the Master Trustee a copy of a resolution of the proposed new Member that authorizes the execution of the Related Supplement described in subsection (b) below and that authorizes compliance with the terms of the Master Indenture;

(b) There shall have been delivered to the Master Trustee a Related Supplement pursuant to which the proposed new Member agrees to become a Member, to be bound by the terms and restrictions imposed by the Master Indenture, and to be bound by Indebtedness or the Master Indenture Obligation Payments represented by the Obligations;

(c) There shall have been delivered to the Master Trustee an irrevocable power of attorney authorizing the execution of Obligations by the Obligated Group Representative;

(d) There shall be delivered to the Master Trustee a written Opinion of Counsel to the proposed new Member, which opinion states that the proposed new Member has taken all necessary action to become a Member, and upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(e) There shall be delivered to the Master Trustee a description of any existing Long-Term Indebtedness of the proposed new Member and any Indebtedness that the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(f) The Master Trustee shall have received (i) an Officer's Certificate (and, if required pursuant to the provisions of the Master Indenture, a written report of an Independent Consultant) to the effect that the Obligated Group would, immediately after the addition of the new Member to the Obligated Group, be able to incur \$1.00 of Long-Term Indebtedness pursuant to the provisions of the Master Indenture described under subsection (a) (ii), (a)(iv) or (a)(v) under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness," or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such addition, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such addition had not occurred;

(g) There shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that the addition of such Member will not cause the interest payable on any Related Bonds to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master

Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended, nor cause a default under the Master Indenture;

(h) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(i) There shall be delivered to the Master Trustee an Officer's Certificate to the effect that after the addition of the new Member to the Obligated Group, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the addition of the new Member.

Withdrawal from Obligated Group. Any Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that:

(a) The Master Trustee shall have received an Officer's Certificate to the effect that, immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) Such Member is not a Primary Obligor with respect to any Outstanding Obligations;

(c) The Master Trustee shall have received (i) an Officer's Certificate demonstrating that during the most recent Fiscal Year preceding the proposed withdrawal for which audited financial statements are available, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking into account such withdrawal, would not have been reduced to less than 1.75:1.0, or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such withdrawal, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such withdrawal had not occurred or (iii) (A) a written report from an Independent Consultant stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such withdrawal, would not be less than 1.20:1.0, or an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for the full Fiscal Year immediately following delivery of such Officer's Certificate, taking into account such withdrawal, would not be less than 1.35:1.0 and (B) the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report or Officer's Certificate, as the case may be, taking into account such withdrawal, would not be lower than 65% of the Projected Debt Service Coverage Ratio for the Obligated Group determined as if such withdrawal had not occurred;

(d) The Master Trustee shall have received an Opinion of Bond Counsel to the effect that the withdrawal of such Member will not cause the interest payable on any Related Bonds to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended; and

(e) The Master Trustee shall have received an Officer's Certificate to the effect that after giving effect to the withdrawal, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the withdrawal.

Events of Default and Remedies

Events of Default. Event of Default under the Master Indenture include:

(a) Failure on the part of the Obligated Group to make due and punctual payment of any Required Payment under an Obligation;

(b) Default in the payment of any Indebtedness for borrowed moneys (other than (i) Non-Recourse Indebtedness and (ii) an Obligation or Indebtedness in an aggregate principal amount of 2% or less of Net Revenues, as shown on the most recent audited financial statements of the Obligated Group), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be secured or evidenced any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur and any period of grace with respect thereto shall have expired; provided, however, that such default shall not constitute an Event of Default under the Master Indenture if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (i) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness;

(c) Failure of any Member to observe or perform any other covenant or agreement under the Master Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations except that, if such failure can be remedied but not within such 30-day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Master Trustee;

(d) Entry of a decree or order for relief in respect of any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member or for any substantial part of the property of any Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;

(e) Any Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Member or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing; or

(f) An event of default shall exist under any Related Bond Indenture.

Acceleration; Annulment of Acceleration. (a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, (i) upon the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations or upon the written request of any Holder if an Event of Default described under subsection (a) above under the caption "Master Indenture - Events of Default and Remedies - Events of Default" has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and shall be immediately due and payable, provided, however, that, if the terms of any Related Supplement give a person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In such event, there shall be due and payable on the Obligations an amount equal to the aggregate principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, interest that accrues on such principal and interest to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices and other payments then due (other than the principal or other payments then due only because of such declaration) of all Outstanding Obligations, (ii) the Obligated Group has paid or caused to be

paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents, (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee, and (iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies. Upon the occurrence and continuance of any Event of Default under the Master Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or of any Holder if an Event of Default described above under subsection (a) under the caption "Master Indenture - Events of Default and Remedies - Events of Default" has occurred, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;
- (ii) Suit upon all or any part of the Obligations;
- (iii) Civil action to require any person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;
- (iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Obligations; and
- (v) Enforcement of any other right or remedy of the Holders conferred by law or the Master Indenture.

Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security given under the Master Indenture by any acts which may be unlawful or in violation under the Master Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, not unduly prejudicial to the interest of the Holders of Obligations not making such request.

Application of Moneys After Defaults. During the continuance of an Event of Default all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and advances incurred or made by the Master Trustee with respect thereto, shall be applied as follows:

- (a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest or the interest portion related to lease payments or the Financial Products Payments then due on the Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments due or coming due on the same date, then to the payment thereof ratably,

according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments, the unpaid principal portion related to lease payments of any Obligations or other unpaid Required Payments that shall have become due, whether at maturity or by call for redemption or otherwise, in the order of their due dates, and, if the amounts available shall not be sufficient to pay in full all such amounts due on any date, then to the payment thereof ratably, according to the amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of or other Required Payments with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of principal and interest and lease payments or other Required Payments then due and unpaid upon the Obligations without preference or priority (except in each case to the extent subordinated in right of payment by the terms of any applicable Related Supplement or Obligation), or of any installment over any other installment, or of any Obligation over any other Obligation, ratably, according to the amounts due, to the Persons entitled thereto without any discrimination or preference except to the extent subordinated in right of payment by the terms of any applicable Related Supplement or Obligation.

(c) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter be rescinded and annulled under the provisions of the Master Indenture described under this caption, then, subject to the provisions of subsection (b) above in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subsection (a) above.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of the Master Indenture described under this caption, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue.

Whenever all Obligations and interest thereon have been paid under the provisions of the Master Indenture described under this caption and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their successors, or as a court of competent jurisdiction may direct.

Holders' Control of Proceedings. If an Event of Default shall have occurred and be continuing, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right to direct the method and place of conducting any proceeding or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture (including indemnity to the Master Trustee as provided in the Master Indenture) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Obligation Holders not joining in such direction.

Waiver of Event of Default. No delay or omission of the Master Trustee or of any Holder of the Obligations to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence under the Master Indenture. The Master Trustee may waive any Event of Default that has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it or before the completion of the enforcement of any other remedy under the Master Indenture. Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in the Master Indenture relating to acceleration, a

default in the payment of the amounts due on any Obligation may not be waived without the written consent of the Holders of all the Outstanding Obligations.

Supplements and Amendments

Supplements Not Requiring Consent of Holders. The Obligated Group Representative and the Master Trustee may, without the consent of or notice to any of the Obligation Holders, enter into one or more Related Supplements for one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission therein; (b) to correct or supplement any provision that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master Indenture and that shall not materially and adversely affect the interests of the Holders; (c) to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended; (e) to create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture; (f) to obligate a successor to any Member of the Obligated Group; (g) to add a new Member; or (h) to make any other change that does not materially adversely affect the interests of the Holders of any Obligations.

Supplements Requiring Consent of Holders. Other than Related Supplements referred to in the immediately preceding paragraph, the Holders of not less a majority in aggregate principal amount of the Obligations then Outstanding shall have the right to consent to and approve the execution by the Obligated Group Representative and the Master Trustee of such Related Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, any of the terms or provisions contained in the Master Indenture. No Related Supplement shall be permitted that would: (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation, without the consent of the Holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Obligations then Outstanding; or (iii) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

Discharge of Master Indenture

Satisfaction and Discharge of Master Indenture. If (i) the Members shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) upon payment of all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation that have become due and payable, or (iii) the Members shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee) as trust funds the cash or Governmental Obligations or both the entire amount of moneys or Government Obligations, sufficient to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including the principal and interest due or to become due to such date of maturity or redemption date, as the case may be, such sufficiency to be evidenced by a report of an Accountant, and if the Members shall pay or cause to be paid all other sums payable under the Master Indenture, then the Master Indenture shall cease to be of further effect.

SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 19

General

Supplement No. 19 provides for the issuance of Obligation No. 19 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 19 further secures the obligation of the Corporation arising under and pursuant to the Loan Agreement with respect to the Bonds.

Payments on Obligation No. 19; Credits

Principal of and interest and any applicable redemption premium on Obligation No. 19 are payable in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts. Except as provided in subsection (b) below with respect to credits, and as described under the caption "Prepayment of Obligation No. 19" below regarding prepayment, payments on the principal of and premium, if any, and interest on Obligation No. 19 shall be made at the times and in the amounts specified in Obligation No. 19 by the Corporation (i) depositing the same with or to the account of the Trustee at or prior to the opening of business on the day such payments shall become due or payable (or on the next succeeding business day if such date is a Saturday, Sunday or bank holiday in the city in which the principal corporate trust office of the Trustee is located) and (ii) giving a notice to the Master Trustee and the Trustee of each payment of principal, interest or premium on Obligation No. 19, specifying the amount paid, and identifying such payment as a payment on Obligation No. 19.

The Corporation shall receive credit for payment on Obligation No. 19, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 19 in an amount equal to moneys deposited in the Interest Fund created under the Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 19;

(ii) On installments of principal of Obligation No. 19 in an amount equal to moneys deposited in the Principal Fund created under the Indenture, to the extent such amounts have not previously been credited on Obligation No. 19;

(iii) On installments of principal and interest, respectively, on Obligation No. 19 in an amount equal to the principal amount of Bonds for the payment or redemption of which sufficient amounts (as determined by the provisions of the Indenture described below under the caption "The Indenture - Discharge of the Indenture") in cash or United States Government Obligations are on deposit as provided pursuant to the discharge provisions of the Indenture, to the extent such amounts have not been previously credited against payments on Obligation No. 19, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal of and interest on Obligation No. 19 that would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity or called for redemption; and

(iv) On installments of principal and interest, respectively, on Obligation No. 19 in an amount equal to the principal amount of Bonds acquired by the Corporation and delivered to the Trustee for cancellation or purchased by the Trustee and cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal of and interest on Obligation No. 19 that would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due and, with respect to Bonds called for mandatory redemption, against principal installments that would have been used to pay Bonds of the same maturity.

Prepayment of Obligation

So long as all amounts that have become due under Obligation No. 19 have been paid, the Corporation shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due under Obligation No. 19. Prepayments may be made by payments of cash or surrender of Bonds as described above under the caption "Payments on Obligation No. 19; Credits". All such prepayments (and the additional payment of any amount necessary to pay the applicable redemption premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Optional Redemption Account and, at the request of and as determined by the Corporation, credited against payments due under Obligation No. 19 or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture and in the Loan Agreement. Notwithstanding any such redemption or surrender of Bonds, as long as any Bond remains outstanding under the Indenture or any additional payments required to be made under Obligation

No. 19 remain unpaid, the Corporation shall not be relieved of its obligations under the Master Indenture, including Supplement No. 19.

Prepayments made under Supplement No. 19 shall be credited against amounts to become due on Obligation No. 19 as described above, under the caption "Payments on Obligation No. 19; Credits" and as described in the Loan Agreement.

The Corporation may also prepay all of its indebtedness under Obligation No. 19 by providing for prepayment of the Bonds in accordance with the defeasance provisions of the Indenture.

Registration, Number, Negotiability and Transfer of Obligations

Except as described in the paragraph immediately following this paragraph, so long as any Bond remains outstanding, Obligation No. 19 shall consist of a single Obligation without coupons registered as to principal and interest in the name of the Trustee and no transfer of Obligation No. 19 shall be registered under the Master Indenture except for transfers to a successor Trustee.

Upon the principal of all Obligations then Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 19 may be transferred if and to the extent the Trustee requests that the restrictions described in the preceding paragraph on transfers be terminated.

Right to Redeem

Obligation No. 19 shall be subject to redemption, in whole or in part, prior to the maturity at the times and in the amounts applicable to redemption of the Bonds as specified in the Indenture; provided that in no event shall any portion of Obligation No. 19 be redeemed unless a corresponding amount of Bonds is also redeemed.

THE INDENTURE

The Indenture sets forth the terms of the Bonds, issued pursuant to the Indenture, the nature and extent of the security, various rights of the Bondholders, the rights, duties, and immunities of the Trustee and the rights and obligations of the Authority.

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, there are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds, in accordance with their terms and the provisions of the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (excluding moneys on deposit in the Rebate Fund, any Purchase Fund, Administrative Fees and Expenses and any amounts paid by the Corporation pursuant to the payment of expense and indemnification provisions of the Loan Agreement).

Pursuant to the provisions of the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged as described in the immediately preceding paragraph and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses and any other fees and expenses of the Authority to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, members, agents or employees to reimbursement or indemnification, (iii) the obligation of the Corporation to make deposits to the Rebate Fund pursuant to the Tax Agreement and (iv) any rights of the Authority to receive notices and opinions, to give consents and to make inspections), and Obligation No. 19. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions of the Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority which have been assigned to the Trustee, all of the obligations of the

Corporation under the Loan Agreement, other than for those items excluded pursuant to the provisions of the Indenture described in this paragraph, and all of the obligations of the Corporation and the other Members of the Obligated Group under Obligation No. 19. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Establishment of Funds and Accounts

The Indenture creates an Interest Fund, a Revenue Fund, a Principal Fund, including the Sinking Accounts to be established therein, a Rebate Fund, and a Redemption Fund, including the Optional Redemption Account and the Special Redemption Account to be established therein. All such funds and accounts shall be established, maintained and held in trust by the Trustee and applied in accordance with the provisions set forth in the Indenture.

Funding and Application of the Interest Fund. Moneys in the Interest Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Interest Fund when and as such Revenues are received: (1) the interest component of all Loan Repayments, including the interest component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement; (2) the interest component of all payments made pursuant to Obligation No. 19; (3) all interest, profits and other income received from the investment of moneys in the Interest Fund; and (4) any other Revenues not required to be deposited in any other fund or account established pursuant to the Indenture. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds, as the same becomes due and payable (including accrued interest with respect to any Bonds, purchased or redeemed prior to maturity pursuant to the Indenture) or to reimburse a Credit Facility Provider for drawings made under a Credit Facility for such purpose. In the event a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds and sufficient funds are not provided pursuant to a drawing on such Credit Facility to pay interest on any Interest Payment Date due to default, repudiation or dishonor by the Credit Facility Provider, the Trustee shall notify the Corporation of the amount of the shortfall as soon as practicable and shall apply amounts on deposit in the Interest Fund to pay interest to the Holders rather than to reimburse such Credit Facility Provider.

Funding and Application of the Principal Fund. Moneys in the Principal Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Principal Fund when and as such Revenues are received: (1) the principal component of all Loan Repayments, but excluding the principal component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement, which shall be deposited in the Redemption Fund; (2) the principal component of all payments made pursuant to Obligation No. 19, but excluding the principal component of all cash prepayments of Loan Repayments made pursuant to Obligation No. 19, which shall be deposited in the Redemption Fund; and (3) after completion of the 2006 Series Project, all interest, profits and other income received from the investment of moneys in the Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as the same becomes due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase, redeem or pay on their stated maturity dates the Series and maturity of Bonds to which such Sinking Account relates on their stated maturity dates, as provided in the Indenture or to reimburse a Credit Facility Provider for drawings made under a Credit Facility for such purpose. In the event a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds and sufficient funds are not provided pursuant to a drawing on such Credit Facility to pay principal on any Mandatory Sinking Account Payment date or any other date on which principal is payable due to default, repudiation or dishonor by the Credit Facility Provider, the Trustee shall notify the Corporation of the amount of the shortfall as soon as practicable and shall apply amounts on deposit in the Principal Fund to pay interest to the Holders rather than to reimburse such Credit Facility Provider.

The Trustee shall establish and maintain within the Principal Fund a separate Sinking Account for each Series of Bonds. On each Mandatory Sinking Account Payment date (or, as and to the extent applicable, on the Interest Payment Date preceding such Mandatory Sinking Account Payment Date as provided in the Indenture), the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture, provided that, at any time prior to giving notice of such redemption, the Trustee may apply moneys in such Sinking Account to the purchase of Bonds of such Series and

maturity for which such Sinking Account was established at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par value of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds of such Series and maturity with the Trustee (together with a Request of the Corporation to apply such Bonds so deposited to the Mandatory Sinking Account Payment due on said date with respect to Bonds of such Series and maturity), or Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the provisions of the Indenture described herein, if any, shall be cancelled and destroyed. Any amounts remaining in a Sinking Account when all of the Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Principal Fund. Bonds purchased from a Sinking Account, purchased or redeemed from the Redemption Fund, or deposited by the Corporation with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment for Bonds of such Series and maturity, then as a credit against such future Mandatory Sinking Account Payments for Bonds of such Series and maturity as the Corporation may specify.

Funding and Application of the Redemption Fund. Moneys in the Redemption Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. The Trustee shall deposit the following Revenues in the Optional Redemption Account when and as such Revenues are received: (1) except as provided in the provisions of the Indenture described in the following paragraph, the principal component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement; (2) except as provided in the provisions of the Indenture described in the following paragraph, the principal component of all cash prepayments made pursuant to Obligation No. 19; and (3) after completion of the 2006 Series Project, all interest, profits and other income received from the investment of moneys in the Optional Redemption Account.

The Trustee shall deposit the following Revenues in the Special Redemption Account when and as such Revenues are received: (1) the principal component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement which are specified in a Certificate of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the health care facilities of the Corporation or proceeds of a sale, lease or other disposition of all or a portion of the facilities refinanced by the proceeds of the Bonds; (2) the principal component of all cash prepayments made pursuant to Obligation No. 19 which are specified in a Certificate of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the health care facilities of the Corporation or proceeds of a sale, lease or other disposition of all or a portion of the facilities refinanced by the proceeds of the Bonds; and (3) after completion of the 2006 Series Project, all interest, profits and other income received from the investment of moneys in the Special Redemption Account.

All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively, or to reimburse a Credit Facility Provider with respect to drawings made under a Credit Facility; provided that, at any time prior to the selection of Bonds, for such redemption, the Trustee shall, upon written direction of the Corporation, apply such amounts to the purchase of Bonds, at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Corporation may direct in writing, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds, are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such Optional Redemption Account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds purchased or

redeemed from the Redemption Fund shall be allocated to the Mandatory Sinking Account Payments specified by the Corporation in writing.

Funding and Application of the Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the Tax Agreement. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Corporation, nor any Credit Facility Provider, nor any Liquidity Provider nor the Holder of any Bonds, shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the provisions of the Indenture and by the Tax Agreement. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Corporation and shall have no liability or responsibility to enforce compliance by the Corporation or the Authority with the terms of the Tax Agreement.

Investment of Moneys in Funds and Accounts

Subject to the limitations set forth in the Indenture, all moneys in any of the funds and accounts established pursuant to the Indenture (other than any Purchase Fund and any Credit Facility Fund) shall be invested by the Trustee solely at the written direction of the Corporation and solely in Investment Securities. Investment Securities shall be purchased at such prices as the Corporation may direct. All Investment Securities shall be acquired subject to the limitations as to maturities and other matters as are set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. In the absence of any other written direction from the Corporation, the Trustee shall invest solely in Investment Securities specified in clause (6) of the definition thereof. Unless otherwise specifically provided in the Indenture, ratings and credit criteria specified with respect to any Investment Security shall refer to the ratings assigned and the credit of the issuing or guaranteeing organization at the time such Investment Security is acquired. Moneys in any Purchase Fund and any Credit Facility Fund shall be held uninvested. Moneys in all other funds and accounts shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Interest Fund and the Rebate Fund shall be deposited when received in each such fund or account. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture shall be deposited when received in such fund or account. Notwithstanding any other provision of the Indenture to the contrary, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. Subject to the provisions of the Indenture, the Trustee may commingle any of the funds or accounts established pursuant to the Indenture (other than any Purchase Fund, any Credit Facility Fund and Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee or its affiliates may act as principal or agent in the making or disposing of any investment and may also act as sponsor, advisor or manager in connection with any investments. The Trustee may sell or present for prepayment or redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with provisions of the Indenture. The Trustee shall not be responsible for any tax, fee or other charge in connection with any investment, reinvestment or the liquidation thereof.

Credit Facilities; Credit Facility Funds

The Trustee shall hold and maintain each Credit Facility, if any, for the benefit of the Holders of the Series of Bonds to which such Credit Facility relates until such Credit Facility expires in accordance with its terms. Subject to the provisions of the Indenture, the Trustee shall enforce all terms, covenants and conditions of each Credit Facility, including payment when due of any draws on such Credit Facility, and the provisions relating to the payment of draws on, and reinstatement of amounts that may be drawn under, such Credit Facility, and will not consent to, agree to or permit any amendment or modification of such Credit Facility which would materially adversely affect the rights or security of the Holders. If at any time during the term of a Credit Facility any successor Trustee shall be appointed and qualified under the Indenture, the resigning or removed Trustee shall request that the Credit Facility Provider transfer such Credit Facility to the successor Trustee. If the resigning or removed Trustee fails to make this request, the successor Trustee shall do so before accepting appointment. When a Credit Facility expires in accordance with its terms or is replaced by an Alternate Credit Facility, the Trustee shall immediately surrender such Credit Facility to the then-existing Credit Facility Provider; provided, however that the Trustee shall not surrender such Credit Facility until all draws under such Credit Facility shall have been honored. All provisions in the Indenture relating to the rights of a Credit Facility Provider shall be of no force and effect if there is no Credit Facility or Alternate Credit Facility in effect and, if a Credit Facility Provider and a Liquidity Facility Provider are the same entity, there are no Liquidity Facility Bonds and all amounts owing to such Credit Facility Provider and, if a Credit Facility Provider and a Liquidity Facility Provider are the same entity, such Liquidity Facility Provider hereunder and under the agreement then in effect with respect to such Credit Facility have been paid.

Unless a Credit Facility Provider Failure has occurred and is continuing, the principal and Redemption Price of, and interest on, a Series of Bonds secured by a Credit Facility shall be paid solely with Available Moneys. While a Credit Facility in the form of a letter of credit is in effect with respect to any Series of Bonds, the Trustee shall, on the Business Day preceding each Interest Payment Date and Principal Payment Date (or other date upon which principal of such Bonds is due), draw on the applicable Credit Facility in accordance with the terms thereof so as to receive thereunder by 3:00 p.m., New York City time, on said Interest Payment Date and Principal Payment Date (or other date upon which principal of such bonds is due), an amount, in immediately available funds, equal to the amount of interest and principal payable on such Series of Bonds on such Interest Payment Date and Principal Payment Date (or other date upon which principal of such Bonds is due). The proceeds of such draws shall be deposited in the applicable Credit Facility Fund pursuant to the provisions of the Indenture and shall be applied to pay principal of and interest on the applicable Series of Bonds prior to the application of any other funds held by the Trustee therefor. Amounts held in a Credit Facility Fund shall be held uninvested and separate and apart from all other funds and accounts. Notwithstanding the foregoing, if a Credit Facility Provider and a Liquidity Facility Provider for a Series of Bonds are the same entity, the Trustee shall not draw on the Credit Facility with respect to any payments due or made in connection with Liquidity Facility Bonds. In no event shall the Trustee draw on a Credit Facility with respect to any payments made in connection with Bonds not covered by such Credit Facility or Bonds owned by the Corporation or any Member.

If a Credit Facility in the form of a letter of credit is provided in connection with any Series of Bonds, the Trustee shall establish, maintain and hold in trust a special fund designated as a "Credit Facility Fund." The Trustee shall deposit in such Credit Facility Fund all moneys derived from a drawing under a Credit Facility for the purpose of paying the principal of and interest on the Series of Bonds secured by such Credit Facility when due. Moneys held in a Credit Facility Fund shall be held uninvested and shall not be commingled with any other moneys. Moneys in a Credit Facility Fund shall be withdrawn by the Trustee from such Credit Facility Fund and applied to the payment of the principal of and interest on the Series of Bonds secured by such Credit Facility on each Principal Payment Date for such Bonds (or other date upon which principal of such Bonds is due) and Interest Payment Date for such Bonds, provided that such moneys shall not be used to pay the principal of or interest on any Bonds not secured by the Credit Facility to which such Credit Facility Fund relates or Bonds owned by the Corporation or any Member.

Events of Default and Remedies

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

- (a) default in the due and punctual payment of the principal or Redemption Price of any Bond, when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, including redemption from Mandatory Sinking Account Payments, by declaration of acceleration or otherwise;
- (b) default in the due and punctual payment of any installment of interest on any Bond, when and as such interest installment shall become due and payable;
- (c) failure to pay the Purchase Price of any Bond tendered or subject to mandatory tender;
- (d) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds, contained, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Trustee or to the Authority, the Corporation and the Trustee by a Credit Provider, if any, or the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding;
- (e) a Loan Default Event;
- (f) receipt by the Trustee of notice from a Credit Facility Provider (if any) that an Event of Default (as defined in the agreement entered into by the Corporation with such Credit Facility Provider) has occurred under such agreement and which notice directs the Trustee to accelerate the Bonds of the Series to which such Credit Facility relates; or
- (g) receipt by the Trustee of notice from a Credit Facility Provider that the amount of an interest drawing under the Credit Facility provided by such Credit Facility Provider will not be reinstated as provided in such Credit Facility.

Cancellation or conversion of a Series of Bonds from one Mode to another, including cancellation of conversion due to a failure to remarket, shall not constitute an "Event of Default" under the Indenture.

Acceleration of Maturities. Subject to the rights of a Credit Facility Provider providing a Credit Facility for a Series of Bonds set forth in the provisions of the Indenture, if an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written direction of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, the Trustee shall, notify the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 19 and may request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Members of the Obligated Group declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Upon such declaration by the Master Trustee and upon notice in writing to the Authority and the Corporation, the Trustee shall declare the principal of the Bonds, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. In addition, the Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 19. Notwithstanding the foregoing, upon the occurrence of an Event of Default under the provisions of the Indenture described in (f) or (g) under the heading "Events of Default" above, upon receipt of notice of an Event of Default described in (f) or (g) above from a Credit Facility Provider directing acceleration of a Series of Bonds, the Trustee shall declare the principal of the Bonds of the applicable Series, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Indenture or in the Bonds to the contrary notwithstanding, interest shall cease to accrue on such Bonds from and after the date of such notice of acceleration. Upon a declaration of acceleration pursuant to the Indenture applicable

to any Series of Bonds then secured by Credit Facility in the form of a letter of credit, the Trustee shall immediately draw on such Credit Facility then in effect in accordance with its terms, as provided in the Indenture, in an amount sufficient to pay principal and interest on the Bonds secured by such Credit Facility, and shall immediately apply the proceeds of such draw to the payment of such Bonds.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rates borne by the respective Bonds, and the reasonable fees, charges and expenses of the Trustee, and if the Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 19 has been annulled pursuant to the Master Indenture and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, (provided that if a Credit Facility was drawn upon in connection with such Event of Default, such Credit Facility has been reinstated and in the case of an Event of Default described in the Indenture, the notice provided by such Credit Facility Provider shall have been rescinded by such Credit Facility Provider), then, and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding, by written notice to the Authority, the Corporation and the Trustee, or the Trustee may, on behalf of the Holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon. The Trustee shall give written notice to each Credit Facility Provider, if any, and each Liquidity Facility Provider, if any, of such rescission and annulment. In the case of any such rescission and annulment, the Authority, the Corporation, the Trustee and the Holders shall be restored to their former positions and rights under the Indenture.

Trustee to Represent Bondholders. Subject to the provisions of the Indenture relating to the rights of the Credit Facility Providers to direct remedies with respect to the applicable Series of Bonds, upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Indenture, the Loan Agreement, Obligation No. 19, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Subject to the provisions of the Indenture relating to the rights of the Credit Facility Providers to direct remedies with respect to the applicable Series of Bonds, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue. Subject to the provisions of the Indenture relating to the rights of the Credit Facility Providers to direct remedies with respect to the applicable Series of Bonds, no Holder of any

Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, Obligation No. 19, the Act or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Loan Agreement, Obligation No. 19, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Rights of Credit Facility Providers to Direct Remedies, Grant Waivers and Consents

Upon the occurrence and continuance of an Event of Default, the Credit Facility Provider for a Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted (i) to the Trustee for the benefit of the Holders of the Bonds of such Series or (ii) to the Holders of the Bonds of such Series under the provisions of the Indenture, including, without limitation, acceleration of the principal of the Bonds of such Series as is described herein and the right to annul any declaration of acceleration. The Credit Facility Provider for a Series of Bonds shall also be entitled: (i) to approve all waivers of events of default with respect to the applicable Series of Bonds and no remedial action with respect to the Bonds of the applicable Series may be taken without the consent of the Credit Facility Provider for such Series of Bonds; and (ii) to grant consents with respect to the applicable Series of Bonds.

Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee (which written consent may be provided by the Credit Facility Provider then providing a Credit Facility for a Series of Bonds); provided however, that if such amendment is only applicable with respect to one Series of Bonds, such amendment shall become binding when the written consent of the Holders of a majority in aggregate principal amount of the Bonds of such Series then Outstanding is filed with the Trustee; and provided further, however, that if such amendment will, by its terms, not take effect so long as Bonds of any particular Series or maturity remain Outstanding, the consent of the Holders of Bonds of such Series or maturity, as applicable, shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the provisions of the Indenture described herein. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding.

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into without the consent of any Holders, but only to the extent permitted by law and only for any one or more of the following purposes:

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

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

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

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

(5) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds;

(6) to make any amendments appropriate or necessary to accommodate conversion from one Interest Rate Mode to another Interest Rate Mode;

(7) to make any modification or amendment to the Indenture which would be effective upon the remarketing of a Series of Bonds following the mandatory tender of such Series of Bonds pursuant to the provisions of the Indenture;

(8) to make amendments appropriate or necessary to provide for any Credit Facility or Liquidity Facility;

(9) to effect a change in the redemption schedule for a Series of Bonds upon conversion to the Long Term Rate Mode;

(10) to make any changes in the definition of Maximum Interest Rate set forth in the Indenture to conform to current market practice at the time of conversion of a Series of Bonds to an Auction Mode;

(11) to make any changes pursuant to the provisions of the Indenture to the SIFMA provisions then in effect upon the conversion of a Series of Bonds to an Auction Mode; or

(12) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders.

Defeasance

Discharge of Bonds and Indenture. The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

(1) by paying or causing to be paid (with Available Moneys at any time a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds) the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(2) by depositing with the Trustee, in trust, at or before maturity, moneys (which shall be Available Moneys at any time a Credit Facility in the form of a letter of credit is then in effect) or securities (purchased with Available Moneys if a Credit Facility in the form of a letter of credit is then in effect with respect to a Series of Bonds) in the necessary amount (as provided pursuant to the provisions of the Indenture) to pay when due or redeem all Bonds then Outstanding; or

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

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Corporation shall have paid all Administrative Fees and Expenses and any other fees and expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture and upon receipt by the Trustee and the Authority of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely discharged and satisfied.

THE LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of the proceeds of the Bonds, to the Corporation and the repayment of and security for the loan provided by the Corporation.

Issuance of Obligation No. 19

In consideration of the issuance of the Bonds by the Authority and the application of the proceeds thereof as provided in the Indenture, the Corporation agrees to issue, or cause to be issued, and to cause to be authenticated and delivered to the Authority or its designee, pursuant to the Master Indenture and Supplement No. 19, concurrently with the issuance and delivery of the Bonds, Obligation No. 19. The Authority agrees that Obligation No. 19 shall be registered in the name of the Trustee.

Payment of Loan

Loan Repayments. Pursuant to the Loan Agreement, the Authority lends and advances to the Corporation, and the Corporation borrows and accepts from the Authority, the net proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of the Loan Agreement and the Indenture. In consideration of the loan of such proceeds to the Corporation, the Corporation agrees to pay, or cause to be paid, Loan Repayments as follows: (i) on or before the Business Day next preceding each Interest Payment Date, the full amount of the interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding (less any amounts on deposit in the Interest Fund available for the payment of such interest) and (ii) on or before the Business Day next preceding each Principal Payment Date, the aggregate amount of principal becoming due and payable on the Outstanding Bonds, plus the aggregate amount of Mandatory Sinking Account Payments required to be paid into the Sinking Accounts for Outstanding Bonds, in each case on such Principal Payment Date (less any amounts on deposit in the Principal Fund available for the payment of such principal or Mandatory Sinking Account Payments). Notwithstanding the foregoing schedule of payments, the Corporation agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal or redemption price of and interest on the Bonds from time to time Outstanding under the Indenture and other amounts required to be paid under the Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Except as otherwise expressly provided in the Loan Agreement, all amounts payable by the Corporation to the Authority under the Loan Agreement or with respect to Obligation No. 19 shall be paid to the Trustee, as assignee of the Authority, and the Loan Agreement and all right, title and interest of the Authority in any such payments shall be assigned and pledged to the Trustee so long as any Bonds remain Outstanding.

Additional Payments. In addition to Loan Repayments and payments on Obligation No. 19, the Corporation shall also pay to the Authority or the Trustee, as the case may be, Additional Payments, as follows:

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

(b) All reasonable fees, charges, expenses and indemnities of the Trustee for services rendered under the Loan Agreement and under the Indenture, as and when the same become due and payable;

(c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, Supplement No. 19, Obligation No. 19 or the Indenture; and

(d) The annual fee of the Authority and reasonable fees and expenses of the Authority or any agent or counsel selected by the Authority to act on its behalf in connection with the Loan Agreement, the Master Indenture, Supplement No. 19, Obligation No. 19, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds in connection with any litigation which may at any time be instituted involving the Loan Agreement, the Master Indenture, Supplement No. 19, Obligation No. 19, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement, the Indenture, Supplement No. 19 and Obligation No. 19.

Obligations Unconditional. The obligations of the Corporation under the Loan Agreement and pursuant to Obligation No. 19, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 19, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 19, the Master Indenture or the Indenture. Until the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Corporation:

(a) Will pay all amounts required under the Loan Agreement and under Obligation No. 19 without abatement, deduction or set-off except as otherwise expressly provided in the Loan Agreement;

(b) Will not suspend or discontinue any payments due under the Loan Agreement or under Obligation No. 19 for any reason whatsoever, including, without limitation, any right of set-off or counterclaim;

(c) Will perform and observe all its other agreements contained in the Loan Agreement; and

(d) Except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of the Corporation's facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State, or any political subdivision of either thereof or any failure of the

Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement.

Continuing Disclosure

The Corporation, on behalf of itself and the other Members of the Obligated Group, covenants and agrees that it shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event; however, the Trustee shall, at the request of any Participating Underwriter (as such term is defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount in Outstanding Bonds, or any Holder or Beneficial Owner, as such term is defined in the Continuing Disclosure Agreement, may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with the obligations of the Corporation described under this caption.

Loan Default Events and Remedies

Loan Default Events. Each of the following events shall constitute a Loan Default Event under the Loan Agreement:

(a) Failure by the Corporation to pay in full any payment required under the Loan Agreement or under Obligation No. 19 when due;

(b) If any material representation or warranty made by the Corporation in the Loan Agreement or in any document, instrument or certificate furnished to the Trustee or the Authority in connection with the issuance of Obligation No. 19 or the Bonds shall at any time prove to have been incorrect in any respect as of the time made;

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

(d) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation's facilities;

(e) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation's facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(f) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation's facilities, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control;

(g) Any Event of Default as defined in and under the Indenture; or

- (h) Any Event of Default as defined in and under the Master Indenture.

Remedies on Default. If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Trustee on behalf of the Authority, subject to the limitations in the Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given by the Loan Agreement or available under the Loan Agreement or given by or available under any other instrument of any kind securing the Corporation's performance under the Loan Agreement (including, without limitation, Obligation No. 19 and the Master Indenture);

(b) By written notice to the Corporation declare an amount equal to all amounts then due and payable on the Bonds, whether by acceleration of maturity or otherwise, to be immediately due and payable under the Loan Agreement, whereupon the same shall become immediately due and payable; and

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

Notwithstanding the foregoing, if a Credit Facility is in full force and effect with respect to a Series of Bonds and if the Credit Facility Provider providing such Credit Facility has not failed to make a payment required in connection therewith, which failure has not been cured, such Credit Facility Provider shall have the right to direct the remedies with respect to such Series of Bonds upon any Loan Default Event and the written consent of the Credit Facility Provider shall be required prior to remedial action being taken under the Loan Agreement with respect to such Series of Bonds.

Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Trustee shall not under any circumstances declare the entire unpaid aggregate amount of the payment due under the Loan Agreement to be immediately due and payable except in accordance with the directions of the Master Trustee if the Master Trustee shall have declared the aggregate principal amount of Obligation No. 19 and all interest thereon immediately due and payable in accordance with the provisions of the Master Indenture.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL UPON REOFFERING

[Long Term Rate Mode Conversion Date]

Wells Fargo Bank, National Association,
as Trustee
San Francisco, California

California Health Facilities Financing Authority
Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2
(Adjustment to Long Term Rate Mode Opinion)

Ladies and Gentlemen:

California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2 (the "2008 Series A-2 Bonds") in the aggregate principal amount of \$104,100,000 were issued by California Health Facilities Financing Authority (the "Issuer") on June 2, 2008 pursuant to an Indenture, dated as of June 1, 2008 (as amended and supplemented, the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Pursuant to the Indenture, concurrently with the issuance of the 2008 Series A-2 Bonds, the Issuer issued the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1 (the "2008 Series A-1 Bonds"), 2008 Series A-3 (the "2008 Series A-3 Bonds"), 2008 Series B-1 (the "2008 Series B-1 Bonds") and 2008 Series B-2 (the "2008 Series B-2 Bonds"). The 2008 Series A-1 Bonds, the 2008 Series A-2 Bonds, the 2008 Series A-3 Bonds, the 2008 Series B-1 Bonds and the 2008 Series B-2 Bonds (hereinafter collectively referred to as the "Bonds") were issued for the benefit of Stanford Hospital and Clinics (the "Corporation"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Pursuant to Section 2.07(b) of the Indenture, the Corporation has elected to adjust the Interest Rate Mode for the 2008 Series A-2 Bonds to the Long Term Rate Mode. In connection with such adjustment of the Interest Rate Mode for the 2008 Series A-2 Bonds (hereinafter referred to as the "Conversion"), as bond counsel to the Issuer, we have reviewed the Indenture and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, all parties. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including, without limitation, covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth below, we have not otherwise reviewed any

actions, omissions or events occurring after the date of issuance of the Bonds or the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, no opinion is expressed herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Nothing in this letter should imply that we have considered or in any manner reaffirm any of the matters covered in any prior opinion we rendered with respect to the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Reoffering Circular, dated June 8, 2011, or other offering material relating to the 2008 Series A-2 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Conversion in accordance with the provisions of the Indenture is authorized or permitted by the Indenture and will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

This opinion is furnished by us as bond counsel to the Issuer solely for purposes of Section 2.07(b) of the Indenture. No attorney-client relationship has existed or exists between our firm and the Trustee in connection with the Bonds or by virtue of this opinion, and we disclaim any obligation to update this opinion.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

FORM OF OPINION OF BOND COUNSEL UPON REOFFERING

[Long Term Rate Mode Continuation Date]

Wells Fargo Bank, National Association,
as Trustee
San Francisco, California

California Health Facilities Financing Authority
Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-3
(Continuation Opinion)

Ladies and Gentlemen:

California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-3 (the "2008 Series A-3 Bonds") in the aggregate principal amount of \$85,700,000 were issued by California Health Facilities Financing Authority (the "Issuer") on June 2, 2008 pursuant to an Indenture, dated as of June 1, 2008 (as amended and supplemented, the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Pursuant to the Indenture, concurrently with the issuance of the 2008 Series A-3 Bonds, the Issuer issued the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1 (the "2008 Series A-1 Bonds"), 2008 Series A-2 (the "2008 Series A-2 Bonds"), 2008 Series B-1 (the "2008 Series B-1 Bonds") and 2008 Series B-2 (the "2008 Series B-2 Bonds"). The 2008 Series A-1 Bonds, the 2008 Series A-2 Bonds, the 2008 Series A-3 Bonds, the 2008 Series B-1 Bonds and the 2008 Series B-2 Bonds (hereinafter collectively referred to as the "Bonds") were issued for the benefit of Stanford Hospital and Clinics (the "Corporation"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Pursuant to Section 2.07(b) of the Indenture, the Corporation has elected that the 2008 Series A-3 Bonds shall continue to bear interest in the Long Term Rate Mode with a new Long Term Rate Period commencing June 16, 2011. In connection with such continuation (hereinafter referred to as the "Continuation"), as bond counsel to the Issuer, we have reviewed the Indenture and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, all parties. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including, without limitation, covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth below, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Bonds or the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, no opinion is expressed

herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Nothing in this letter should imply that we have considered or in any manner reaffirm any of the matters covered in any prior opinion we rendered with respect to the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Reoffering Circular, dated June 8, 2011, or other offering material relating to the 2008 Series A-3 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Continuation in accordance with the provisions of the Indenture is authorized or permitted by the Indenture and will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

This opinion is furnished by us as bond counsel to the Issuer solely for purposes of Section 2.07(b) of the Indenture. No attorney-client relationship has existed or exists between our firm and the Trustee in connection with the Bonds or by virtue of this opinion, and we disclaim any obligation to update this opinion.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX E

2008 OPINION OF BOND COUNSEL

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June 2, 2008

California Health Facilities Financing Authority
Sacramento, California

California Health Facilities Financing Authority
Refunding Revenue Bonds (Stanford Hospital and Clinics),
2008 Series A-1, 2008 Series A-2, 2008 Series A-3, 2008 Series B-1 and 2008 Series B-2
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Health Facilities Financing Authority (the "Issuer") in connection with the issuance of \$428,500,000 aggregate principal amount of California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1, 2008 Series A-2, 2008 Series A-3, 2008 Series B-1 and 2008 Series B-2 (the "Bonds"), issued pursuant to a Indenture, dated as of June 1, 2008 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Stanford Hospital and Clinics (the "Borrower") pursuant to a Loan Agreement, dated as of June 1, 2008 (the "Loan Agreement"), between the Issuer and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Issuer and the Borrower, opinions of counsel to the Issuer, the Borrower and the Trustee, certificates of the Issuer, the Borrower, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Ropes & Gray LLP, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower regarding the use of the facilities refinanced with the proceeds of Bonds in activities that are not considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Borrower does not address Section 513 of the Code. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.



The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against authorities of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Loan Agreement, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statements or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, any Credit Facility Fund and any Purchase Fund, subject to the provisions of the



Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.

4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per  Roger L. Davis

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APPENDIX F

BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each Series of Bonds, in the amount of each maturity for each such Series of Bonds, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority (the "Authority") as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. a consenting or voting right to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, nor of its nominee, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds, distributions and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and Stanford Hospital and Clinics (the "Corporation") believe to be reliable, but neither the Authority nor the Corporation takes responsibility for the accuracy thereof.

The Authority and the Corporation cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Corporation is responsible or liable for the failure of DTC or any Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

None of the Authority, Corporation or the Bond Trustee will have any responsibility or obligation to Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Participant, or any Indirect Participant; (ii) the payment by DTC or any Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Bonds; (iii) any notice that is permitted or required to be given to Holders under the Bond Indenture; (iv) the selection by DTC, any Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Participants or Indirect Participants under the book-entry system.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), is executed and delivered by Stanford Hospital and Clinics, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and Wells Fargo Bank, National Association, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee") and as dissemination agent (the "Dissemination Agent"), in connection with the reoffering of the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2 (the "2008 Series A-2 Bonds"), 2008 Series A-3 (the "2008 Series A-3 Bonds") and 2008 Series B-2 (the "2008 Series B-2 Bonds," and, together with the 2008 Series A-2 Bonds and the 2008 Series A-3 Bonds, hereinafter collectively referred to as the "Bonds"), which were issued pursuant to an Indenture, dated as of June 1, 2008 (as amended and supplemented, the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and the Trustee. The proceeds of the Bonds were loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of June 1, 2008 (the "Loan Agreement"), between the Authority and the Corporation. The obligations of the Corporation under the Loan Agreement relating to the above-referenced Bonds are secured by Stanford Hospital and Clinics Obligation No. 19, issued by the Corporation pursuant to Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008 ("Supplement No. 19"), between the Corporation and The Bank of New York Mellon Trust Company, N.A. ("BNY"), as master trustee (the "Master Trustee"). Supplement No. 19 supplements and amends the Master Indenture of Trust, dated as of December 1, 1990, between the Corporation, formerly known as Stanford University Hospital, and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to BNY, formerly known as The Bank of New York Trust Company, N.A. The Master Indenture of Trust, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by Supplement No. 19, is hereinafter referred to as the Master Indenture.

Pursuant to Section 6.11 of the Indenture and Section 5.16 of the Loan Agreement, the Corporation, acting on its own behalf and on behalf each other Person who becomes a Member of the Obligated Group (as such terms are defined in the Master Indenture), the Trustee and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation, the Trustee and the Dissemination Agent for the benefit of the Holders and Beneficial Owners (as hereinafter defined) of the Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with the Rule (as hereinafter defined). The Corporation, the Trustee and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to any such reports, notices or disclosures or with respect to the Rule.

With respect to the 2008 Series A-3 Bonds, this Disclosure Agreement amends and restates in its entirety and supersedes that certain Continuing Disclosure Agreement, dated as of June 2, 2008, executed and delivered by the Corporation and the Trustee in connection with the initial offering of the 2008 Series A-3 Bonds and shall take effect on the date of reoffering of the 2008 Series A-3 Bonds, June 16, 2011.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Section 3 and Section 4 of this Disclosure Agreement.

Beneficial Owner shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Disclosure Representative shall mean the Authorized Representative of the Corporation or his or her designee, or such other person as the Authorized Representative of the Corporation shall designate in writing to the Trustee and the Dissemination Agent from time to time.

Dissemination Agent shall mean Wells Fargo Bank, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Trustee a written acceptance of such designation.

Listed Events shall mean any of the events listed in Section 5(A) or Section 5(B) of this Disclosure Agreement.

Participating Underwriter shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds and any of the remarketing agents appointed from time to time by the Corporation required to comply with the Rule in connection with reoffering of the Bonds.

Quarterly Report shall mean any Quarterly Report provided by the Corporation pursuant to, and as described in, Section 3 of this Disclosure Agreement.

Repository shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the Municipal Securities Rulemaking Board or the SEC, filings with the Municipal Securities Rulemaking Board are to be made through the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board, currently located at <http://emma.msrb.org>.

Rule shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SEC shall mean the Securities and Exchange Commission or any successor agency thereto.

State shall mean the State of California.

SECTION 3. Provision of Annual Reports and Quarterly Reports. (A) The Corporation shall, or shall upon written direction cause the Dissemination Agent to, not later than one hundred fifty (150) days after the end of the fiscal year of the Obligated Group, commencing with the Annual Report for the fiscal year of the Obligated Group ending August 31, 2011, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Corporation shall also provide each Annual Report to any Beneficial Owner of at least \$1,000,000 aggregate principal amount of Bonds which shall submit a written request to the Corporation.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements referred to in Section 4(A) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the fiscal year of the Obligated Group changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(H).

(B) Not later than five (5) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repository, the Corporation shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by five (5) Business Days prior to such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Corporation and the Dissemination Agent to determine if the Corporation is in compliance with subsection (A).

(C) If the Trustee is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (A), the Trustee shall send a notice, in electronic format, to the Repository, such notice to be in substantially the form attached as Exhibit A hereto.

(D) Unless the Corporation shall have informed the Dissemination Agent in writing that the Corporation has provided the Annual Report directly to the Repository, in which case the Corporation shall file a report with the Authority, the Dissemination Agent and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided, the Dissemination Agent shall file a report with the Corporation, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

(E) In addition to providing the Annual Report required to be filed pursuant to subsection (A), the Corporation shall provide (i) to any Beneficial Owner of at least \$1,000,000 aggregate principal amount of Bonds which shall submit a written request to the Corporation, and (ii) to the Repository, unaudited financial information on a quarterly basis, such unaudited financial information to be provided for the first fiscal quarter, the second fiscal quarter, and the third fiscal quarter and to consist of a consolidated balance sheet, a consolidated statement of operations and changes in net assets and a consolidated statement of cash flows of the Obligated Group and such subsidiaries as are required to be included in accordance with generally accepted accounting principles and an update (as of the last day of the most recently ended fiscal quarter) of the information contained in Table 7 entitled "Historical Utilization" set forth in Appendix A of the Reoffering Circular, dated June 8, 2011, relating to the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2 (the "Reoffering Circular"), under the caption "Services, Facilities, and Operations-Utilization" (such unaudited financial information and such update being hereinafter referred to as a "Quarterly Report"). Commencing with the Quarterly Report for the fiscal quarter of the Obligated Group ending November 30, 2011, the Corporation shall provide a Quarterly Report, consistent with this subsection (E), not later than sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of the Members of the Obligated Group. Each Quarterly Report shall be provided by the Corporation to any Beneficial Owner who shall have filed a written request with the Corporation in accordance with the requirements set forth herein and shall also be provided by the Corporation to the Repository, the Trustee (if the Trustee is not the Dissemination Agent) and the Dissemination Agent.

SECTION 4. Content of Annual Reports. The Annual Report of the Obligated Group shall contain or include by reference the following:

(A) The audited financial statements of the Obligated Group for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable in the United States as promulgated from time to time. If the Obligated Group's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(A), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in the Reoffering Circular and the audited financial statements shall be filed in the same manner as the Annual Report when such audited financial statements become available.

(B) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information set forth in the front portion of the Reoffering Circular under the caption "Debt Service Requirements."

(C) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information contained in each of the following tables set forth in Appendix A of the Reoffering Circular: (i) Table 7 entitled "Historical Utilization" set forth under the caption "Services, Facilities, and Operations-Utilization;" (ii) Table 9 entitled "Consolidated Capitalization" set forth under the caption "Summary of Financial Information-Capitalization;" (iii) Table 10 entitled "Consolidated Liquidity" set forth under the caption "Summary of Financial Information-Liquidity;" and (iv) Table 11 entitled "Maximum Annual Debt Service Coverage" set forth under the caption "Summary of Financial Information-Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation or any other Member of the Obligated Group is an "obligated person" (as such term is defined in the Rule), which have been submitted to the Repository. The Corporation shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(A) The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten (10) Business Days after the occurrence of the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on the credit enhancements reflecting financial difficulties;
4. substitution of the credit or liquidity providers or any failure by such credit or liquidity providers to perform;
5. issuance by the Internal Revenue Service of a proposed or final determination of taxability or a Notice of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. rating changes; or
9. bankruptcy, insolvency, receivership or similar event of any Member of the Obligated Group.

Note: for the purposes of the event identified in subsection (9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for any Member of the Obligated Group in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of such Member of the Obligated Group, or if such jurisdiction has been assumed by leaving the existing governing body and officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of such Member of the Obligated Group.

(B) The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten (10) Business Days after the occurrence of the event, such notice to be provided in accordance with the provisions set forth in Section 14:

1. unless described in subsection 5(A)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. modifications to rights of Bondholders;
3. optional unscheduled or contingent Bond calls;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation or acquisition involving any Member of the Obligated Group or the sale of all or substantially all of the assets of any Member of the Obligated Group, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. appointment of a successor or additional trustee or the change of name of a trustee.

(C) If the Corporation learns of the occurrence of a Listed Event described in Section 5(A), or determines that knowledge of a Listed Event described in Section 5(B) would be material under applicable federal securities laws, the Corporation shall within ten (10) Business Days of occurrence file a notice of such occurrence, or cause a notice of such occurrence to be filed, with the Repository. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(A)(7) or Section 5(B)(3) need not be given under this Section 5(C) any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(D) The Trustee shall, within one (1) Business Day, or as soon thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Listed Events described in Section 5(B), contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly direct the Dissemination Agent in writing whether or not to report such event pursuant to Section 5(H). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the Principal Corporate

Trust Office with regular responsibility for the administration of matters related to the Indenture. The Trustee shall not have any duty to determine if any Listed Event is material.

(E) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event described in Section 5(B), whether because of a notice from the Trustee pursuant to Section 5(D) or otherwise, the Corporation shall as soon as possible determine if such event would be material under applicable federal securities laws.

(F) If the Corporation has determined that knowledge of the occurrence of a Listed Event described in Section 5(B) would be material under applicable federal securities laws, the Corporation shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 5(H).

(G) If in response to a request under Section 5(D), the Corporation determines that the Listed Event described in Section 5(B) would not be material under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to Section 5(H).

(H) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event described in Section 5(B), the Dissemination Agent shall file a notice of such occurrence with the Repository, such notice to be provided in accordance with the provisions set forth in Section 14.

SECTION 6. Termination of Reporting Obligation. The obligations of the Corporation, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate with respect to a Series of Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds of such Series. If such termination occurs prior to the final maturity date of the Bonds, the Corporation shall give notice of such termination in a filing filed with the Repository. If the obligations of the Corporation under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Corporation, and the original Corporation shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) day written notice to the Corporation and the Trustee. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to the Dissemination Agent or Trustee hereunder and shall not be deemed to be acting in any fiduciary capacity under this Disclosure Agreement for the Corporation, any other Member of the Obligated Group or the Holders.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Corporation, provided, neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to the provisions of Sections 3(A), 4, 5(A) or 5(B), such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(B) This Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of a Series of Bonds or at the time such Series of Bonds became subject to the Rule, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Holders of the affected Series of Bonds in the same manner as provided in the Indenture with respect to amendments to the Indenture which require the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds of the affected Series.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the Repository, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 10. Default. In the event of a failure of the Corporation or the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or a Loan Default Event, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture, including, without limitation, Section 8.03 of the Indenture, is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the benefits afforded to the Trustee thereunder. The Dissemination Agent and the Trustee acting in its capacity as Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Corporation agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which the Trustee or the Dissemination Agent may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Corporation under this Section shall survive resignation or removal of the Trustee or the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriters, the Holders and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement.

SECTION 13. Notices. All notices or communications herein required or permitted to be given shall be in writing mailed, sent by telecopy or other direct written electronic means, receipt of which shall be confirmed, or delivered as follows:

- (i) If to the Corporation:

Stanford Hospital and Clinics
300 Pasteur Drive
M/C 5554
Stanford, California 94305
Attention: Treasurer
Telephone: (650) 725-3917
Telecopy: (650) 725-1272

- (ii) If to the Trustee or the Dissemination Agent:

Wells Fargo Bank, National Association
333 Market Street, 18th Floor
MAC#: A0119-181
San Francisco, California 94105
Attention: Corporate Trust Services
Telephone: (415) 371-3357
Telecopy: (415) 371-3400

(iii) If to the Authority:

California Health Facilities Financing Authority
915 Capitol Mall, Room 590
Sacramento, California 95814
Attention: Executive Director
Telephone: (916) 653-2799
Telecopy: (916) 654-5362

The Corporation, the Trustee, the Dissemination Agent and the Authority may, by written notice hereunder, designate any further or different address to which subsequent notices, certificates or other communications shall be sent.

SECTION 14. Format for Filings. Any notice, report or filing with the Repository pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository. Until otherwise designated by the Repository or the SEC, filings with the Repository are to be made through the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board, currently located at [http://emma.msrb/org](http://emma.msrb.org).

SECTION 15. Governing Law. This Disclosure Agreement shall be construed in accordance with and governed by the Constitution and laws of the State of California applicable to contracts made and performed in the State of California.

SECTION 16. **Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Stanford Hospital and Clinics

By: _____
Chief Financial Officer

Wells Fargo Bank, National Association,
as Trustee and Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: California Health Facilities Financing Authority (the "Authority")
Name of Issue: California Health Facilities Financing Authority
Refunding Revenue Bonds (Stanford Hospital and Clinics),
2008 Series A-2, 2008 Series A-3 and 2008 Series B-2
Name of Corporation: Stanford Hospital and Clinics (the "Corporation")
Date of Issuance of Bonds: June 2, 2008

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.11 of the Indenture, dated as of June 1, 2008, between the Authority and Wells Fargo Bank, National Association, as trustee, and as required by Section 5.16 of the Loan Agreement, dated as of June 1, 2008, between the Authority and the Corporation. [The Corporation anticipates that the Annual Report will be filed by _____.]

Dated: _____

Wells Fargo Bank, National Association,
as trustee on behalf of Stanford Hospital and Clinics

cc: Authority
Corporation

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APPENDIX H

FORM OF AMENDED AND RESTATED MASTER INDENTURE OF TRUST

Amended and Restated Master Indenture of Trust

Between

Stanford Hospital and Clinics

and

**The Bank of New York Mellon Trust Company, N.A.,
as Master Trustee**

**Amending and Restating
Master Indenture of Trust dated as of December 1, 1990**

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Amended and Restated Master Indenture of Trust

This **Amended and Restated Master Indenture of Trust**, dated as of _____, _____, between **Stanford Hospital and Clinics**, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and **The Bank of New York Mellon Trust Company, N.A.**, a national banking association duly organized and existing under the laws of the United States of America and being qualified to accept and administer the trusts hereby created, as master trustee, amends and restates the Master Indenture of Trust, dated as of December 1, 1990 (as supplemented and amended to the date hereof, the "Existing Master Indenture"), between the Corporation and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company predecessor master trustee to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as master trustee;

W I T N E S S E T H:

WHEREAS, in order to provide for the issuance from time to time of obligations to provide for the financing or refinancing of the acquisition, construction, equipping or improvement of health care or other facilities, or for other lawful and proper corporate purposes, the Corporation entered into the Existing Master Indenture;

WHEREAS, in accordance with Section 6.02 of the Existing Master Indenture, the holders of not less than a majority in aggregate principal amount of obligations outstanding shall have the right to consent to and approve the execution by the Corporation, acting as obligated group representative (the Corporation acting in such capacity being hereinafter referred to as the "Obligated Group Representative") of such Related Supplements (as such term is defined in the Existing Master Indenture) as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Existing Master Indenture, subject to such exceptions as are set forth in Section 6.02 of the Existing Master Indenture;

WHEREAS, in order to provide for changes to reflect current market standards, the Corporation, acting as Obligated Group Representative, has caused this Amended and Restated Master Indenture of Trust to be prepared;

WHEREAS, this Amended and Restated Master Indenture of Trust amends and restates the Existing Master Indenture in its entirety;

WHEREAS, this Amended and Restated Master Indenture of Trust constitutes a Related Supplement as such term is defined in the Existing Master Indenture;

WHEREAS, as required pursuant to Section 6.02 of the Existing Master Indenture, the Corporation has secured the consent of the holders of not less than a majority in aggregate principal amount of obligations outstanding to amendment and restatement of the Existing Master Indenture as set forth in this Amended and Restated Master Indenture of Trust;

WHEREAS, the Corporation hereby certifies that: (i) all acts and things necessary to constitute this Amended and Restated Master Indenture of Trust a valid indenture and agreement according to its terms having been done and performed; (ii) the Corporation has duly authorized the execution and delivery of this Amended and Restated Master Indenture of Trust; and (iii) the Corporation proposes to enter into supplements hereto with The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee") to provide for the issuance from time to time of obligations to be secured

hereunder to provide for the financing or refinancing of the acquisition, construction, equipping or improvement of health care or other facilities, or for other lawful and proper corporate purposes; and

WHEREAS, the Master Trustee agrees to accept and administer the trusts created hereby;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby created, and of the giving of consideration for and acceptance of the obligations issued under the Existing Master Indenture, as amended and restated by this Amended and Restated Master Indenture of Trust, by the holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which obligations are to be issued, authenticated, delivered and accepted by all persons who shall from time to time be or become holders thereof, the Corporation covenants and agrees with the Master Trustee for the equal and proportionate benefit of the respective holders from time to time of obligations issued under the Existing Master Indenture, as amended and restated by this Amended and Restated Master Indenture of Trust, as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Amended and Restated Master Indenture of Trust (as more fully defined in Section 1.01 hereof, this "Master Indenture") and of any Related Supplement issued hereafter and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, equally applicable to both singular and plural forms of any of the terms herein defined.

Accountant means any independent certified public accountant or firm of independent certified public accountants selected by the Obligated Group Representative.

Account Control Agreement means an agreement providing for control of deposit accounts within the meaning of Division 9 of the California Commercial Code, including Section 9104 of the California Commercial Code, entered into by one or more Members of the Obligated Group, the Master Trustee and a Depository Bank.

Affiliated Corporation means any corporation which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, an Obligated Group Member.

Annual Debt Service means for each Fiscal Year the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Obligated Group then Outstanding (by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including purchase price coming due as a result of a mandatory or optional tender or put), less any amounts of such principal or interest to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations deposited in trust for the purpose of paying such principal or interest; provided that if a Financial Products Agreement is being entered into by any Obligated Group Member concurrently or substantially concurrently with the incurrence of Long-Term Indebtedness and with respect to such Long-Term Indebtedness or if a Financial Products Agreement has been entered into by any Obligated Group Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under a Financial Products Agreement payable in such Fiscal Year minus any Financial Product Receipts under a Financial Products Agreement receivable in such Fiscal

Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service. For purposes of computing Annual Debt Service, the principles and assumptions set forth under the definition of Maximum Annual Debt Service shall be applied.

Appraisal Institute means the global membership association of professional real estate appraisers designated by that name or any successor thereto.

Authorized Representative means with respect to each Obligated Group Member, the chair of its Governing Body, its president or chief executive officer, its chief financial officer or any other person designated as an Authorized Representative of such Obligated Group Member by a Certificate of that Obligated Group Member signed by the chair of its Governing Body, its president or chief executive officer, or its chief financial officer and filed with the Master Trustee.

Balloon Indebtedness means either (a) Long-Term Indebtedness or (b) Commercial Paper Indebtedness or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity so that such Commercial Paper Indebtedness or Short-Term Indebtedness, as applicable, and the Indebtedness intended to be used to refinance such Commercial Paper Indebtedness or Short-Term Indebtedness, as applicable, will be scheduled to be outstanding for a total of more than three hundred sixty-five (365) days as certified in an Officer's Certificate, in either case twenty-five percent (25%) or more of the original principal of which matures (or is redeemable at the option of the holder) in the same Fiscal Year, if such twenty-five percent (25%) or more is not to be amortized below twenty-five percent (25%) by mandatory redemption prior to such Fiscal Year.

Book Value means, when used in connection with Property, Plant and Equipment or other Property of any Obligated Group Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such Obligated Group Member and in conformity with GAAP, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of each Obligated Group Member determined in such a way that no portion of such value of Property of any Obligated Group Member is included more than once.

Certificate, Statement, Request, Consent or Order of any Obligated Group Member or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Obligated Group Member by an Authorized Representative or in the name of the Master Trustee by a Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or certificate and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.04 hereof, each such instrument shall include the statements provided for in Section 1.04.

Collateral means all of the following whether now existing or hereafter created or acquired (a) all Gross Revenues, (b) all accounts comprising the Gross Revenue Fund, (c) all accounts and accounts receivable, including health-care-insurance receivables and (d) all proceeds of any of the foregoing. The terms "accounts" and "health-care-insurance receivables" are used herein with meanings as defined in the California Commercial Code Division 9. Notwithstanding the foregoing, "Collateral" shall not include Restricted Assets.

Completion Indebtedness means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions hereof, to the extent necessary to provide

a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared in connection with the related financing as certified by an Officer's Certificate.

Commercial Paper Indebtedness means Indebtedness with a maturity not in excess of two hundred seventy (270) days), the proceeds of which are to be used: (i) to provide interim financing for capital improvements, (ii) to support current operations or (iii) for other corporate purposes. Commercial Paper Indebtedness shall not constitute Short-Term Indebtedness for any purpose under this Master Indenture.

Corporate Trust Office means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date hereof is located at 700 South Flower Street, Suite 500, Los Angeles, California 90017, or at such other or additional offices as shall be specified by the Master Trustee in a writing delivered to the Obligated Group Representative.

Corporation means Stanford Hospital and Clinics, a nonprofit corporation duly organized and existing under the laws of the State of California, and its successors.

Debt Service Coverage Ratio means, for any Fiscal Year, the ratio determined by dividing Income Available for Debt Service for such Fiscal Year by Maximum Annual Debt Service.

Default means an event that, with the passage of time or the giving of notice or both, would become an Event of Default.

Depository Bank means a financial institution which has entered into an Account Control Agreement with one or more Obligated Group Members and the Master Trustee.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

Event of Default means any of the events specified in Section 4.01 hereof.

Excluded Property means the property described on Exhibit D hereto.

Existing Financial Products Agreements means the Financial Products Agreements listed on Exhibit A attached hereto.

Existing Master Indenture shall have the meaning assigned thereto in the recitals hereof.

Existing Parity Financial Product Extraordinary Payments means the Parity Financial Product Extraordinary Payments listed on Exhibit C attached hereto.

Existing Obligations means the Obligations listed on Exhibit B attached hereto.

Fair Market Value, when used in connection with Property, means the fair market value of such Property as determined by either:

(1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a member of the Appraisal Institute and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by an

Independent Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer's Certificate delivered to the Master Trustee;

(2) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate; or

(3) an officer of the Obligated Group Representative (whose determination shall be made in good faith and set forth in an Officer's Certificate filed with the Master Trustee) if the fair market value of such Property is less than or equal to the greater of \$5,000,000 or 2.5% of cash and equivalents as shown on the most recent Financial Statements.

Financial Products Agreement means any interest rate exchange agreement, hedge or similar arrangement, including, without limitation, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis, identified to the Master Trustee in an Officer's Certificate of the Obligated Group Representative as having been entered into by an Obligated Group Member with a Qualified Provider: (a) with respect to Indebtedness (which is either then-Outstanding or to be incurred after the date of such Certificate) identified in such Certificate for the purpose of (1) reducing or otherwise managing the Obligated Group Member's risk of interest rate changes or (2) effectively converting the Obligated Group Member's interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure; or (b) for any other interest rate, investment, asset or liability management purpose.

Financial Product Extraordinary Payments means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated Group Member under a Financial Product Agreement, which payments are not Financial Product Payments.

Financial Product Extraordinary Receipts means any payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to an Obligated Group Member by a counterparty under a Financial Product Agreement, which payments are not Financial Product Receipts.

Financial Product Payments means regularly scheduled payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Products Agreement.

Financial Product Receipts means regularly scheduled payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Products Agreement.

Financial Statements means financial statements complying with the provisions set forth in Section 3.11(b)(1).

Fiscal Year means the period beginning on September 1 of each year and ending on the next succeeding August 31, or any other twelve-month period hereafter designated by the Obligated Group Representative as the fiscal year of the Obligated Group.

GAAP means accounting principles generally accepted in the United States of America, consistently applied.

Governing Body means, when used with respect to any Obligated Group Member, its board of directors, board of trustees or other board or group of individuals in which all of the powers of such Obligated Group Member are vested, except for those powers reserved to the corporate membership of such Obligated Group Member by the articles of incorporation or bylaws of such Obligated Group Member.

Government Issuer means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds hereunder.

Government Obligations means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest rating categories of a Rating Agency (without regard to any gradation of such rating category); (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

Gross Revenues means all revenues, income, receipts and money now existing or hereafter received by each Obligated Group Member, including: (a) gross revenues collected from its operations and possession of and pertaining to its properties; (b) gifts, grants, bequests, donations and contributions; (c) proceeds derived from (i) condemnation, (ii) insurance, (iii) accounts and accounts receivable, including health-care-insurance receivables, (iv) payment intangibles, (v) inventory and other tangible and intangible property, (vi) medical reimbursement programs and agreements, (vii) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Obligated Group Member; and (d) rentals received from the lease of real estate. The terms "accounts," "health-care-insurance receivables," "payment intangibles," and "inventory" as used herein shall have the meanings ascribed to such terms in the California Commercial Code Divisions 8 and 9. Notwithstanding the foregoing, "Gross Revenues" shall not include Restricted Assets.

Gross Revenue Fund means the fund by that name established pursuant to Section 3.06 of this Master Indenture.

Guaranty means all loan commitments and all obligations of any Obligated Group Member guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person, which would, if such other Person were an Obligated Group Member, constitute Indebtedness.

Holder means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

Immaterial Affiliates means Persons that are not Members of the Obligated Group and whose combined total revenues (calculated as if such Persons were Members of the Obligated Group), as shown on their financial statements for their most recently completed fiscal year, were less than ten percent (10%) of the Total Revenues of the Obligated Group (including the Total Revenues of such Persons) as shown on the Financial Statements for the most recently completed Fiscal Year of the Obligated Group.

Income Available for Debt Service means, unless the context provides otherwise, as to any period of time, net income, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, and interest expense, as determined in accordance with GAAP and as shown on the Financial Statements; provided, that no determination thereof shall take into account:

- (a) any revenue or expense of a Person which is not a Member of the Obligated Group;
- (b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;
- (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;
- (d) any gain or loss resulting from the extinguishment of Indebtedness;
- (e) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business;
- (f) any gain or loss resulting from any discontinued operations;
- (g) any gain or loss resulting from pension terminations, settlements or curtailments;
- (h) any unusual charges for employee severance;
- (i) adjustments to the value of assets or liabilities resulting from changes in GAAP;
- (j) unrealized gains or losses on investments, including "other than temporary" declines in Book Value;
- (k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract, including, without limitation, any Financial Products Agreement;
- (l) any Financial Product Extraordinary Payments, Financial Product Extraordinary Receipts, or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Products Agreement;
- (m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets;
- (n) changes in the share value of investment pools held or managed by Stanford University; or

(o) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

Indebtedness means any Guaranty (other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member) and any obligation of any Obligated Group Member (1) for repayment of borrowed money, (2) with respect to finance leases or (3) under installment sale agreements; provided, however, that if more than one Obligated Group Member shall have incurred or assumed a Guaranty of a Person other than an Obligated Group Member, or if more than one Obligated Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations under this Master Indenture, such Guaranty or obligation shall be included only one time. Financial Products Agreements and physician income guaranties shall not constitute Indebtedness.

Independent Consultant means a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Group Member (other than the agreement pursuant to which such firm is retained), (3) is not connected with any Obligated Group Member as an officer, employee, promoter, trustee, partner, director or person performing similar functions and (4) is qualified to pass upon questions relating to the financial affairs of organizations similar to the Obligated Group or facilities of the type or types operated by the Obligated Group and having the skill and experience necessary to render the particular opinion or report required by the provision hereof in which such requirement appears.

Industry Restrictions means federal, state or other applicable governmental laws or regulations, including conditions imposed specifically on the Obligated Group Members or the Obligated Group Members' facilities, or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Obligated Group Members.

Insurance Consultant means a Person or firm (which may be an insurance broker or agent of an Obligated Group Member) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Group Member (other than the agreement pursuant to which such Person or firm is retained) and (3) is not connected with any Obligated Group Member as an officer, employee, promoter, underwriter, trustee, partner, director or Person performing similar functions, and designated by the Obligated Group Representative, qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

Irrevocable Deposit means an irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be in an amount sufficient to pay all or a portion of the principal of, premium, if any, and interest on, any such Indebtedness (which would otherwise be considered Outstanding) as the same shall become due. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee or escrow agent authorized to act in such capacity.

Lease means that certain Restatement and Assignment of Lease (Hospital and Hoover Pavilion), dated November 1, 1997, as amended by Amendment of Lease, dated March 31, 2000, among Stanford University, as lessor, the Corporation, as lessee, and UCSF Stanford Health Care, as assignee, which amended and restated that certain Lease and License Agreement, dated as of April 20, 1984, between Stanford University, as lessor, and the Corporation, as lessee.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, including Gross Revenues, of an Obligated Group Member (i) which secures any Indebtedness or any other obligation of such Obligated Group Member or (ii) which secures any obligation of any Person other than an Obligated Group Member, and excluding liens applicable to Property in which an Obligated Group Member has only a leasehold interest, unless the lien secures Indebtedness of that Obligated Group Member.

Long-Term Indebtedness means Indebtedness other than Short-Term Indebtedness.

Master Indenture means this Amended and Restated Master Indenture of Trust, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms hereof.

Master Trustee means The Bank of New York Mellon Trust Company, N.A., a national banking association organized under the laws of the United States of America, and, subject to the limitations contained in Section 5.07, any other corporation or association that may be co-trustee with the Master Trustee, and any successor or successors to said trustee or co-trustee in the trusts created hereunder.

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however that for the purposes of computing Maximum Annual Debt Service:

(a) with respect to a Guaranty, there shall be included in the calculation of Annual Debt Service a percentage of the Annual Debt Service (calculated as if such Person were a Obligated Group Member) guaranteed by the Obligated Group Members under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose indebtedness is guaranteed by the Obligated Group Member (calculated as if such Person were a Obligated Group Member), over the Maximum Annual Debt Service of such Person (calculated as if such Person were a Obligated Group Member) (such ratio being hereinafter referred to as the "Ratio"). If the Ratio is greater than 2.00, no Annual Debt Service on the indebtedness guaranteed shall be included in the calculation of Annual Debt Service. If the Ratio is equal to or less than 2.0, twenty percent (20%) of Annual Debt Service on the indebtedness guaranteed shall be included in the calculation of Annual Debt Service; provided however, that if the indebtedness guaranteed shall be in default, one hundred percent (100%) of such indebtedness shall be included in the calculation of Annual Debt Service until such time as either the default is cured, the indebtedness guaranteed is repaid or the Guaranty is terminated.

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments or Financial Product Receipts are determined pursuant to a variable rate formula), the interest rate on such Long-Term Indebtedness (or the variable rate formula for such Financial Product Payments or Financial Product Receipts) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness (or Financial Products Agreement) was Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect for such period, and (ii) if such Long-Term Indebtedness (or Financial Products Agreement) was not Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, at the election of the Obligated Group Representative, either (x) an average of the SIFMA Swap Index during the twelve (12) calendar months immediately preceding the date of calculation or (y) an average of the interest rates per annum which would have been in effect for any twelve (12) consecutive calendar months during the eighteen (18) calendar months immediately preceding the date of calculation, as specified in a Certificate of the Obligated Group Representative or, at the sole option of the Obligated Group Representative, such

interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative.

(c) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then-current Fiscal Year from sources other than proceeds of such Long-Term Indebtedness held by a trustee or escrow agent for such purpose (excluding any funds held on deposit in a debt service reserve fund established in connection with such Long-Term Indebtedness);

(d) with respect to Balloon Indebtedness, such Balloon Indebtedness shall be treated, at the sole option of the Obligated Group Representative, as Long-Term Indebtedness bearing interest at an interest rate equal to either (i) a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in *The Bond Buyer* prior to the date of calculation or (ii) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative, and (x) with substantially level debt service over a period of up to thirty (30) years (which period shall be designated by the Obligated Group Representative) from the date of calculation, or (y) with the debt service being interest only for a designated period of years and then substantially level debt service over a designated period of years (each of which periods shall be designated by the Obligated Group Representative), provided that such periods shall not aggregate in excess of thirty (30) years (by way of example, Annual Debt Service on Balloon Indebtedness could be designated by the Obligated Group Representative to be treated as interest only for twenty-five (25) years and as level payments of principal and interest for the next five (5) years); and

(e) debt service on Commercial Paper Indebtedness shall be treated in the same manner as interest on Long-Term Indebtedness payable pursuant to a variable interest rate formula as provided in clause (b) above.

Member means an Obligated Group Member.

Merger Transaction has the meaning set forth in Section 3.10.

Nonrecourse Indebtedness means any Indebtedness which is not a general obligation and which is secured by a Lien on Property, Plant and Equipment acquired or constructed with the proceeds of such Indebtedness, liability for which is effectively limited to the Property, Plant and Equipment subject to such Lien, with no recourse, directly or indirectly, to any other Property of any Obligated Group Member or to any Obligated Group Member.

Obligated Group means all Obligated Group Members.

Obligated Group Member means the Corporation and each other Person which is obligated hereunder to the extent and in accordance with the provisions of Sections 3.05 and 3.12 hereof, from and after the date upon which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of Section 3.13 hereof, from and after the date of such withdrawal.

Obligated Group Representative means the Corporation or such other Obligated Group Member (or Obligated Group Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by the Corporation.

Obligation means each of the Existing Obligations and any obligation of the Obligated Group issued pursuant to Section 2.02 hereunder, as a joint and several obligation of each Obligated Group Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Products Agreements or leases. Reference to a Series of Obligations or to Obligations of a Series means Obligations or a Series of Obligations issued pursuant to a single Related Supplement.

Officer's Certificate means a certificate signed by an Authorized Representative of the Obligated Group Representative.

Opinion of Bond Counsel means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

Opinion of Counsel means a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel for the Obligated Group Representative.

Outstanding, when used with reference to Indebtedness or Obligations, means, as of any date of determination, all Indebtedness or Obligations theretofore issued or incurred and not paid and discharged other than (1) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation or otherwise deemed paid in accordance with the terms hereof, including, without limitation, Obligations securing Related Bonds which have been defeased pursuant to their terms, (2) Obligations in lieu of which other Obligations have been authenticated and delivered or which have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (3) any Obligation held by any Obligated Group Member, (4) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof, and (5) Indebtedness for which there has been an Irrevocable Deposit, but only to the extent that payment of debt service on such Indebtedness is payable from such Irrevocable Deposit; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of calculating compliance with the various financial covenants contained herein, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation which produces the greatest amount of Annual Debt Service to be included in the calculation of such covenants.

Parity Financial Product Extraordinary Payments means Existing Parity Financial Product Extraordinary Payments and Financial Product Extraordinary Payments that: (i) are with respect to a Financial Products Agreement secured or evidenced by an Obligation; and (ii) have been specified to be payable on a parity with Financial Product Payments in the Related Supplement authorizing the issuance of such Obligation.

Permitted Liens means and includes:

(a) Any judgment lien or notice of pending action against any Obligated Group Member so long as the judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A)

terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due and payable or which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days or for which a bond has been furnished; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the Value thereof; and (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the Value thereof;

(c) Any Lien in favor of the Master Trustee securing all Outstanding Obligations equally and ratably;

(d) Liens arising by reason of good faith deposits with any Obligated Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Obligated Group Member to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(e) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;

(f) Any Lien arising by reason of any escrow or reserve fund established to pay debt service with respect to Indebtedness;

(g) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(h) Liens on moneys deposited by patients or others with any Obligated Group Member as security for or as prepayment for the cost of patient care;

(i) Liens on Property received by any Obligated Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon, up to the Fair Market Value of such Property;

(j) Rights of the United States of America, including, without limitation, the Federal Emergency Management Agency ("FEMA"), or the State of California, including without limitation the California Emergency Management Agency, by reason of FEMA and other federal and State of California funds made available to any Member of the Obligated Group under federal or State of California statutes;

(k) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that the aggregate principal amount of such new Indebtedness does not exceed the aggregate principal amount of such refinanced Indebtedness;

(l) Liens granted by an Obligated Group Member to another Obligated Group Member;

(m) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions hereof;

(n) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases;

(o) Liens on the Obligated Group Members' accounts receivable, provided that at the time of creation of such Lien, the Indebtedness secured by any such Lien shall not exceed thirty percent (30%) of the Obligated Group Members' net accounts receivable as shown on the most recent Financial Statements available at the time of incurrence of the Indebtedness to be secured by such Lien, and provided further that no more than thirty percent (30%) of the Obligated Group Members' net accounts receivable can be utilized for such securitization;

(p) Liens on revenues constituting rentals in connection with any other Lien permitted hereunder on the Property from which such rentals are derived;

(q) The lease or license of the use of a part of an Obligated Group Member's facilities for use in performing professional or other services necessary for the proper and economical operation of such facilities in accordance with customary business practices in the industry;

(r) Liens on Property due to rights of third party payors for recoupment of excess reimbursement amounts paid to any Obligated Group Member;

(s) Liens on real property constituting Property not necessary for the delivery of patient care by any Obligated Group Member;

(t) Liens securing the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title agreement;

(u) Liens in favor of banking or other depository institutions arising as a matter of law encumbering the deposits of any Obligated Group Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers' liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers' lien;

(v) Rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Obligated Group Member so long as the lease arrangement is in the ordinary course of business of such Obligated Group Member;

(w) Deposits of Property by any Obligated Group Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by ERISA;

(x) Deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease (other than a lease that is

treated as Indebtedness under GAAP), and other similar obligations incurred in the ordinary course of business of an Obligated Group Member;

(y) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of an Obligated Group Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(z) Present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Obligated Group Member which, in the aggregate, are not substantial in amount, and which do not in any case materially impair the Fair Market Value or use of such Property, Plant and Equipment for the purposes for which it is used or could reasonably be expected to be held or used;

(aa) Liens junior to Liens in favor of the Master Trustee;

(bb) Liens created on amounts deposited by an Obligated Group Member pursuant to a security annex or similar document to collateralize obligations of such Obligated Group Member under a Financial Products Agreement;

(cc) Liens or encumbrances contemplated by or created in connection with or arising out of the Lease; and

(dd) Any other Lien on Property, provided that at the time of creation of such Lien the Value of all Property encumbered by all Liens permitted as described in this clause (dd) does not exceed twenty-five percent (25%) of the total Value of all Property of the Obligated Group Members as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year available at the time of creation of such Lien.

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

Property means any and all rights, titles and interests in and to any and all assets of any Obligated Group Member, whether real or personal, tangible or intangible and wherever situated.

Property, Plant and Equipment means all Property of any Obligated Group Member which is considered property, plant and equipment of such Obligated Group Member under GAAP.

Qualified Provider means any financial institution or insurance company or corporation which is a party to a Financial Products Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Products Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary) are rated in one of the three highest rating categories of a Rating Agency (without regard to any gradation or such rating category) at the time of the execution and delivery of the Financial Products Agreement.

Rating Agency means Fitch Inc., Moody's Investors Service, Inc., Standard & Poor's, a division of The McGraw-Hill Companies, and any other national rating agency then rating Obligations or Related Bonds.

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

Related Bonds means the revenue bonds or other obligations (including, without limitation, certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to an Obligated Group Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

Related Bond Indenture means any indenture, bond resolution, trust agreement, or other comparable instrument pursuant to which a series of Related Bonds are issued.

Related Bond Issuer means the Government Issuer of any issue of Related Bonds.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

Related Supplement means an indenture supplemental to, and authorized and executed pursuant to the terms of, this Master Indenture.

Required Payment means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including without limitation, Financial Product Payments, Financial Product Extraordinary Payments, required to be made by any Obligated Group Member under this Master Indenture, any Related Supplement or any Obligation.

Responsible Officer means, with respect to the Master Trustee, the president, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, any senior associate, any associate or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject.

Restricted Assets means any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or the payment of operating expenses.

Short-Term Indebtedness means all (i) Indebtedness having an original maturity less than or equal to one year and not renewable at the option of an Obligated Group Member for a term greater than one year from the date of original incurrence or issuance or (ii) Indebtedness with a maturity or renewable at the option of a Obligated Group Member with a term greater than one year, if by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year. For purposes of this definition, (i) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness hereunder and (ii) classification of Indebtedness as current or short-term under GAAP shall not be controlling. Commercial Paper Indebtedness shall not constitute Short-Term Indebtedness for any purpose under this Master Indenture.

SIFMA Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available SIFMA Swap Index shall refer to an index

selected by the Obligated Group Representative, with the advice of an investment banking or financial services firm knowledgeable in health care matters.

Stanford University means The Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State of California.

Subordinate Financial Product Extraordinary Payment means any Financial Product Extraordinary Payment other than a Parity Financial Product Extraordinary Payment.

Subordinated Indebtedness means Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Obligated Group Members under this Master Indenture.

Surviving Entity has the meaning set forth in Section 3.10.

Total Revenues means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, capitation or premium revenue and other revenue) and nonoperating gains (losses), as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year.

Transaction Test means with respect to any specified transaction, that: (i) no Event of Default or Default then exists; and (ii) following such transaction, the Obligated Group could satisfy the conditions for the issuance of \$1.00 of additional Long-Term Indebtedness set forth in Section 3.05(a)(1), (a)(2) or (a)(3), assuming that such transaction occurred at the start of the most recent Fiscal Year and taking into account any other transaction entered into within the then current Fiscal Year.

UCC means the Uniform Commercial Code of the State of California, as amended from time to time.

Value, when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Obligated Group Representative, at either its Fair Market Value or its Book Value.

Section 1.02. Interpretation.

(a) Any reference herein to any officer of an Obligated Group Member shall include those succeeding to the functions, duties or responsibilities of such officer pursuant to or by operation of law or who are lawfully performing the functions of such officer.

(b) Unless the context otherwise indicates, words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. The singular shall include the plural and vice versa.

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

Section 1.03. References to Master Indenture. The terms "hereby," "hereof," "hereto," "herein," "hereunder," and any similar terms, used in this Master Indenture refer to this Master Indenture.

Section 1.04. Contents of Certificates; Use of GAAP.

(a) Every Certificate provided for herein with respect to compliance with any provision hereof shall include: (a) a statement that the Person making or giving such certificate has read such provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate is based; (c) a statement that, in the opinion of such Person, such Person has made, or caused to be made, such examination or investigation as is necessary to enable such Person to provide the certificate with respect to the subject matter referred to in the instrument to which such Person's signature is affixed; and (d) a statement as to whether, in the opinion of such Person, such provision has been satisfied.

(b) Any such Certificate made or given by an officer of an Obligated Group Member or the Master Trustee may be based, insofar as it relates to legal, accounting or health care matters, upon a Certificate or opinion or representation of counsel, an Accountant or Independent Consultant unless such officer knows, or in the exercise of reasonable care should have known, that the Certificate, opinion or representation with respect to the matters upon which such Certificate or opinion may be based, as aforesaid, is erroneous. Any such Certificate, opinion or representation made or given by counsel, an Accountant or an Independent Consultant, may be based, insofar as it relates to factual matters (with respect to which information is in the possession of any Obligated Group Member) upon the Certificate or opinion of, or representation by an officer of any Obligated Group Member unless such counsel, Accountant or Independent Consultant knows, or in the exercise or reasonable care should have known, that the Certificate, opinion of or representation by such officer, with respect to the factual matters upon which such Person's Certificate or opinion may be based, is erroneous. The same officer of any Obligated Group Member or the same counsel or Accountant or Independent Consultant, as the case may be, need not certify as to all the matters required to be certified under any provision hereof, but different officers, counsel, Accountants or Independent Consultants may certify as to different matters.

(c) Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of this Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, such determination or computation shall be done in accordance with GAAP in effect on, at the sole option of the Obligated Group Representative, (i) the date such determination or computation is made for any purpose of this Master Indenture or (ii) the date of execution and delivery of this Master Indenture if the Obligated Group Representative delivers an Officer's Certificate to the Master Trustee describing why then current GAAP is inconsistent with the intent of the parties on the date of execution and delivery of this Master Indenture; provided (i) that intercompany balances and liabilities among the Obligated Group Members shall be disregarded and (ii) that the requirements set forth herein shall prevail if inconsistent with GAAP.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF OBLIGATIONS

Section 2.01. Authorization of Obligations. Each Obligated Group Member hereby authorizes to be issued from time to time Obligations or Series of Obligations, without limitation as to amount, except as provided herein or as may be limited by law, and subject to the terms, conditions and limitations established herein and in any Related Supplement.

Section 2.02. Issuance of Obligations. From time to time when authorized by this Master Indenture and subject to the terms, limitations and conditions established in this Master Indenture or in a Related Supplement, the Obligated Group Representative may authorize the issuance of an Obligation or

a Series of Obligations by entering into a Related Supplement. The Obligation or the Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions hereof and of any Related Supplement.

Each Related Supplement authorizing the issuance of an Obligation or a Series of Obligations shall specify the purposes for which such Obligation or Series of Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Obligations; the date or dates of maturity or other final expiration of the term of such Obligations, if applicable; the date of issuance of such Obligations; and any other provisions deemed advisable or necessary by the Obligated Group Representative. Each Related Supplement authorizing the issuance of an Obligation shall also specify and determine the principal amount of such Obligation (if any) for purposes of calculating the percentage of Holders of Obligations required to take actions or give consents pursuant to this Master Indenture, which, if such Obligation does not evidence or secure Indebtedness, shall be equal to zero, except as is otherwise provided in Section 6.02(a). The designation of zero as a principal amount of an Obligation shall not in any manner affect the obligation of the Members to make Required Payments with respect to such Obligation.

Section 2.03. Appointment of Obligated Group Representative. Each Obligated Group Member, by becoming an Obligated Group Member, irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants full power to the Obligated Group Representative to (a) execute Related Supplements authorizing the issuance of Obligations or Series of Obligations and (b) issue Obligations.

Section 2.04. Execution and Authentication of Obligations.

(a) All Obligations shall be executed by an Authorized Representative of the Obligated Group Representative for and on behalf of the Obligated Group as provided in the Related Supplement authorizing such Obligation. The signature of such Authorized Representative may be mechanically or photographically reproduced on the Obligations. If any Authorized Representative whose signature appears on any Obligation ceases to be such Authorized Representative before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such Authorized Representative had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized signatory of the Master Trustee, and no Obligation shall be entitled to the benefits hereof without such authentication.

(b) The form of Certificate of Authentication to be printed on each Obligation and manually executed by an authorized signatory of the Master Trustee shall be as follows:

[FORM OF MASTER TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

The undersigned Master Trustee hereby certifies that this Obligation No. ____ is one of the Obligations described in the within mentioned Master Indenture.

Dated: _____

[Name of Master Trustee]

By _____
Authorized Signatory

Section 2.05. Conditions to the Issuance of Obligations. The issuance, authentication and delivery of any Obligation or Series of Obligations shall be subject to the following specific conditions:

(a) The Obligated Group Representative and the Master Trustee shall have entered into a Related Supplement providing for the terms and conditions of such Obligations and the repayment thereof; and

(b) The Master Trustee receives an Officer's Certificate to the effect that:

(1) each Obligated Group Member is in full compliance with all warranties, covenants and agreements set forth in this Master Indenture and in any Related Supplement; and

(2) neither an Event of Default nor any Default has occurred and is continuing or would occur upon issuance of such Obligations under this Master Indenture or any Related Supplement; and

(3) all requirements and conditions, if any, to the issuance of such Obligations set forth in the Related Supplement have been satisfied; and

(c) The Master Trustee receives an Opinion of Counsel to the effect that: (i) such Obligations and Related Supplement have been duly authorized, executed and delivered by the Obligated Group Representative on behalf of the Obligated Group and constitute valid and binding obligations of the Obligated Group, enforceable in accordance with their terms; and (ii) such Obligations are not subject to registration under federal or state securities laws and such Related Supplement is not subject to registration under the Trust Indenture Act of 1939, as amended (or that such registration, if required has occurred); and

(d) The Obligated Group Representative shall have delivered or caused to be delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee may reasonably request; and

(e) With respect to any Obligation or Obligations (other than Existing Obligations), if such Obligation constitutes or secures Indebtedness, the requirements of Section 3.05 are satisfied, as evidenced by an Officer's Certificate delivered to the Master Trustee.

ARTICLE III

PAYMENTS; OBLIGATED GROUP COVENANTS

Section 3.01. Payment of Required Payments. Each Obligated Group Member jointly and severally covenants, to pay or cause to be paid promptly, all Required Payments at the place, on the dates and in the manner provided herein, or in any Related Supplement or Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Obligations hereunder. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of this Master Indenture, any Related Supplement and any Obligation.

The obligation of each Obligated Group Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(a) the granting of any extension, waiver or other concession given to any Obligated Group Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by this Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation; or

(b) the liability of any other Obligated Group Member under this Master Indenture ceasing for any cause whatsoever, including the release of any other Obligated Group Member pursuant to the provisions of this Master Indenture or any Related Supplement; or

(c) any Obligated Group Member's failing to become liable as, or losing eligibility to become, an Obligated Group Member with respect to an Obligation.

Subject to the provisions of Section 3.13 hereof permitting withdrawal from the Obligated Group, the obligation of each Obligated Group Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid or deemed paid in full in accordance with Article VII hereof. All moneys from time to time received by the Obligated Group Representative or the Master Trustee to reduce liability on Obligations, whether from or on account of the Obligated Group Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Obligated Group Members to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations has been paid or satisfied and so that in the event of any such Obligated Group Member's filing bankruptcy, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Obligations Outstanding as to which the liability of such Obligated Group Member has become fixed.

Each Obligation shall be a primary obligation of the Obligated Group Members and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Obligated Group Member hereunder shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement of each Obligated Group Member hereunder and to enforce the making of Required Payments. Each Obligated Group Member hereby authorizes each of the Obligated Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant or agreement of the Obligated Group Members hereunder and to make any arrangement or compromise with any Obligated Group Member or Obligated Group Members as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with this Master Indenture and any Related Supplement. Each Obligated Group Member hereby waives in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Obligated Group Member, insofar as is necessary to give effect to any of the provisions of this Section.

Section 3.02. Maintenance of Properties; Payment of Indebtedness. Each Obligated Group Member hereby covenants to:

(a) maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Obligated Group Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof;

(b) maintain and operate its Property, Plant and Equipment in reasonably good working condition, and from time to time make or cause to be made all needful and proper replacements, repairs and improvements so that the operations of such Obligated Group Member will not be materially impaired;

(c) pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become Liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made in due time to prevent any delinquency thereon or any forfeiture or sale of any part of the Property, Plant and Equipment, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Obligated Group Member shall be required to pay any tax, assessment, rate or charge as long as it shall in good faith contest the validity thereof as set out in the definition of Permitted Liens;

(d) pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than obligations, Indebtedness, demands or claims (exclusive of the Obligations issued and Outstanding hereunder) the validity, amount or collectibility of which is being contested in good faith;

(e) at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness noncompliance with which would have a material adverse effect on the operations of the Obligated Group or its Property;

(f) use its best efforts to maintain (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) all permits, licenses and other governmental approvals necessary for the operation of its Property; and

(g) take no action or suffer any action to be taken by others which would result in the interest on any Related Bond issued as a tax exempt obligation becoming subject to federal income taxation.

Nothing in this Section 3.02 shall be construed to require an Obligated Group Member to maintain any permit, license or other governmental approval, or to continue to operate or maintain any Property, Plant or Equipment, if, in the reasonable good faith judgment of the Obligated Group Member, such permit, license, governmental approval or Property, Plant or Equipment is, or within the next succeeding twelve (12) calendar months is reasonably expected to become, inadequate, obsolete, unsuitable, undesirable or unnecessary for the business of the Obligated Group and failure to maintain or operate such permit, license, governmental approval or Property, Plant or Equipment will not materially adversely impair the operation of the Obligated Group.

Section 3.03. Insurance Required.

(a) Each Obligated Group Member, respectively, covenants and agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles and alternative risk management programs and self-insurance, and against such risks as are customarily insured against by other health care institutions in connection with the ownership and operation of health facilities of similar character and size in the State of California.

(b) The Obligated Group Representative shall employ an Insurance Consultant at least once every two years to review the insurance requirements (including alternative risk management programs and self-insurance) of the Members. If the Insurance Consultant makes recommendations for a change in

the insurance coverage required by subsection (a), the Obligated Group Members shall change such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are not in the best interests of the Obligated Group Members or that such coverage is not obtainable at commercially reasonable rates. In lieu of maintaining insurance coverage which the Governing Body of the Obligated Group Representative deems necessary, the Obligated Group Members shall have the right to adopt alternative risk management programs which the Governing Body of the Obligated Group Representative determines to be reasonable and which shall not have a material adverse impact on reimbursement from third-party payers, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant.

(c) Notwithstanding anything in this Section to the contrary, the Obligated Group Members shall have the right, without giving rise to an Event of Default hereunder solely on such account, (1) to maintain insurance coverage below that required by subsection (a) of this Section, if the Obligated Group Representative furnishes to the Master Trustee a certificate of the Insurance Consultant that the insurance so provided accords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (2) to adopt alternative risk management and self-insurance programs described in (b) above.

Section 3.04. Against Encumbrances. Each Obligated Group Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group, except for Permitted Liens. Each Obligated Group Member, respectively, further covenants and agrees that if such a Lien (other than a Permitted Lien) is nonetheless created by someone other than an Obligated Group Member and is assumed by any Obligated Group Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

Section 3.05. Limitation on Indebtedness. Each Obligated Group Member covenants that it will not incur any Indebtedness, except that the Obligated Group Members may incur Indebtedness by complying with any of the following provisions:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(1) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.2:1.0;

(2) (i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available was not less than 1.2:1.0 and (ii) the Debt Service Coverage Ratio for each of the two Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the construction, acquisition or equipping of Property to be financed by such Indebtedness (or, if the proceeds of such Indebtedness are not to be used for the

construction, acquisition or equipping of Property, each of the two Fiscal Years beginning with the Fiscal Year commencing after the incurrence of such Indebtedness) with respect to all Long-Term Indebtedness projected to be Outstanding (including the additional Long-term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected by the Obligated Group Representative to be not less than 1.25:1.0. Notwithstanding the foregoing, if the Master Trustee receives a report of an Independent Consultant to the effect that Industry Restrictions prevent the Obligated Group Members from generating the required levels of Income Available for Debt Service sufficient to result in a Debt Service Coverage Ratio of not less than 1.25:1.0, the 1.25:1.0 ratio requirement described in this subsection (a)(3)(ii) shall be reduced to a ratio of not less than 1.0:1.0; or

(3) any other Long-Term Indebtedness (including, without limitation, Commercial Paper Indebtedness, treating the amount of Commercial Paper Indebtedness being incurred or Outstanding, as the case may be, as the principal amount for purposes of any calculations made to demonstrate compliance with this Section 3.05) provided that the aggregate principal amount of such Long-Term Indebtedness, together with any other Long-Term Indebtedness incurred pursuant to this clause (3) and then Outstanding, does not, as of the date of incurrence, exceed ten percent (10%) of Total Revenues.

(b) Completion Indebtedness without limitation;

(c) Short-Term Indebtedness provided that either (i) the provisions described in subsection (a) above are satisfied calculated as if such Short-Term Indebtedness was Long-Term Indebtedness or (ii) the following provisions are satisfied, in either case, as evidenced by an Officer's Certificate delivered to the Master Trustee:

(1) the total amount of such Short-Term Indebtedness shall not exceed twenty percent (20%) of Total Revenues; and

(2) the total amount of such Short-Term Indebtedness and Indebtedness incurred pursuant to the provision described below in clause (g) of this Section then Outstanding shall not exceed twenty-five percent (25%) of Total Revenues; and

(3) in every Fiscal Year, there shall be at least a consecutive twenty (20) day period when the balances of such Short-Term Indebtedness is reduced to an amount which shall not exceed five percent (5%) of Total Revenues.

(d) Nonrecourse Indebtedness without limitation.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued or incurred to refund Long-Term Indebtedness and if prior to issuance or incurrence thereof there is delivered to the Master Trustee a resolution of the Governing Body of the Obligated Group Representative determining that such refunding is in the best interests of the Obligated Group, which resolution shall also state the reasons for such determination.

(f) Subordinated Indebtedness, without limitation.

(g) Any other Indebtedness, provided that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions of subsection (c) of this Section 3.05, does not, as of the date of incurrence, exceed twenty-five percent (25%) of Total Revenues.

(h) Reimbursement or other repayment obligations under reimbursement agreements or similar agreements relating to credit facilities and/or liquidity facilities which provide credit support and/or liquidity for Indebtedness.

Section 3.06. Gross Revenue Fund.

(a) Each Obligated Group Member agrees that, as long as any of the Obligations remain Outstanding, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in one or more deposit accounts designated as the "Gross Revenue Fund" which the Obligated Group Representative established and agreed to maintain pursuant to the provisions of the Existing Master Indenture, subject to the provisions of subsection (b) of this Section 3.06, at such financial institution or institutions as the Obligated Group Representative shall from time to time designate, in writing, for such purpose (each, a "Depository Bank" and herein collectively called the "Depository Bank") and which has entered into an Account Control Agreement with the Obligated Group Members and the Master Trustee. As security for the payment of Required Payments and the performance by each Obligated Group Member of its other obligations under the Master Indenture, each Obligated Group Member hereby ratifies and affirms (i) the pledge and assignment to the Master Trustee set forth in the Existing Master Indenture and (ii) the grant to the Master Trustee of a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to all Collateral, including Gross Revenues and the Gross Revenue Fund. Each of the Obligated Group Members has executed or shall execute an Account Control Agreement, has executed or shall execute and cause to be filed Uniform Commercial Code financing statements, and has executed or shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary in order to perfect or maintain the perfection of such security interest. Each Obligated Group Member hereby irrevocably authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. Each Obligated Group Member also hereby ratifies its authorization for the Master Trustee to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date hereof. Each Obligated Group Member represents and warrants that it is a nonprofit public benefit corporation organized solely under the laws of the jurisdiction of its organization and that its complete legal name is as set forth on the signature page of the Master Indenture or Related Supplement, as applicable, executed by such Obligated Group Member. Each Obligated Group Member covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives thirty (30) days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

(b) Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by each Obligated Group Member at any time for any lawful purpose, except as hereinafter provided. In the event that any Obligated Group Member is delinquent for more than one (1) Business Day in the payment of any Required Payment, the Master Trustee shall notify the Obligated Group Representative of such delinquency, and, unless such Required Payment is paid within ten (10) days after receipt of such notice, the Master Trustee shall be entitled to deliver an Order (as such term is defined in the Account Control Agreement) to the Depository Bank. Upon delivery of the Order with respect to the Gross Revenue Fund,

exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided in Section 3.06(a) and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Required Payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make Required Payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Obligations, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Obligated Group Member shall be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Obligated Group Member; provided, however, that Obligated Group Members may submit requests to the Master Trustee as to which expenses to pay and in which order. Each Obligated Group Member agrees to execute and deliver all instruments as may be required to implement this Section 3.06. Each Obligated Group Member further agrees that a failure to comply with the terms of this Section shall cause irreparable harm to the Master Trustee from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Obligated Group Representative, to take immediate action to compel the specific performance of the obligations of each of the Obligated Group Members as provided in this Section 3.06.

(c) Upon receipt of Gross Revenues, each Obligated Group Member covenants and agrees: (i) to deposit in all Gross Revenues in the Gross Revenue Fund and not in any other fund or account; (ii) that the Gross Revenue Fund will be held as a deposit at the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

Notwithstanding any other provision of this Master Indenture, the Gross Revenue Fund may consist of any number of deposit accounts provided that each such deposit account shall be established at a Depository Bank which has entered into an Account Control Agreement with the Master Trustee and one or more Obligated Group Members.

Section 3.07. Debt Coverage.

(a) Each Obligated Group Member, respectively, further covenants and agrees to manage its operations such that Income Available for Debt Service for the Obligated Group calculated at the end of each Fiscal Year will be not less than 1.10 times Maximum Annual Debt Service.

(b) Within five (5) months after the end of each Fiscal Year, the Obligated Group Representative shall compute the Debt Service Coverage Ratio for the Obligated Group for such Fiscal Year and furnish to the Master Trustee, an Officer's Certificate setting forth the results of such computation. The Obligated Group Representative covenants that if at the end of such Fiscal Year the Debt Service Coverage Ratio shall have been less than 1.1:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Obligated Group or the methods of operation of the Obligated Group to increase the Debt Service Coverage Ratio to at least 1.1:1.0 for subsequent Fiscal Years (or, if in the opinion of the Independent Consultant, the

attainment of such level is impracticable, to the highest practicable level). Copies of the recommendations of the Independent Consultant shall be filed with the Master Trustee within ninety (90) days of the retention of the Independent Consultant. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Obligated Group Representative that such recommendations are in the best interest of the Obligated Group, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If either (i) the Obligated Group complies in all material respects with the reasonable recommendations of the Independent Consultant with respect to their rates, fees, charges and methods of operation or collection or (ii) the Obligated Group Representative determines that such recommendations are not in the best interests of the Obligated Group (and accordingly will not be followed) as evidenced by an Officer's Certificate filed with the Master Trustee, the Obligated Group will be deemed to have complied with the covenants set forth in this Section for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio shall be less than 1.1:1.0; provided, however, that the Debt Service Coverage Ratio shall not be reduced to less than 1.0:1.0 for any Fiscal Year. Notwithstanding the foregoing, the Obligated Group Members shall not be excused from taking any action or performing any duty required under this Master Indenture and no other Event of Default shall be waived by the operation of the provisions of this subsection (b).

(c) If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the Debt Service Coverage Ratio of 1.1:1.0 to be met, then such ratio shall be reduced to 1.0:1.0.

(d) Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of services or the use of its Property without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant; provided, however, that the Debt Service Coverage Ratio shall not be reduced to a ratio of less than 1.0:1.0.

Section 3.08. Reserved.

Section 3.09. Limitation on Disposition of Assets.

(a) Each Obligated Group Member covenants that it will not sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than (i) such Property as is described in Exhibit D hereto (the "Excluded Property") which may be disposed of by the Obligated Group solely upon the written consent of the Obligated Group Representative; (ii) in the ordinary course of business; or (iii) as part of a disposition of all or substantially all of its assets as permitted by Section 3.10), with a Book Value in excess of ten percent (10%) of the Book Value of the Property of the Obligated Group, unless prior to said disposition:

(1) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is or shall become within the next two (2) Fiscal Years inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group Members; or

(2) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Value of the Property so disposed of by the Obligated Group Members in any Fiscal Year pursuant to the provision described in this clause (2) does not exceed five percent (5%) of the total Value of the Property of the Obligated Group; or

(3) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Person who is not an Obligated Group Member if such Person shall become a Member pursuant to Section 3.12 substantially simultaneously with such transfer; or

(4) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to another Person in connection with a sale/leaseback or lease/leaseback financing transaction relating to such Property; or

(5) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the disposition is for Fair Market Value and does not materially adversely affect the operations of the Obligated Group; or

(6) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied.

(b) Notwithstanding the foregoing, nothing shall prohibit any disposition of assets among Obligated Group Members nor shall prohibit the Obligated Group Members from: (1) making loans, including, without limitation, employee relocation loans, physician recruitment loans or other credit/funding extensions, provided that such loans or other credit/funding extensions are in writing and the Master Trustee receives an Officer's Certificate to the effect that (x) such loans are in furtherance of the exempt purposes of the Obligated Group Members or (y) the Obligated Group Members reasonably expect such loans to be repaid and such loans bear interest at a reasonable rate of interest and on commercially reasonable terms; or (2) transferring restricted gifts for the Obligated Group Members to an Affiliated Corporation which has the purpose to receive and disburse such restricted gifts.

Section 3.10. Merger, Consolidation, Sale or Conveyance. Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a "Merger Transaction") unless:

(a) After giving effect to the Merger Transaction,

(1) the successor or surviving entity (hereinafter, the "Surviving Entity") is an Obligated Group Member, or

(2) the Surviving Entity shall

(A) be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof, and

(B) become an Obligated Group Member pursuant to Section 3.12 and, pursuant to the Related Supplement required by Section 3.12(b), shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member hereunder; and

(b) The Master Trustee receives an Officer's Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction; and

(c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation; and

(d) The Master Trustee receives an Opinion of Counsel to the effect that: (i) all conditions in this Section 3.10 relating to the Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions set forth in this Section 3.10 and is liable on all Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Obligations then Outstanding and such Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms; and (iv) the Merger Transaction will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Obligations and agreements then in effect which affect or relate to any Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Entity shall be treated as though it were an Obligated Group Member as of the date of the execution of this Master Indenture and shall thereafter have the right to participate in transactions hereunder relating to Obligations to the same extent as the other Obligated Group Members. All Obligations issued hereunder on behalf of a Surviving Entity shall have the same legal rank and benefit under this Master Indenture as Obligations issued on behalf of any other Obligated Group Member.

Section 3.11. Preparation and Filing of Financial Statements, Certificates and Other Information.

(a) Each Obligated Group Member covenants that it will keep adequate records and books of accounts in which complete and correct entries shall be made (said books shall be subject to the inspection by the Master Trustee (which inspection the Master Trustee is not required to make) during regular business hours after reasonable notice and under reasonable circumstances).

(b) The Obligated Group Representative covenants that it will furnish to the Master Trustee and any Related Bond Issuer that shall request the same in writing:

(1) As soon as practicable, but in no event more than five (5) months after the last day of each Fiscal Year, one or more financial statements which, in the aggregate, shall include the Obligated Group Members. Such financial statements:

(A) may consist of (i) consolidated or combined financial results including one or more Members of the Obligated Group and one or more other Persons required to be consolidated or combined with such Member(s) of the Obligated Group under GAAP or (ii) special purpose financial statements including only Members of the Obligated Group;

(B) shall be audited by an Accountant selected by the Obligated Group Representative and shall be prepared in accordance with GAAP (except, in the case of special purpose financial statements, for required consolidations);

(C) shall include a consolidated or combined balance sheet, statement of operations and changes in net assets; and

(D) if financial statements delivered to the Master Trustee pursuant to this subsection include financial information with respect to any Person who is not an Obligated Group Member or an Immaterial Affiliate as provided pursuant to clause (3) below or do not include financial information with respect to all Obligated Group Members, then the financial statements shall contain a consolidating or combining schedule from which financial information solely relating to the Obligated Group Members and Immaterial Affiliates may be derived.

(2) At the time of the delivery of financial statements complying with the provisions of Section 3.11(b)(1) (the "Financial Statements"), a certificate of the chief financial officer of the Obligated Group Representative, stating that the Obligated Group Representative has made a review of the activities of the Obligated Group Members during the preceding Fiscal Year for the purpose of determining whether or not the Obligated Group Members have complied with all of the terms, provisions and conditions of this Master Indenture and that each Obligated Group Member has kept, observed, performed and fulfilled each and every covenant, provision and condition of this Master Indenture on its part to be performed and none of such Obligated Group Members is in default in the performance or observance of any of the terms, covenants, provisions or conditions, or if any Obligated Group Member shall be in default, such certificate shall specify all such defaults and the nature thereof.

(3) Notwithstanding the foregoing, the results of operation and financial position of Immaterial Affiliates need not be excluded from Financial Statements delivered to the Master Trustee pursuant to this Section 3.11, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Obligated Group Members for all purposes of this Master Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates.

(c) The Master Trustee shall not be obligated to review, verify, or analyze any Financial Statements delivered to the Master Trustee hereunder, and shall only retain such Financial Statements as a repository for the Holders.

Section 3.12. Membership in Obligated Group. Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of this Master Indenture;

(b) a Related Supplement executed by the Obligated Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member

(1) agrees to become an Obligated Group Member, and

(2) agrees to be bound by the terms of this Master Indenture, the Related Supplements and the Obligations, and

(3) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations, to execute and deliver Obligations and to make payments on all Obligations;

(c) an Opinion of Counsel to the effect that: (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of this Master Indenture; (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel to the effect that the addition of the proposed new Obligated Group Member will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation.

Section 3.13. Withdrawal from Obligated Group. Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of this Master Indenture, provided that prior to such withdrawal the Master Trustee receives:

(a) the written consent of the Obligated Group Representative to the withdrawal of such Obligated Group Member;

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel to the effect that: (i) the withdrawal of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (ii) the withdrawal of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Upon compliance with the conditions contained in this Section 3.13, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such Obligated Group Member's obligations hereunder, under all Related Supplements and under all Obligations.

Notwithstanding the foregoing, the Corporation may not withdraw from the Obligated Group unless prior to or concurrently with such withdrawal, the Corporation shall transfer all or substantially all of its assets to another Member of the Obligated Group.

ARTICLE IV

DEFAULTS

Section 4.01. Events of Default. Each of the following events shall be an Event of Default hereunder:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on, or any other Required Payment on, any Obligation.

(b) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under this Master Indenture (including covenants or agreements contained in any Related Supplement or Obligation) and shall not have cured such failure within sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations; provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the failure.

(c) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(d) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(e) An event of default shall exist under any Related Bond Indenture.

The Obligated Group Representative agrees that, as soon as practicable, and in any event within ten (10) days after such event, the Obligated Group Representative shall notify the Master Trustee of any event which is an Event of Default hereunder which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

Section 4.02. Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default hereunder, the Master Trustee may, and, upon (i) the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default under Section 4.01(a) hereof has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to

the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or herein to the contrary notwithstanding; provided, however, that if the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Obligations. Notwithstanding the foregoing, no Obligation shall be accelerated if the Event of Default is the result of the nonpayment of a Subordinate Financial Product Extraordinary Payment issued on or after the date of effectiveness of this Master Indenture set forth in Section 8.10.

(b) At any time after the Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(1) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Obligations (other than payments then due only because of such declaration);

(2) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due;

(3) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group hereunder; and

(4) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Section 4.03. Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Obligated Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders hereunder by such proceedings as the Master Trustee may deem expedient, including but not limited to:

(1) Enforcement of the right of the Holders to collect amounts due or becoming due under the Obligations;

(2) Civil action upon all or any part of the Obligations;

(3) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;

(4) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Obligations; and

(5) Enforcement of any other right or remedy of the Holders conferred by law or hereby.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions hereof or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request.

Section 4.04. Application of Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of this Article):

First: To the payment of all installments of interest then due on the Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on such date, without any discrimination or preference;

Second: To the payment of all installments of principal then due on the Obligations (whether at maturity or by call for redemption) and other unpaid Required Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of principal due on the same date, then to the payment thereof ratably, according to the amounts of principal due on such date, without any discrimination or preference;

Third: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, then to the payment thereof ratably, according to the amounts of

Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of this Article):

First: To the payment of the principal and interest and other Required Payments (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments, but excluding Subordinate Financial Product Extraordinary Payments) then due and unpaid on the Obligations, and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment or payment over any other installment or payment or of any Obligation over any other Obligation, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

Such moneys shall be applied at such times as the Master Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Master Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue, provided such moneys are applied by the Master Trustee to the payment of such principal. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Master Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of this Section and all fees and expenses of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group or such Person as a court of competent jurisdiction may direct.

Section 4.05. Remedies Not Exclusive. No remedy granted by the terms of this Master Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity.

Section 4.06. Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any proceeding relating thereto. Any proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining any Holders as plaintiffs or defendants. Subject to the provisions of Section 4.04 hereof, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Obligations.

Section 4.07. Master Trustee to Represent Holders. The Master Trustee is hereby irrevocably appointed as trustee and attorney in fact for the Holders for the purpose of exercising on their behalf the

rights and remedies available to the Holders under the provisions of this Master Indenture, the Obligations, any Related Supplement and applicable provisions of law, in each case subject to the provisions of Section 4.08. The Holders, by taking and holding the Obligations, shall be conclusively deemed to have so appointed the Master Trustee.

Section 4.08. Holders' Control of Proceedings. If an Event of Default has occurred and is continuing, notwithstanding anything herein to the contrary, the Holders of at least a majority in aggregate principal amount of Outstanding Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms hereof. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions hereof or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not joining in such direction. Nothing in this Section shall impair the right of the Master Trustee to take any other action authorized by this Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

Section 4.09. Termination of Proceedings. In case any proceeding instituted by the Master Trustee with respect to any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or the Holders, then the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder. All rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

Section 4.10. Waiver of Event of Default.

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given by this Article to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Upon the written request of the Holders of at least a majority in aggregate principal amount of Outstanding Obligations, the Master Trustee shall waive any Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 4.02 hereof, the failure to pay the principal of, premium, if any, or interest on any Obligation when due may not be waived without the written consent of the Holders of all Outstanding Obligations.

(d) In case of any waiver by the Master Trustee of an Event of Default, the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

Section 4.11. Appointment of Receiver. Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Obligations to be due and payable, (b) after declaring the Obligations to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group Members (without the necessity of notice to any Obligated Group Member or any other Person), with such powers as the court making such

appointment shall confer. Each Obligated Group Member consents, and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, to the extent the right may lawfully be given, to take possession of, operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Obligated Group Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Section 4.12. Remedies Subject to Provisions of Law. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law. All the provisions of this Article are intended to be subject to all applicable mandatory provisions of law that may be continuing and to be limited to the extent necessary so that they will not render any provision hereof invalid or unenforceable under the provisions of any applicable law.

Section 4.13. Notice of Default. Within ten (10) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice (the term "Event of Default" for the purposes of this Section being limited to the events specified in subsections (a)-(f) of Section 4.01, not including any periods of grace provided for in subsections (b), (c) and (d), and regardless of the giving of written notice specified in subsection (b) of Section 4.01). Except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (d) and (e) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interest of the Holders.

Section 4.14. Amendment of Percentages Specified in Events of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies. Upon securing the consent of the Holders of 100% in aggregate principal amount of the Outstanding Obligations, references to twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations set forth in Section 4.01(b), Section 4.02(a) and 4.03(a) shall be revised to read as follows:

"a majority in aggregate principal amount of Outstanding Obligations"

ARTICLE V

THE MASTER TRUSTEE

Section 5.01. Certain Duties and Responsibilities; Liability of Master Trustee.

(a) Except during the continuance of an Event of Default:

(1) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Master Indenture, and no implied covenant or obligation shall be read into this Master Indenture against the Master Trustee; and

(2) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon Certificates or opinions furnished to the Master Trustee and conforming to the requirements of this Master Indenture; but in the case of any Certificate or opinion specifically required by the provisions hereof to be furnished to the Master Trustee, the Master Trustee shall be under a duty

to examine such Certificate or opinion to determine whether or not it conforms to the requirements of this Master Indenture.

(b) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of its own affairs.

(c) The Master Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct. No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(2) the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(3) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of Obligations Outstanding relating to the timing, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee under this Master Indenture;

(4) no provision of this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; and

(5) the Master Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to any Event of Default or any event which would, with the giving of notice or the passing of time or both, constitute an Event of Default, unless a Responsible Officer in the Corporate Trust Office of the Master Trustee shall have actual knowledge of such Event of Default or shall have been notified in writing of such event by any Obligated Group Member or by the Holder of an Obligation.

The Master Trustee will keep on file at its office a list of the names and addresses of the last known Holders of all Obligations. At reasonable times and under reasonable regulations established by the Master Trustee, said list may be inspected and copied by the Obligated Group Members, any Holder or the authorized representative thereof, provided that the ownership of such Holder and the authority of any such designated representative shall be evidenced to the satisfaction of the Master Trustee.

(d) Every provision of this Master Indenture relating to the conduct of, affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section.

Section 5.02. Certain Rights of Master Trustee. Subject to Section 5.01:

(a) The Master Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any document, including, without limitation, any opinion, request, written consent or certificate, believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any request or direction of the Obligated Group Representative mentioned herein shall be sufficiently evidenced by an Officer's Certificate. Any action of the Governing Body of any Obligated Group Member shall be sufficiently evidenced by a copy of a resolution certified by the secretary or an assistant secretary of the Obligated Group Member to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, allowing or omitting any action hereunder, the Master Trustee may (in the absence of bad faith on its part and unless other evidence is specifically prescribed by this Master Indenture) request and conclusively rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel of its selection, and any opinion of such counsel shall be full and complete authorization and protection with respect to any action taken, allowed or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction; provided, however, that no security or indemnity shall be required for the giving of notice of default pursuant to Section 4.13.

(f) The Master Trustee shall not be bound to make any investigation into the facts stated in any document delivered to it hereunder, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts as it may see fit. If the Master Trustee determines to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Obligated Group Member (excluding specifically donor records, patient records and personnel records), personally or by agent or attorney, during regular business hours and after reasonable notice.

(g) The Master Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys. The Master Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care.

(h) The Master Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Master Indenture.

(i) The Master Trustee shall not be deemed to have notice of any default or Event of Default unless a Responsible Officer of the Master Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Master Trustee at the Corporate Trust Office of the Master Trustee, and such notice references this Master Indenture.

(j) The Master Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay in the performance of such

obligations due to unforeseeable causes arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control and without its fault or negligence, including, but not limited to, acts of God, acts of the public enemy or terrorists, earthquakes, fires, floods, war, civil or military disturbances, sabotage, epidemics, quarantine restrictions, riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications service, accidents, labor disputes, acts of civil or military authority or governmental actions affecting the performance of its duties under this Master Indenture, it being understood that the Master Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(k) The Master Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of any Related Bonds.

Section 5.03. Right to Deal in Obligations and Related Bonds. The Master Trustee may buy, sell or hold and deal in any Obligations and Related Bonds with the same effect as if it were not the Master Trustee. The Master Trustee may commence or join in any action which a Holder or holder of a Related Bond is entitled to take with the same effect as if the Master Trustee were not the Master Trustee.

Section 5.04. Removal and Resignation of the Master Trustee.

(a) The Master Trustee may be removed at any time by an instrument or instruments in writing signed by (1) the Holders of not less than a majority of the principal amount of Outstanding Obligations or (2) (unless an Event of Default has occurred and is then continuing) the Obligated Group Representative.

(b) The Master Trustee may at any time resign by giving written notice of such resignation to the Obligated Group Representative.

(c) No such resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created hereby. Written notice of removal of the predecessor Master Trustee and/or appointment of the successor Master Trustee shall be given by the successor Master Trustee within ten (10) days of the successor's acceptance of appointment to the Obligated Group Members and to each Holder at the addresses shown on the books of the Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than a majority in aggregate principal amount of Outstanding Obligations, or, if the Master Trustee has resigned or has been removed by the Obligated Group Representative, by the Obligated Group Representative. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation or removal is given, the Master Trustee, any Obligated Group Member or any Holder may apply at the expense of the Obligated Group Members to any court of competent jurisdiction for the appointment of an interim successor Master Trustee to act until such time as a permanent successor is appointed.

(d) Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a national banking association in good standing under the laws of the United States of America or a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America, and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

(e) Every successor Master Trustee shall execute and deliver to its predecessor and to each Obligated Group Member a written instrument accepting such appointment. Upon the delivery of such acceptance, the successor Master Trustee shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor. The predecessor shall execute and deliver to the successor Master Trustee a written instrument transferring to the successor Master Trustee all the rights, powers and trusts of the predecessor. The predecessor Master Trustee (upon payment of all amounts owed to it) shall execute any documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Section 5.05. Compensation and Reimbursement. Subject to the provisions of any specific agreement between the Obligated Group Representative and the Master Trustee relating to the compensation of the Master Trustee, each Obligated Group Member agrees:

(a) To pay the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(b) Except as otherwise expressly provided herein, to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and its agents), except any such expense, disbursement or advance as may be attributable to its negligence or willful misconduct.

(c) To indemnify each of the Master Trustee and any predecessor Master Trustee for, and to hold it harmless against, any and all loss, liability, damages, claim or expense, including legal fees and expenses and taxes (other than taxes based on the income of the Master Trustee), incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust or its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

When the Master Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 4.01(c) or Section 4.01(d), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Master Indenture and the resignation or removal of the Master Trustee.

Section 5.06. Recitals and Representations. The recitals, statements and representations contained herein or in any Obligation (excluding the Master Trustee's authentication on the Obligations) shall be taken and construed as made by and on the part of the Obligated Group Members, and not by the Master Trustee. The Master Trustee assumes no responsibility for the correctness of such statements.

The Master Trustee makes no representation as to, and is not responsible for, the validity or sufficiency of this Master Indenture or of the Obligations. The Master Trustee shall not be concerned with or accountable to anyone for the use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof. The Master Trustee shall have no duty of inquiry

with respect to any Event of Default without actual knowledge of or receipt by the Master Trustee of written notice of an Event of Default from an Obligated Group Member or any Holder.

Section 5.07. Separate or Co-Master Trustee. At any time, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee may appoint one or more Persons either to act as co-master trustee with the Master Trustee, or to act as separate master trustee, and to vest in such Persons or Persons, such rights, powers, duties, trusts or obligations as the Master Trustee may consider necessary or desirable, subject to the remaining provisions of this Section.

Every co-master trustee or separate master trustee shall, to the extent permitted by law, be appointed subject to the following terms:

- (a) The Obligations shall be authenticated and delivered solely by the Master Trustee.
- (b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed as shall be provided in the instrument appointing such co-master trustee or separate master trustee, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee is incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co master trustee or separate master trustee.
- (c) Any request in writing by the Master Trustee to any co-master trustee or separate master trustee to take or to refrain from taking any action hereunder shall be sufficient for the taking, or the refraining from taking, of such action by such Person.
- (d) Any co-master trustee or separate master trustee may, to the extent permitted by law, delegate to the Master Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.
- (e) The Master Trustee may at any time, by an instrument in writing, accept the resignation of or remove any co master trustee or separate master trustee appointed under this Section. Upon the request of the Master Trustee, the Obligated Group Members shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.
- (f) No trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder, nor will the act or omission of any trustee hereunder be imputed to any other trustee.
- (g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-master trustee or separate master trustee.
- (h) Any moneys, papers, securities or other items of personal property received by any such co-master trustee or separate master trustee hereunder shall be turned over to the Master Trustee immediately.

Upon the acceptance in writing of such appointment by any co master trustee or separate master trustee, such Person shall be vested with such rights, powers, duties or obligations as are specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-master trustee or separate master trustee to act alone) subject to all the terms hereof.

Every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-master trustee or separate master trustee may, at any time by an instrument in writing, constitute the Master Trustee its attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its behalf and in its name.

In case any co-master trustee or separate master trustee shall become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of such Person shall, so far as permitted by law, vest in and be exercised by the Master Trustee unless and until a successor co-master trustee or separate master trustee shall be appointed in the manner herein provided.

Section 5.08. Merger or Consolidation. Any company into which the Master Trustee may be merged or converted, or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it is a party, or any company to which the Master Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under Section 5.04) shall be the successor to the Master Trustee without the execution or filing of any paper or any further act.

ARTICLE VI

SUPPLEMENTS AND AMENDMENTS

Section 6.01. Supplements Not Requiring Consent of Holders. The Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

- (a) To correct any ambiguity or formal defect or omission in this Master Indenture;
- (b) To correct or supplement any provision which may be inconsistent with any other provision or to make any other provision with respect to matters or questions arising hereunder, which, in either case, does not materially and adversely affect the interests of the Holders;
- (c) To grant or confer ratably upon all of the Holders any additional benefits, rights, remedies, powers or authority, including, without limitation, the addition of provisions providing for the creation of a credit group which credit group shall consist of all Obligated Group Members and Persons designated as affiliates of Obligated Group Members, or to add to the covenants of and restrictions on the Obligated Group Members;
- (d) To qualify this Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;
- (e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted hereunder;
- (f) To obligate a successor to any Obligated Group Member as provided in Section 3.10;
- (g) To add a new Obligated Group Member as provided in Section 3.12; or
- (h) To make any other change which does not materially and adversely affect the interests of the Holders.

Section 6.02. Supplements Requiring Consent of Holders.

(a) Other than Related Supplements referred to in Section 6.01 hereof and subject to the terms contained in this Article, the Holders of not less than a majority in aggregate principal amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained herein; provided, however, with respect to any Obligation issued on or after the date of effectiveness of this Master Indenture set forth in Section 8.10, registered in the name of a Related Bond Trustee and securing a Related Series of Bonds, payment of the principal of and interest on which is insured or otherwise guaranteed by a municipal bond insurance policy or is secured by a letter of credit, the provider of such municipal bond insurance or letter of credit shall be deemed to be the Holder of such Obligation for purposes of consenting to and approving the execution of Related Supplements for purposes of this Section 6.02, subject to the provisions set forth in Section 8.04 and as except as otherwise provided in the applicable Related Supplement or Obligation; and provided, further, however, that nothing in this Section shall permit or be construed as permitting a Related Supplement which would:

(i) extend the stated maturity of, or time for paying interest on, any Obligation or reduce the principal amount of or the redemption premium or rate of interest or change the method of calculating interest payable on, or reduce any other Required Payment on any Obligation without the consent of the Holder of such Obligation;

(ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in Article IV hereof so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Obligations then Outstanding; or

(iii) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives: (i) a Request of the Obligated Group Representative to enter into such Related Supplement; (ii) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement; (iii) the proposed Related Supplement; and (iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee

shall file a written statement to that effect with the Obligated Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

Section 6.03. Execution and Effect of Supplements.

(a) In executing any Related Supplement permitted by this Article, the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Related Supplement is authorized or permitted hereby. The Master Trustee may (but shall not be obligated to) enter into any Related Supplement that materially and adversely affects the Master Trustee's own rights, duties or immunities.

(b) Upon the execution and delivery of any Related Supplement in accordance with this Article, the provisions of this Master Indenture shall be deemed modified in accordance therewith. Such Related Supplement shall form a part hereof for all purposes and every Holder shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Related Supplement in accordance with this Article may, and, if required by the Obligated Group Representative or the Master Trustee shall, bear a notation in form approved by the Master Trustee as to any matter provided for in such Related Supplement. If the Obligated Group Representative or the Master Trustee shall so determine, new Obligations so modified as to conform in the opinion of the Master Trustee and the Governing Body of the Obligated Group Representative to any such Related Supplement may be prepared and executed by the Obligated Group Representative and authenticated and delivered by the Master Trustee in exchange for and upon surrender of Obligations then Outstanding.

Section 6.04. Amendment of Related Supplements. Any Related Supplement may provide that the provisions thereof may be amended without the consent of or notice to any of the Holders, or pursuant to such terms and conditions as may be specified in such Related Supplement. If a Related Supplement does not contain provisions relating to the amendment thereof, the amendment of such Related Supplement shall be governed by the provisions of Section 6.01 and Section 6.02 hereof.

ARTICLE VII

SATISFACTION AND DISCHARGE

Section 7.01. Satisfaction and Discharge of Master Indenture. This Master Indenture shall cease to be of further effect if:

(a) all Obligations previously authenticated (other than any Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or

(b) all Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or

(c) a deposit is made in trust with the Master Trustee (or with one or more national banking associations or trust companies acceptable to the Master Trustee pursuant to an agreement between an Obligated Group Member and such national banking associations or trust companies in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments) due or to become due to such date of maturity, redemption date or payment date, as the case may be; and

all other sums payable hereunder by the Obligated Group Members are also paid. The Master Trustee, on demand of the Obligated Group Representative and at the cost and expense of the Obligated Group Members, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture and authorizing the Obligated Group Representative to file such terminations and releases as may be necessary to evidence the termination of the Master Trustee's security interest in the Gross Revenues. Unless the deposit pursuant to clause (c) above is made solely with cash, the Master Trustee may request that the Obligated Group Representative provide a report prepared by an accountant or other financial services firm regarding the sufficiency of the funds for such discharge and satisfaction provided pursuant to clause (c) above (such report being hereinafter referred to as a "Verification Report"). If the Master Trustee shall have been provided with a Verification Report, the Master Trustee shall be entitled to rely upon such Verification Report.

The Obligated Group Members shall pay and indemnify the Master Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to this Section 7.01 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Obligations.

Notwithstanding the satisfaction and discharge of this Master Indenture, the obligations of the Obligated Group Members to the Master Trustee under Section 5.05 hereof shall survive.

Section 7.02. Payment of Obligations After Discharge of Lien. Notwithstanding the discharge of the lien of this Master Indenture as provided in this Article, the Master Trustee shall retain such rights, powers and duties as may be necessary and convenient for the payment of amounts due or to become due on the Obligations and for the registration, transfer, exchange and replacement of Obligations. Any moneys held by the Master Trustee for the payment of the principal of, premium, if any, or interest or other Required Payment on any Obligation remaining unclaimed for one year after the principal of all Obligations has become due and payable, whether at maturity, upon proceedings for redemption or by declaration as provided herein, shall then be paid to the Obligated Group Members. The Holders of any Obligations not previously presented for payment shall thereafter be entitled to look only to the Obligated Group Members for payment thereof as unsecured creditors and all liability of the Master Trustee with respect to such moneys shall thereupon cease.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.01. Limitation of Rights. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Master Indenture or the Obligations is intended or shall be construed to give to any Person other than each Obligated Group Member, the Master Trustee, the Related Bonds Issuers and the Holders any legal or equitable right, remedy or claim under or with respect to this Master Indenture. This Master Indenture and all of the covenants, conditions and

provisions hereof are intended to be and are for the sole and exclusive benefit of the parties mentioned in this Section.

Section 8.02. Severability. If any part of this Master Indenture is for any reason held invalid or unenforceable, no other part shall be invalidated or deemed unenforceable.

Section 8.03. Holidays. Except to the extent a Related Supplement or an Obligation provides otherwise:

(a) Subject to subsection (b), when any action is provided herein to be done on a day or within a time period named, and the day or the last day of the period falls on a day on which banking institutions in the jurisdiction where the Corporate Trust Office is located are authorized by law to remain closed, the action may be done on the next ensuing day that is not a day on which banking institutions in such jurisdiction are authorized by law to remain closed, with the same effect as if done on the day or within the time period named.

(b) When the date on which principal of or interest or premium on any Obligation is due and payable is a day on which banking institutions at the place of payment are authorized by law to remain closed, payment may be made on the next ensuing day on which banking institutions at such place are not authorized by law to remain closed with the same effect as if payment were made on the due date, and, if such payment is made, no interest shall accrue from and after such due date.

Section 8.04. Credit Enhancer Deemed Holder of Obligation. Except to the extent a Related Supplement or an Obligation provides otherwise, any credit enhancer of Related Bonds shall be deemed the Holder of the related Obligation for purposes of this Master Indenture for so long as the credit enhancement is in effect and the credit enhancer is not in default thereunder. If the credit enhancement is applicable to a portion of Related Bonds, such Related Obligation shall be treated as if such Related Obligation were two Obligations, one in the principal amount of the Related Bonds for which the credit enhancement is applicable and another in the principal amount of the remainder of the Related Bonds.

Section 8.05. Governing Law. This Master Indenture and the Obligations are contracts made under the laws of the State of California, and shall be governed by and construed in accordance with such laws applicable to contracts made and performed in said State.

Section 8.06. Counterparts. This Master Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 8.07. Immunity of Individuals. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Obligations issued hereunder or for any claim based thereon or upon any obligation, covenant or agreement herein against any past, present or future officer, director, trustee, member, employee or agent of any Obligated Group Member which is a corporation, whether directly or indirectly. All liability of any such individual is hereby expressly waived and released as a condition of and in consideration for the execution hereof and the issuance of the Obligations.

Section 8.08. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon each Obligated Group Member, the Master Trustee and their respective successors and assigns, subject to the limitations contained herein.

Section 8.09. Notices.

(a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be in writing and shall be deemed sufficiently given or served if given: (i) by facsimile or electronic mail with prompt telephonic confirmation of receipt; (ii) personally by hand; (iii) by overnight delivery service; or (iv) by first class mail, postage prepaid and addressed as follows:

(1) If to the Obligated Group Representative, addressed to it at 300 Pasteur Drive, M/C 5554, Stanford, California 94305, Attention: Chief Financial Officer;

(2) If to the Master Trustee, addressed to it at the Corporate Trust Office; or

(3) If to the registered Holder of an Obligation, addressed to such Holder at the address shown on the books of the Master Trustee.

(b) The Obligated Group Representative or the Master Trustee may from time to time designate a different address or addresses for notice by notice in writing to the others and to the Holders.

Section 8.10. Effectiveness. Amendment and Restatement of the Existing Master Indenture as set forth in this Master Indenture shall take effect on _____.

IN WITNESS WHEREOF, **Stanford Hospital and Clinics** has caused this Amended and Restated Master Indenture of Trust to be signed in its name by its duly authorized officer, and to evidence its acceptance of the trusts and agreements hereby created **The Bank of New York Mellon Trust Company, N.A.** has caused this Amended and Restated Master Indenture of Trust to be signed in its name by one of its duly authorized officers, all as of the day and year first above written.

Stanford Hospital and Clinics

By: _____
Chief Financial Officer

**The Bank of New York Mellon Trust Company,
N.A., as Master Trustee**

By: _____
Authorized Representative

Exhibit A

Existing Financial Products Agreements*

1. ISDA Master Agreement, dated as of September 1, 2007, between Bear Stearns Financial Products Inc. and Stanford Hospital and Clinics (the "Corporation"), the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement dated as of September 1, 2007, together with Confirmations FXNEC5267/REF 05000850178215, FXNEC5272/REF 050000701 0816, FXNEC5273/REF 050008501 7862, FXNEC5274/REF 050008501 7795 and FXNEC5275/REF 050008501 7775, each dated September 1, 2007.
2. ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmations MSCS Ref. No. AUBRJ, dated June 17, 2003, MSCS Ref. No. AUKNU, dated May 28, 2008, and MSCS Ref. No. AUN19 dated November 17, 2008 and amended and restated as of November 30, 2010.
3. ISDA Master Agreement, dated as of August 22, 2008, between JPMorgan Chase Bank, N.A. and the Corporation, the Schedule to the ISDA Master Agreement, dated as of August 22, 2008, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of August 22, 2008, as amended by the 1st Amendment Agreement, dated as of November 1, 2008, and Novation Confirmations dated August 29, 2008 numbered, FXNEC9725/REF 0500007010838 and FXNEC9726/REF 0500007010839.
4. ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of November 9, 2010, between Wells Fargo Bank, National Association and the Corporation, and Confirmations dated December 1, 2010 reference numbers REF 0500000701923/7680693 and REF 0500007010878/7680694.
5. ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of November 10, 2010, between Barclays Bank PLC and the Corporation.
6. ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of January 24, 2011, between Deutsche Bank AG, New York Branch and the Corporation, and Confirmations dated January 26, 2011, reference numbers FXNEC9724/REF 0500007010837/N1253185N and FXNEC9723/REF 0500007010836/N1253181N.

* Note: Listing reflects Financial Products Agreements in effect as of the date of the Reoffering Circular to which this Appendix H is attached. Listing to be attached to the Amended and Restated Master Indenture of Trust will reflect Financial Products Agreements in effect as of the effective date of the Amended and Restated Master Indenture of Trust.

Exhibit B

Existing Obligations*

Obligation	Obligation Holder
1. Obligation No. 9 issued in the original principal amount of \$100,000,000	U.S. Bank National Association ("U.S. Bank"), as trustee under the Indenture, dated as of June 1, 2003, between California Health Facilities Financing Authority("CHFFA") and U.S. Bank
2. Obligation No. 13, consisting of the ISDA Master Agreement dated as of September 1, 2007 between Bear Stearns Financial Products Inc. and the Stanford Hospital and Clinics (the "Corporation"), the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, together with Confirmations FXNEC5267/REF 05000850178215, FXNEC5272/REF 050000701 0816, FXNEC5273/REF 050008501 7862, FXNEC5274/REF 050008501 7795 and FXNEC5275/REF 050008501 7775, each dated September 1, 2007	Bear Stearns Financial Products Inc.
3. Obligation No. 14, consisting of ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmation MSCS Ref. No. AUBRJ dated June 17, 2003	Morgan Stanley Capital Services Inc.
4. Obligation No. 19, issued in the original principal amount of \$428,500,000	Wells Fargo National Bank, National Association ("Wells Fargo"), as trustee, under the Indenture, dated as of June 1, 2008, between CHFFA and Wells Fargo

*Note: Listing reflects Obligations Outstanding as of the date of the Reoffering Circular to which this Appendix H is attached, assuming that all the reofferings described in the Reoffering Circular occur. Listing to be attached to the Amended and Restated Master Indenture of Trust will reflect Obligations Outstanding as of the effective date of the Amended and Restated Master Indenture of Trust.

Obligation	Obligation Holder
<p>5. Obligation No. 21, consisting of the ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmations MSCS Ref. No. AUKNU dated May 28, 2008 and AUN19 dated November 17, 2008 and amended and restated as of November 30, 2010</p>	Morgan Stanley Capital Services Inc.
<p>6. Obligation No. 25, consisting of ISDA Master Agreement dated as of August 22, 2008, between JPMorgan Chase Bank, N.A. and the Corporation, the Schedule to the ISDA Master Agreement, dated as of August 22, 2008, the related ISDA Credit Support Annex to the ISDA Master Agreement dated as of August 22, 2008, as amended by the 1st Amendment Agreement, dated as of February 5, 2009, and Novation Confirmations dated August 29, 2008 numbered FXNEC9725/REF 0500007010838 and FXNEC9726/REF 0500007010839</p>	JPMorgan Chase Bank, N.A.
<p>7. Obligation No. 28, issued in the original principal amount of \$296,000,000</p>	The Bank of New York Mellon Trust Company, N.A. ("BNY"), as trustee under the Indenture, dated as of June 1, 2010, between CHFFA and BNY
<p>8. Obligation No. 29, consisting of ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of November 9, 2010, between Wells Fargo Bank, National Association and the Corporation, and Confirmation</p>	Wells Fargo National Bank, National Association

Obligation

Obligation Holder

9. Obligation No. 30, ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of January 24, 2011, between Deutsche Bank AG, New York Branch and the Corporation, and Confirmations dated January 26, 2011 reference numbers:
FXNEC9724/REF 0500007010837/N1253185N
and
FXNEC9723/REF 500007010836/N1253181N
- Deutsche Bank AG, New York Branch

Exhibit C

Existing Parity Financial Product Extraordinary Payments*

Settlement Amounts payable by Stanford Hospital and Clinics under the terms of Obligation No. 13 or Obligation No. 14 (each identified on Exhibit B to this Amended and Restated Master Indenture of Trust), respectively, if (and only if) Financial Security Assurance Inc., under the terms of the Financial Guaranty Insurance Policy Nos. 201227-SWPA and 201227-SWPB, each issued July 1, 2003, shall direct or consent to early termination of Obligation No. 13 or Obligation No. 14, respectively, in which event such Settlement Amounts are entitled by the terms of Supplemental Master Indenture No. 13 and No. 14, respectively, to be equally and ratably secured by any lien created under the Master Indenture and all other Obligations except as otherwise provided in the Master Indenture.

* Note: Listing reflects Parity Financial Product Extraordinary Payments as of the date of the Reoffering Circular to which this Appendix H is attached. Listing to be attached to the Amended and Restated Master Indenture of Trust will reflect Parity Financial Product Extraordinary Payments, if any, as of the effective date of the Amended and Restated Master Indenture of Trust.

Exhibit D

Description of Excluded Property

1. Hoover Pavilion, meaning the property described in Exhibit A-2 and Exhibit B-2 of the Lease, and all buildings and improvements located thereon, together with all furnishings and equipment located thereon, appraised for insurance purposes as having a value of \$27,685,000.

