SETTLEMENT AGREEMENT

This SETTLEMENT AGREEMENT (this "Agreement") is made and entered into as of May 11, 2010, by and between Prime Healthcare Services, Inc., a Delaware corporation; Prime Healthcare Anaheim, LLC, a Delaware limited liability company doing business as West Anaheim Medical Center; Prime Healthcare La Palma, LLC, a Delaware limited liability company doing business as La Palma Intercommunity Hospital; Prime Healthcare Huntington Beach, LLC, a Delaware limited liability company doing business as Huntington Beach Hospital, Prime Healthcare Centinela, LLC, a Delaware limited liability company doing business as Centinela Hospital; Veritas Health Services, Inc., a California corporation doing business as Chino Valley Medical Center; Desert Valley Hospital, Inc., a California corporation doing business as Desert Valley Hospital; Prime Healthcare Services – Encino, LLC, a Delaware limited liability company doing business as Encino Hospital Medical Center; Prime Healthcare Services – Garden Grove, LLC, a Delaware limited liability company doing business as Garden Grove Hospital & Medical Center; Prime Healthcare Services III, LLC, a Delaware limited liability company doing business as Montclair Hospital Medical Center; Prime Healthcare Paradise Valley, LLC, a Delaware limited liability company doing business as Paradise Valley Hospital; Prime Healthcare Services – San Dimas, LLC, a Delaware limited liability company doing business as San Dimas Community Hospital; Prime Healthcare Services – Shasta, LLC, a Delaware limited liability company doing business as Shasta Regional Medical Center; and Prime Healthcare Services II, LLC, a Delaware limited liability company doing business as Sherman Oaks Hospital (collectively "Defendants") on the one hand and the People of the State of California, By and Through Lucinda Ehnes as Director of the Department of Managed Health Care (the "Department") on the other hand.

I. RECITALS

1. Prime Healthcare Anaheim, LLC, Prime Healthcare La Palma, LLC, Prime Healthcare Huntington Beach, LLC, Prime Healthcare Centinela, LLC, Veritas

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Health Services, Inc., Desert Valley Hospital, Inc., Prime Healthcare Services – Encino, LLC, Prime Healthcare Services – Garden Grove, LLC, Prime Healthcare Services III, LLC, Prime Healthcare Paradise Valley, LLC, Prime Healthcare Services – San Dimas, LLC, Prime Healthcare Services – Shasta, LLC, and Prime Healthcare Services II, LLC operate acute care hospitals in the State of California and, with the exception of Prime Healthcare Services – Encino, LLC are wholly owned subsidiaries of Prime Healthcare Services, Inc. Prime Healthcare Services – Encino, LLC was a wholly owned subsidiary of Prime Healthcare Services, Inc., prior to December 31, 2009 and became a wholly owned subsidiary of the Prime Healthcare Services Foundation as of December 31, 2009. Prime Healthcare Anaheim, LLC, Prime Healthcare La Palma, LLC, Prime Healthcare Huntington Beach, LLC, Prime Healthcare Centinela, LLC, Veritas Health Services, Inc., Desert Valley Hospital, Inc., Prime Healthcare Services – Encino, LLC, Prime Healthcare Services – Garden Grove, LLC, Prime Healthcare Services III, LLC, Prime Healthcare Paradise Valley, LLC, Prime Healthcare Services – San Dimas, LLC, Prime Healthcare Services – Shasta, LLC, and Prime Healthcare Services II, LLC shall collectively be referred to as the "Hospital Defendants."

2. The Department alleges that on or about May 1, 2008, the Hospital Defendants, by and through Action Collection Services, LLC, sent the letter attached hereto as Exhibit A to more than 3,700 enrollees of Kaiser Foundation Health Plan, Inc. ("Kaiser") and that such actions constituted prohibited balance billing as that term is defined in *Prospect Med. Group v. Northridge Emergency Phys., et al.* (2009) 45 Cal.4th 497 and constitutes a violation of Health & Safety § 1379.

3. Defendants dispute the allegations set forth in Paragraph 2 herein and further dispute that they engaged in prohibited balance billing.

4. The Department opened Enforcement Matter Number 08-244 in response to the allegations set forth in Paragraph 2 herein and filed *People v. Prime Healthcare Services, Inc., et. al.*, Orange County Superior Court Case No. 30-2008-00108627. Enforcement Matter Number 08-244 and *People v. Prime Healthcare Services, Inc., et.*

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al., Orange County Superior Court Case No. 30-2008-00108627 shall be collectively referred to as the "Matter."

5. The parties agree that the purpose of this Agreement is to avoid further litigation, that this Agreement pertains to disputed matters and does not constitute any admission or liability or wrongdoing, that this Agreement is not to be and shall not be construed as a concession and/or admission by any of the Parties hereto shall not be used as evidence of any admission of liability or wrongdoing for any purpose whatsoever other than as strictly necessary to enforce its terms.

6. The Department represents and warrants that their representative in attendance at mediation on May 11, 2010, Holly Pearson, General Counsel, has full authority from the Department and its Director, Lucinda Ehnes, to bind the Department to this Agreement and all terms set forth herein and has been authorized by the Director to execute this Agreement on behalf of the Department.

II. AGREEMENT

7. Defendants shall do all of the following:

(a) The Hospital Defendants will ensure that Action Collection Services, LLC, has not reported and will not report any health plan enrollee to a credit reporting agency for any balance owed by the enrollee's health plan. In the event that any such reporting has been made by Action Collection Services, LLC, the Hospital Defendants shall send a correction notice to the credit reporting agency within 30 days of discovery of such reporting.

(b) The Hospital Defendants will not collect, attempt to collect, or bill any health plan enrollee for any outstanding balance which is owed by the health plan, i.e., balances other than co-pays, deductibles, co-insurance, and/or otherwise member responsibility, as set forth in *Prospect Med. Group v. Northridge Emergency Phys., et al.* (2009) 45 Cal.4th 497.

(c) Prime Healthcare Anaheim, LLC, Prime Healthcare La Palma, LLC, Prime Healthcare Huntington Beach, LLC, Veritas Health Services, Inc.,

Desert Valley Hospital, Inc., Prime Healthcare Services III, LLC, Prime Healthcare Paradise Valley, LLC, and Prime Healthcare Services II, LLC will review each of the accounts for Kaiser enrollees for which a notice may have been sent on May 1, 2008, and ensure that no monies other than co-pays, deductibles, co-insurance, and/or otherwise member responsibility (*i.e.,* non-emergent care/no coverage/etc.) were paid by the health plan enrollee. To the extent any monies other than co-pays, deductibles, co-insurance, and/or otherwise member responsibility (*i.e.,* non-emergent care/no coverage/etc.) have been paid by the enrollee, and such payment has not already been refunded, Prime Healthcare Anaheim, LLC, Prime Healthcare La Palma, LLC, Prime Healthcare Huntington Beach, LLC, Veritas Health Services, Inc., Desert Valley Hospital, Inc., Prime Healthcare Services III, LLC, Prime Healthcare Paradise Valley, LLC, and Prime Healthcare Services II, LLC will issue refunds together with 10 percent interest per annum and provide proof of the same to the Department within 30 days of the discovery of the receipt of such monies and the lack of a refund.

(d) To the extent that the Department has received or does receive any complaints from health plan enrollees regarding payments made by an enrollee other than co-pays, deductibles, co-insurance, and/or member responsibility (*i.e.,* non-emergent care/no coverage/direct payment to patient) in response to a notice from Hospital Defendants during the past four years while such defendant was the licensed operator of the hospital, the relevant hospital will review the account, and, if a refund is due, issue a refund together with interest at a the rate of 10 percent per annum, within thirty (30) days of receipt of such complaint, to the health plan enrollee, for amounts paid by the enrollee representing amounts owed by

the health plan (*i.e.*, balances other than co-pays, deductibles, co-insurance, and/or otherwise member responsibility).

(e) All Hospital Defendants will use their best efforts to review all accounts for dates of service on and after May 1, 2004 or the date on which the defendant became the licensed operator of a hospital, whichever is later, to present, pertaining to health plan enrollees to determine if health plan enrollees paid any sums other than co-pays, deductibles, co-insurance, and/or otherwise member responsibility (*i.e.*, non-emergent care/no coverage/direct payment to patient). To the extent that such payments have been made, the relevant defendant will issue refunds together with interest at the rate of 10 percent per annum and will notify the Department of the same. The Hospital Defendants will provide a report to the Department detailing such efforts within 45 days of the execution of this Agreement.

(f) Defendants will appoint a member of senior management that the Department may contact with any concerns or complaints received by the Department, and such person will ensure that responses to any concerns or complaints are provided to the Department within 10 business days.

(g) At the Department's discretion, the Department and Defendants will conduct quarterly meetings at the Department's offices in Sacramento, California to discuss concerns and ways to improve the managed care system in California, as well as any concerns about the business practices of HMO's and/or Defendants.

8. Defendants voluntarily agree to donate a total sum of One Million Two Hundred Thousand Dollars ($1,200,000) as follows:

I. Six Hundred Thousand Dollars ($600,000) divided equally among the following community care clinics: Shasta Community Health Center in Redding, California, Coalition of Orange County Community Clinics,

South Bay Family Healthcare Center (designated towards the Dr. Claudia Hampton Clinic in Inglewood, California), Northeast Valley Health Corporation in Van Nuys, California, Operation Samanha Clinic in National City, California, and The Saban Free Clinic in Los Angeles, California. Said donation shall be made within sixty (60) days of the execution of this Agreement.

II. Six Hundred Thousand Dollars ($600,000) to the Prime Healthcare Services Foundation, Inc., a 501(c)(3) public charity (the "Foundation") for the express and exclusive purpose of the development of non-profit community health centers in California. Said donation shall be made within sixty (60) days of the execution of this Agreement. Conditions on this donation are the following:

(a) The $600,000 will be deposited into a restricted bank account in the name of the Foundation within sixty (60) days of the date this Agreement is fully executed;

(b) The $600,000 can only be used for the development of community health centers in California. The specific location of the community health centers shall be determined by the Foundation's Board of Directors with input by the Department;

(c) The Foundation will provide quarterly reports to the Department as to its progress towards the development of community health centers, to be opened within 24 months;

(d) If the health care centers are not opened within 24 months, the remaining portion of this donated amount shall be distributed equally among the following community care clinics: Shasta Community Health Center in Redding, California, Coalition of Orange County Community

Clinics, South Bay Family Healthcare Center (designated towards the Dr. Claudia Hampton Clinic in Inglewood, California), Northeast Valley Health Corporation in Van Nuys, California, Operation Samanha Clinic in National City, California, and The Saban Free Clinic in Los Angeles, California.

(e) The parties agree that no portion of this donation shall be distributed by the Foundation to any of the Defendants.

III. As a result of the voluntarily donations set forth in this Paragraph 8, the Department has agreed to not seek any civil penalties, fines, or damages from Defendants to resolve this Matter and further agrees that these voluntarily donations are not and should not be construed as a payment of a civil penalty, fine, or damages by Defendants, or any of them.

9. The Department has agreed not to seek civil penalties, fines or damages from Defendants to resolve the Matter and agrees that no such penalties, fines or damages are being paid in furtherance of this settlement.

10. The Department shall do the following:

(a) Dismiss the Matter with prejudice, subject to the provisions of Code of Civil Procedure section 664.6, within ten (10) business days of the execution of this Agreement; and

(b) Ensure that the Department treats all provider complaints submitted by Defendants in a manner consistent with the process and procedures used for other similarly situated third party complaining parties. All currently pending provider complaints from Hospital Defendants shall be processed and completed within nine (9) months from the execution of this Agreement.

11. The Department agrees it will not make any comment, inference, or statement that the voluntary donations referred to in Paragraph 8 constitute a civil penalty, fine, or damages.

III. RELEASES

12. The Department hereby generally releases and forever discharges Defendants and their respective officers, directors, managers, parents, subsidiaries, related entities, affiliated entities, affiliates, managers, shareholders, members, employees, independent contractors, agents, attorneys, and any one acting on their behalf from any and all claims, demands and causes of action of any kind or nature by reason of any matter that was asserted or that could have been asserted in the Matter, including those claims that in any way relate to or arise out of the sending of the May 1, 2008 letters (*e.g.* claims under Health & Safety Code section 1379 and the statutory scheme referred to in Prospect) during the period of June 26, 2004, through the date of execution of this Agreement.

13. Effective upon the Department's dismissal of the Matter with prejudice, Defendants, and each of them, hereby release and forever discharge any and all claims against the Department, and its employees and officials, from any matter related in any way to the initiation or maintaining of the Matter.

14. Nothing in this Agreement limits the Department's ability to investigate or enforce any violation of the Knox-Keene Health Care Service Plan Act of 1975 or California Code of Regulations, title 28, related to any matter not covered by this Agreement.

IV. GENERAL PROVISIONS

15. This Agreement is subject to the provisions of Code of Civil Procedure section 664.6. The parties specifically agree that the Superior Court of Orange County maintains jurisdiction to enforce this Agreement in accordance with the provisions of Code of Civil Procedure section 664.6.

16. Each Party agrees to bear its own costs and attorney's fees incurred in relation to the Matter.

17. Upon the execution of this Agreement, each party shall withdraw any and all motions currently pending before the Court. The parties agree to file no post-dismissal motions with the exception of any motion brought to enforce the provisions of this Agreement.

18. The recitals are hereby incorporated into this Agreement by this reference.

19. The parties agree that the purpose of this Agreement is to avoid further litigation, that this Agreement pertains to disputed matters and does not constitute any admission or liability or wrongdoing, this Agreement is not to be and shall not be construed as a concession and/or admission by any of the Parties hereto shall not be used as evidence of any admission of liability or wrongdoing for any purpose whatsoever other than as strictly necessary to enforce its terms.

20. This Agreement constitutes the entire understanding and complete agreement between the Department and Defendants as to the matters addressed herein, and supersedes any and all prior or contemporaneous agreements, representations, and understandings of the parties. This Agreement may be amended at any time by mutual agreement of the parties, but any such amendment must be in writing, dated and signed by the parties, and attached hereto.

21. This Agreement shall, for all purposes, be governed by and construed in accordance with the laws of the State of California.

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22. By their signatures below, each of the following represents that he or she has the authority to execute this Agreement and to bind the party on whose behalf the execution is made.

IN WITNESS WHEREOF, the parties hereby execute this Agreement by the signatures of their respective duly authorized officials.

People of the State of California, by and through their representative Lucinda A. Ehnes as Director of the Department of Managed Health Care

By: _____
Holly Pearson,
General Counsel, Authorized by
Lucinda Ehnes, Director

Prime Healthcare Services, Inc.

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Anaheim, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Huntington Beach, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare La Palma, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Desert Valley Hospital, Inc.

By: _____
Michael J Sarrao
Its: Vice-President

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Veritas Health Services, Inc.

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Services II, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Paradise Valley, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Centinela, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Services – Encino, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Services Garden Grove, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Services – San Dimas, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Services – Shasta, LLC

By: _____
Michael J Sarrao
Its: Vice-President

Prime Healthcare Services III, LLC

By: _____
Michael J Sarrao
Its: Vice-President

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