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7

8 UNITED STATES BANKRUPTCY COURT
9 CENTRAL DISTRICT OF CALIFORNIA
10 RIVERSIDE DIVISION
11

12
13 In re) Case No. RS 04-11158-MJ
14) CHAPTER 11
15)
16 VERITAS HEALTH SERVICES,) MOTION BY DEBTOR AND DEBTOR IN
INC. dba CHINO VALLEY) POSSESSION TO APPROVE THE SALE
17 MEDICAL CENTER, a) OF SUBSTANTIALLY ALL OF THE
California corporation, dba) DEBTOR'S ASSETS FREE AND CLEAR
18 CHINO VALLEY MEDICAL) OF LIENS AND INTERESTS;
CENTER,) MEMORANDUM OF POINTS AND
19) AUTHORITIES IN SUPPORT
20 Debtor and Debtor in) THEREOF; DECLARATION OF MAKOTO
Possession.) NAKAYAMA IN SUPPORT THEREOF
21)
22) Date: September 27, 2004
23) Time: 10:00 a.m.
24) Place: Courtroom "302"
3420 Twelfth Street
Riverside, CA
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1 Veritas Health Services, Inc. dba Chino Valley Medical
2 Center, the debtor and debtor in possession in the above-
3 captioned chapter 11 bankruptcy case (the "Debtor"), hereby moves
4 the above-entitled Bankruptcy Court (the "Motion") for an order
5 authorizing the Debtor to enter into an Asset Purchase Agreement
6 with Prime Healthcare Systems, LLC ("Buyer") in substantially the
7 form attached as Exhibit "2" to the Declaration of Makoto
8 Nakayama annexed hereto (the "Agreement")¹, and authorizing the
9 Debtor to sell substantially all of its assets at the price and
10 in accordance with substantially those terms contained in the
11 Agreement, free and clear of liens and interests pursuant to 11
12 U.S.C. Sec. 363(f).

13 The principal terms of the Agreement are as follows:

14 1. Buyer will purchase certain tangible and intangible
15 assets owned by the Debtor as defined in the Agreement (the
16 "Assets"), which Assets constitute substantially all of the
17 assets of the Debtor;

18 2. The purchase price is approximately \$8,900,000 (the
19 "Purchase Price"). The Purchase Price consists of:

- 20 a. A cash payment of \$5,050,000 upon closing;
- 21 b. Assumption of Medicare cost reporting liabilities
22 of up to \$1,200,000;
- 23 c. Assumption of post-petition vendor payables up to
24 \$1,400,000;
- 25
- 26

27
28 ¹ The Debtor shall file with this Court a definitive and final form of the Agreement as soon as practicable, and in no event later than the day prior to the hearing on this Motion.

1 d. An additional cash payment of \$50,000 in
2 connection with the assumption of designated executory physician
3 employment contracts;

4 e. A \$1.2 million letter of credit in connection with
5 the assumption of the Debtor's real property lease with Kasirer
6 Family Holdings #4 LLC (the "KFH Lease"); plus

7 f. Remittal to the Debtor of any Disproportionate
8 Share Hospital payments received relating to the fiscal year 2005
9 report for the Debtor for calendar year 2002 costs.

10 3. The closing date on the Sale shall be no later than
11 September 30, 2004.

12 4. The Sale of the Assets shall be free and clear of liens
13 pursuant to 11 U.S.C. § 363(f).

14 5. Buyer shall assume the KFH Lease and a parking lot
15 lease with Immanuel Lutheran Church, and assign such leases to
16 Buyer pursuant to 11 U.S.C. § 365. Buyer shall also designate
17 such other unexpired leases and executory contracts to be assumed
18 by the Debtor and assigned to Buyer pursuant to 11 U.S.C. § 365.

19 6. The Purchase shall be subject to qualified overbids at
20 the Sale Hearing.

21 7. Sun Capital Healthcare, Inc. shall be paid \$2.5 million
22 on account of its undisputed first priority lien claim upon
23 closing of the Sale.

24 As more fully discussed in the attached Memorandum of Points
25 and Authorities, the Debtor is unable to generate sufficient
26 positive cash flow to fund a plan of reorganization. The
27 Debtor's current negative cash flow demonstrates that a sale of
28 the Debtor's assets is in the best interest of the estate and its

1 creditors, and preserves the remaining value of the Debtor's
2 assets. As further demonstrated, multiple parties have engaged
3 in due diligence and/or negotiations with the Debtor relating to
4 a purchase of its assets, and the Debtor has advertised the sale
5 in "Modern Healthcare," a weekly publication which is one of the
6 most widely-read periodicals in the healthcare industry.
7 Consequently, the Debtor believes that the proposed sale will
8 yield the maximum value for the benefit of its creditors.

9 The Motion is based upon § 363 of the Bankruptcy Code,
10 Federal Rule of Bankruptcy Procedure 6004, this Motion, the
11 Memorandum of Points and Authorities and Declarations of Makoto
12 Nakayama and Dr. Prem Reddy in support hereof, the entire record
13 of this case, the statements, arguments and representations of
14 counsel to be made at the hearing on the Motion, and any other
15 evidence properly presented to the Court at, or prior to, the
16 hearing on the Motion.

17 **WHEREFORE**, based upon the foregoing, the Debtor respectfully
18 requests that the Court enter an order:

- 19 (1) approving the proposed Asset Purchase Agreement;
- 20 (2) authorizing the Debtor to sell substantially all of its
21 assets free and clear of liens, and that the sale not be stayed
22 under Federal Bankruptcy Rule 6004(g);
- 23 (3) finding Buyer to be a good faith purchaser under
24 Section 363(m) of the Bankruptcy Code; and

25 ///
26 ///
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1 (4) granting such other and further relief as the Court
2 deems just and proper.

3 Dated: September 3, 2004

LEVENE, NEALE, BENDER, RANKIN &
BRILL L.L.P.

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5
6 By: 

MARTIN J. BRILL

DANIEL H. REISS

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Debtor and Debtor in
Possession

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MEMORANDUM OF POINTS AND AUTHORITIES

I. STATEMENT OF FACTS

A. Background.

1. Veritas Health Services, Inc. dba Chino Valley Medical Center, the debtor and debtor in possession in the above-captioned chapter 11 bankruptcy case (the "Debtor"), commenced its bankruptcy case by filing a voluntary petition under chapter 11 of 11 U.S.C. § 101 et seq. (the "Bankruptcy Code") on January 30, 2004 (the "Petition Date"). The Debtor is operating its business and managing its financial affairs as a debtor in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

2. The Debtor operates a private acute care medical surgical hospital (the "Hospital") in Chino, California. The Debtor offers critical medical and surgical care to the local communities. Patients are individuals who seek medical attention for acute or chronic clinical conditions, and are referred by their personal physicians or access care through the emergency department.

3. The Debtor's hospital facility and principal place of business is located at 5451 Walnut Avenue, Chino, California. The Debtor employs approximately 525 employees to carry on the Debtor's business operations.

///

1 B. Events Leading to the Debtor's Bankruptcy Filing.

2 4. Prior to the commencement of the Debtor's bankruptcy
3 case, the Debtor had year-end net revenue of approximately \$51
4 million, income from operations (before interest, taxes,
5 depreciation and amortization - EBITDA) of approximately \$4
6 million, and a net loss of approximately \$2 million.
7

8 5. The Debtor's bankruptcy filing was precipitated
9 primarily by cash flow problems brought on by low patient census
10 and high expenses.

11 C. The Debtor's Post-Petition Operations.

12 6. Since the Petition Date, the Debtor has commenced the
13 implementation of measures to increase operating efficiencies,
14 cut costs, and increase the profitability of its operations. In
15 particular, the Debtor has made an effort to increase its
16 inpatient and outpatient service volume through new physician and
17 health plan relationships, renegotiate certain provider
18 agreements, and conduct an analysis of its contracts with medical
19 staff, medical suppliers and other service providers in order to
20 determine whether any modifications of such contracts are
21 necessary.
22

23 7. Despite these efforts, the Debtor has had negative cash
24 flows for each of the last four calendar months beginning in
25 April 2004. As of July 30, 2004, the Debtor's bank accounts
26 reflected a **negative** cash balance of \$627,223.00. A true and
27 correct copy of the Debtor's July 2004 Interim Statement is
28

1 attached as Exhibit "1" to the Declaration of Makoto Nakayama
2 annexed hereto (the "Nakayama Declaration").

3 8. Due to the Debtor's present inability to generate
4 sufficient positive cash flow to fund a plan of reorganization,
5 the amount of secured debt encumbering the Debtor's assets, and
6 the lack of equity in the assets of the estates due to such
7 secured debt, the Debtor has determined that a sale of its
8 business as a going concern will realize the greatest value for
9 the estate and its creditors.

10
11 **D. Principal Sale Terms.**

12 9. The Debtor and Prime Healthcare Systems, LLC ("Buyer")
13 have entered into an Asset Purchase Agreement in substantially
14 the form attached as Exhibit "2" to the Nakayama Declaration
15 annexed hereto (the "Agreement")², to sell substantially all of
16 the Debtor's assets at the price and in accordance with
17 substantially those terms contained in the Agreement, free and
18 clear of liens and interests pursuant to 11 U.S.C. Sec. 363(f).

19
20 10. The principal terms of the Agreement are as follows:

21 a. Buyer will purchase certain tangible and
22 intangible assets owned by the Debtor as defined in the Purchase
23 Agreement (the "Assets"), which Assets constitute substantially
24 all of the Assets of the Debtor;

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² The Debtor shall file with this Court a definitive and final form of the Agreement as soon as practicable, and in no event later than the day prior to the hearing on this Motion.

1 b. The purchase price is approximately \$8,900,000
2 (the "Purchase Price"). The Purchase Price consists of:

3 (1) A cash payment of \$5,050,000 upon closing;
4 (2) Assumption of Medicare cost reporting
5 liabilities of up to \$1,200,000;

6 (3) Assumption of post-petition vendor payables
7 up to \$1,400,000;

8 (4) An additional cash payment of \$50,000 in
9 connection with the assumption of designated executory physician
10 employment contracts;

11 (5) A \$1.2 million letter of credit in connection
12 with the assumption of the Debtor's real property lease with
13 Kasirer Family Holdings #4 LLC (the "KFH Lease"); plus

14 (6) Remittal to the Debtor of any
15 Disproportionate Share Hospital Payments received relating to the
16 fiscal year 2005 report for the Debtor for calendar year 2002
17 costs.
18

19 c. The closing date on the Sale shall be no later
20 than September 30, 2004.

21 d. The Sale of the Assets shall be free and clear of
22 liens pursuant to 11 U.S.C. § 363(f).

23 e. Buyer shall assume the KFH Lease and a parking lot
24 lease with Immanuel Lutheran Church, and assign such leases to
25 Buyer pursuant to 11 U.S.C. § 365. Buyer shall also designate
26 such other unexpired leases and executory contracts to be assumed
27 by the Debtor and assigned to Buyer pursuant to 11 U.S.C. § 365.
28

1 f. The Purchase Price shall be subject to qualified
2 overbids at the Sale Hearing.

3 g. Sun Capital Healthcare, Inc. ("Sun Capital") shall
4 be paid \$2.5 million on account of its undisputed first priority
5 lien claim upon closing of the Sale.

6 **E. The Benefits of the Sale Are Substantial.**

7
8 11. There are several substantial benefits to the Debtor's
9 estate resulting from the Sale. First, the Agreement provides
10 the Debtor's estate with a certain, locked-in buyer with a
11 purchase price of approximately \$8,900,000 ensuring the Debtor's
12 ability to consummate a sale of the Assets at a favorable price.

13 12. At the commencement of the Debtor's chapter 11 case,
14 the Debtor believed that there was a substantial possibility that
15 the Debtor would be able to increase revenues, reduce expenses,
16 and take other steps to improve operations so that it could exit
17 this case through an operating chapter 11 plan. Consequently,
18 the Debtor did not expend efforts to solicit offers to purchase
19 its assets. However, as explained above, a sale of the Debtor's
20 assets became imminent due to continued operating losses.

21 13. Several potential buyers have been in constant contact
22 with the Debtor and its counsel, and multiple parties have
23 entered into nondisclosure agreements with the Debtor to conduct
24 due diligence. Most, if not all, of the parties expressing
25 interest in purchasing the Assets were unsolicited by the Debtor.
26 Further, the Debtor placed a weekly advertisement in "Modern
27 Healthcare," a widely circulated periodical in the healthcare
28 industry, to advertise the sale as of August 30, 2004. Due to

1 these marketing efforts and the unsolicited interest of various
2 parties in conducting due diligence in connection with a possible
3 sale, the Debtor is confident that the proposed purchase price is
4 the maximum obtainable, or it will be overbid by other interested
5 parties pursuant to the sale procedures which are now pending
6 consideration before the Court.

7 14. A further benefit of the proposed Sale is the agreement
8 by Buyer to assume responsibility for post-petition vendor claims
9 of up to \$1.4 million for items such as utilities, trade credit,
10 and other unpaid operating expenses, thereby providing a direct
11 benefit to the Debtor's trade vendors.

12 15. Moreover, because Buyer will continue to operate the
13 Hospital, the Debtor's employees stand to benefit greatly.
14 Approximately 500 full and part-time employees depend on the
15 Debtor's operations for their livelihood. Buyer has agreed to
16 offer employment to at least 80% of the Debtor's employees.

17 16. In addition, continued operation of the Hospital by
18 Buyer, albeit under different ownership, will continue to provide
19 healthcare to the current community it serves, and will afford
20 many creditors the opportunity to conduct future business with
21 the successor entities. Therefore, great value is created for
22 the estate over and above the proposed purchase price.

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1 F. Profile of the Buyer.

2 17. The Buyer, Prime Healthcare Systems, LLC, is a
3 California limited liability company that has been newly formed
4 for the purpose of acquiring a hospital. Buyer's sole member is
5 Desert Valley Health System, Inc. ("DVHS"), which owns Desert
6 Valley Hospital, Inc. ("DVHI") and Apple Valley Surgery Center
7 Corporation ("AVSC"), two wholly owned subsidiaries. DVHI
8 operates Desert Valley Hospital in Victorville, California and
9 AVSC operates Apple Valley Surgery Center in Apple Valley,
10 California. DVHS is owned by Prime A Investments, LLC, a
11 Delaware limited liability company that holds interests in health
12 care entities, real estate and securities with an estimated value
13 in excess of \$100 million.
14

15 **II. THE COURT SHOULD APPROVE THE SALE OF THE ASSETS TO THE BUYER**
16 **FREE AND CLEAR OF LIENS**

17 A. The Court Should Approve the Debtor's Proposed Sale to
18 the Buyer Pursuant to Section 363(b) of the Bankruptcy
19 Code.

20 Section 363(b)(1) of the Bankruptcy Code provides:

21 "The trustee, after notice and a hearing, may use, sell, or
22 lease, other than in the ordinary course of business, property of
23 the estate."

24 11 U.S.C. § 363(b)(1).

25 As a general matter, "a judge determining a Section 363(b)
26 application [should] find from the evidence presented before him
27 at the hearing a good business reason to grant such an
28

1 application." In re Lionel Corp., 722 F.2d 1063, 1071 (2d Cir.
2 1983). The party moving under Section 363(b) carries the burden
3 of demonstrating that a use, sale or lease out of the ordinary
4 course of business will aid the Debtors' reorganization. Id.

5 Certain factors pertinent to this analysis have been
6 articulated in case law. Specifically, the Court should consider
7 whether:

- 8 (1) a sound business purpose justifies the
9 sale;
- 10 (2) accurate and reasonable notice of the
11 sale was provided;
- 12 (3) the price to be paid is adequate, i.e.,
13 fair and reasonable; and
- 14 (4) the sale is in good faith, i.e., there
15 is an absence of any lucrative deals
16 with insiders.
17

18 In re Industrial Valley Refrig. and Air Cond. Supplies,
19 Inc., 77 B.R. 15, 21 (Bankr. E.D. Pa. 1987); In re Wilde Horse
20 Enterprises, Inc., 136 B.R. 830, 841-2 (Bankr. C.D. Cal. 1991);
21 In re The Landing, 156 B.R. 246, 249 (Bankr. E.D. Mo. 1993); In
22 re George Walsh Chevrolet, Inc., 118 B.R. 99, 102 (Bankr. E.D.
23 Mo. 1990); In re WBQ Partnership, 189 B.R. 97, 102 (Bankr.
24 E.D.Va. 1995); In re Lady H. Coal Co., Inc., 193 B.R. 233 (Bankr.
25 S.D.W.Va. 1996).
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1 As described below, the proposed Sale to Buyer satisfies the
2 requirements of 11 U.S.C. § 363(b) and should be approved by the
3 Court.

4 1. Sound Business Purpose.

5
6 There must be some articulated business justification for
7 using, selling or leasing property out of the ordinary course of
8 business before the bankruptcy judge may order such disposition
9 under Section 363(b). In re Lionel Corp., supra, 722 F.2d at
10 1070. The Ninth Circuit Bankruptcy Appellate Panel in Walter v.
11 Sunwest Bank (In re Walter), 83 B.R. 14, 19 (9th Cir. B.A.P.
12 1988) adopted a flexible case-by-case test to determine whether
13 the business purpose for a proposed sale justifies disposition of
14 property of the estate under Section 363(b). In Walter, the
15 Bankruptcy Appellate Panel, adopting the reasoning of the Fifth
16 Circuit in In re Continental Airlines, Inc., 780 F.2d 1223 (5th
17 Cir. 1986) and the Second Circuit in In re Lionel Corp., supra,
18 articulated the standard to be applied under Section 363(b) as
19 follows:

20 "Whether the proffered business justification is
21 sufficient depends on the case. As the Second Circuit
22 held in Lionel, the bankruptcy judge should consider
23 all salient factors pertaining to the proceeding and,
24 accordingly, act to further the diverse interests of
25 the Debtors, creditors and equity holders, alike. He
26 might, for example, look to such relevant facts as the
27 proportionate value of the asset to the estate as a
28 whole, the amount of elapsed time since the filing, the

1 likelihood that a plan of reorganization will be
2 proposed and confirmed in the near future, the effect
3 of the proposed disposition on future plans of
4 reorganization, the proceeds to be obtained from the
5 disposition vis-a-vis any appraisals of the property,
6 which of the alternatives of use, sale or lease the
7 proposal envisions and, most importantly perhaps,
8 whether the asset is increasing or decreasing in value.
9 This list is not intended to be exclusive, but merely
10 to provide guidance to the bankruptcy judge."

11 In Re Walter, supra, 83 B.R. at 19-20, citing In re Continental,
12 780 F.2d at 1226.

13 The facts pertaining to the proposed Sale strongly support
14 the Debtor's business decision that the Sale is in the best
15 interests of the Debtor's estate and its creditors and merits the
16 approval of this Court.

17 There are several substantial benefits to the proposed Sale,
18 which are set forth above. The only alternatives to the Sale
19 would be either (1) a plan of reorganization providing for
20 payments to creditors from continued operations or (2) a
21 cessation of business operations and liquidation of the assets.
22 However, as demonstrated above, the Debtor cannot propose an
23 operating chapter 11 plan of reorganization due to ongoing and
24 substantial operating losses. On the other hand, a liquidation
25 of the Debtor's assets would bring substantially less proceeds
26 than that of the orderly sale for which the Debtor seeks approval
27 herein. The primary value of the Hospital derives from its
28 ongoing operations and the assumption of the obligations under

1 the KFH Lease, both of which would not exist in a liquidation
2 scenario. In the Debtor's view, the only assets that could be
3 disposed of in a liquidation are the Debtor's fixed assets (i.e.,
4 inventory and equipment) and accounts receivable, which would
5 likely be fully encumbered due to their drop in value in a
6 liquidation. In the event of a liquidation, the Debtor is not
7 likely to realize any value for certain of its assets, such as
8 goodwill. Moreover, the liquidation value of the Debtor's fixed
9 assets, such as inventory and equipment, is likely to be
10 significantly less than the value the Debtor could receive for
11 such assets pursuant to a sale of the Debtor's business as a
12 going concern, which the Debtor seeks to accomplish through the
13 proposed Sale. Finally, a liquidation would eliminate the above-
14 described benefits associated with the continued operation of the
15 Hospital.

16 The foregoing demonstrates that the proposed Sale in
17 accordance with the terms of the Agreement is justified by sound
18 business purposes, satisfying the first requirement for a sale
19 under Section 363(b) of the Bankruptcy Code.

20 2. Accurate and Reasonable Notice.

21
22 In connection with a proposed sale under Section 363 of the
23 Bankruptcy Code, "four pieces of information must be presented to
24 the creditors. The notice should: place all parties on notice
25 that the debtor is liquidating its business; disclose accurately
26 the full terms of the sale; explain the effect of the sale as
27 terminating the Debtors' ability to continue in business; and
28 explain why the proposed price is reasonable and why the sale is

1 in the best interest of the estate." In re Delaware & Hudson
2 Railway Co., 124 B.R. 169, 180 (D. Del. 1991). A notice is
3 sufficient if it includes the terms and conditions of the sale
4 and if it states the time for filing objections. In re Karpe, 84
5 B.R. 926, 930 (Bankr. M.D.Pa. 1988). The purpose of the notice
6 is to provide an opportunity for objections and hearing before
7 the court if there are objections. Id.

8 The Debtor has provided a notice of its proposed asset sale,
9 the date, time and place of the hearing on the Sale, and when
10 objections are due (the "Notice") to all creditors, the proposed
11 Buyer, the Office of the United States Trustee, and all parties
12 who served the Debtor with a request for special notice.

13 The Debtor has served notice of this Motion to all creditors
14 and parties in interest. In addition, the Debtor has served this
15 Motion upon the proposed Buyer, all secured creditors, the
16 Debtor's twenty largest unsecured creditors, all landlords of the
17 Debtor, all parties who have expressed an interest in acquiring
18 the Debtor's assets, the Office of the United States Trustee and
19 all parties who served the Debtor with a request for special
20 notice.

21 The Debtor submits that this notice procedure complies with
22 Federal Bankruptcy Rule 6004(a) and (c) and Local Bankruptcy Rule
23 9013-1(f), is the maximum notice that is necessary and
24 appropriate under the circumstances, and is the notice which is
25 intended to generate the highest sale price for the Debtor's
26 assets.

27 ///

1 3. Fair and Reasonable Price.

2 In order to be approved under Section 363(b) of the
3 Bankruptcy Code, the purchase price must be fair and reasonable.
4 Coastal Indus., Inc. v. U.S. Internal Revenue Service (In re
5 Coastal Indus., Inc.), 63 B.R. 361, 368 (Bankr. N.D. Ohio 1986).
6 Several courts have held that "fair value" is given for property
7 in a bankruptcy sale when at least 75% of the appraised value of
8 such property is paid. See In re Karpe, supra, 84 B.R. at 933;
9 In re Abbotts Dairies of Pennsylvania, Inc., 788 F.2d 143, 149
10 (3d Cir. 1986); Willemain v. Kivitz, 764 F.2d 1019 (4th Cir.
11 1985); In re Snyder, 74 B.R. 872, 878 (Bankr. E.D. Pa. 1987); In
12 re The Seychelles, Partnership and Genius Corp. v. Banyan Corp.,
13 32 B.R. 708 (N.D. Tex. 1983).

14 Several potential buyers have been in constant contact with
15 the Debtor and its counsel, and multiple parties have entered
16 into nondisclosure agreements with the Debtor to conduct due
17 diligence. Most, if not all, of the parties expressing interest
18 in purchasing the Assets were unsolicited by the Debtor.
19 Further, the Debtor has now placed a weekly advertisement in
20 "Modern Healthcare," a widely circulated periodical in the
21 healthcare industry, to advertise the Sale. Due to these
22 marketing efforts and the unsolicited interest of various parties
23 in conducting due diligence in connection with a possible sale,
24 the Debtor is confident that the proposed Purchase Price is the
25 maximum obtainable, or it will be overbid by other interested
26 parties pursuant to the sales procedures which are now pending
27 consideration before the Court.
28

1 The Debtor believes that the Purchase Price constitutes a
2 fair and reasonable purchase price for the Assets and reflects
3 the fair market value of the Assets. The Purchase Price was
4 arrived at following weeks of extensive arms-length negotiations
5 between the parties, and represents the best offer received by
6 the Debtor for the Assets.

7 4. Good Faith.

8
9 When a bankruptcy court authorizes a sale of assets pursuant
10 to Section 363(b)(1), it is required to make a finding with
11 respect to the "good faith" of the purchaser. In re Abbotts
12 Dairies, supra, 788 F.2d at 149. Such a procedure ensures that
13 Section 363(b)(1) will not be employed to circumvent the creditor
14 protections of chapter 11, and as such, it mirrors the
15 requirement of Section 1129, that the bankruptcy court
16 independently scrutinizes the debtor's reorganization plan and
17 make a finding that it has been proposed in good faith. Id. at
18 150.

19 "Good faith" encompasses fair value, and further speaks to
20 the integrity of the transaction. In re Wilde Horse Enterprises,
21 supra, 136 B.R. at 842. With respect to the Debtor's conduct in
22 conjunction with the Sale, the good faith requirement "focuses
23 principally on the element of special treatment of the debtor's
24 insiders in the sale transaction." See In re Industrial Valley
25 Refrig. and Air Cond. Supplies, Inc., supra, 77 B.R. 15, 17.
26 With respect to the Buyer's conduct, this Court should consider
27 whether there is any evidence of "fraud, collusion between the
28 purchaser and other bidders or the [debtor], or an attempt to

1 take grossly unfair advantage of other bidders." In re Abbotts
2 Dairies, supra, 788 F.2d at 147, In re Rock Indus. Mach. Corp.,
3 572 F.2d 1195, 1198 (7th Cir. 1978); In re Wilde Horse
4 Enterprises, Inc., supra, 136 B.R. at 842; In re Alpha
5 Industries, Inc., 84 B.R. 703, 706 (Bankr. D. Mont. 1988). In
6 short, "[l]ack of good faith is generally determined by
7 fraudulent conduct during the sale proceedings." In re Apex Oil
8 Co., 92 B.R. 847, 869 (Bankr. E.D. Mo. 1988), citing In re
9 Exennium, Inc., 715 F.2d 1401, 1404-05 (9th Cir. 1983).

10 The terms of the proposed Sale of the Assets were negotiated
11 in good faith in an extensive arms-length process. The proposed
12 Sale confers no special or undisclosed benefit upon any insider
13 of the Debtor. There is no distribution of any kind whatsoever
14 to any equity holder, officer or director of the Debtor that is
15 made part of the proposed Sale, other than physician contracts
16 which are being assumed and assigned to Buyer. Finally, there is
17 no fraud involving the Debtor or Buyer and no collusion between
18 Buyer and any other potential buyers or the Debtor.

19 Based on these facts, the Debtor submits that the Court
20 should find that Buyer is a good faith purchaser entitled to the
21 protections afforded by Section 363(m) of the Bankruptcy Code.

22 For all of the reasons described above, in analyzing the
23 options that are realistically available to the Debtor,
24 consummating the proposed Sale in accordance with the terms of
25 the Agreement is in the best interests of the Debtor's estate.

26 ///

27 ///

28

1 **B. Section 363(f) of the Bankruptcy Code Permits the**
2 **Debtor's Sale of its Assets Free and Clear of All Liens**
3 **and Interests.**

4 Section 363(f) of the Bankruptcy Code provides, in relevant
5 part, as follows:

6 "The trustee may sell property under subsection (b) . .
7 . of this section free and clear of any interest in
8 such property of an entity other than the estate, only
9 if-

- 10 (1) applicable non-bankruptcy law permits the sale of
11 such property free and clear of such interest; ...
- 12 (2) such entity consents;
- 13 (3) such interest is a lien and the price at which
14 such property is to be sold is greater than the
15 aggregate value of all liens on such property;
- 16 (4) Such interest is in bona fide dispute; or
- 17 (5) such entity could be compelled, in a legal or
18 equitable proceeding, to accept a money
19 satisfaction of such interest."

20 11 U.S.C. §363(f). Section 363(f) of the Bankruptcy Code
21 was drafted in the disjunctive. Therefore, a debtor need
22 only meet the provisions of one of the five subsections of
23 Section 363(f) in order for a sale of property free and
24 clear of interests to be permissible.

25 **C. The Proposed Sale Satisfies Sections 363(f)(2), (3) and**
26 **(4) of the Bankruptcy Code.**

27 Attached to the Nakayama Declaration as Exhibit "3" is a
28 schedule of alleged secured creditors (the "Secured Debt

1 Schedule") whom the Debtor believes claim a security interest in
2 the Assets (the "Secured Claims"). The Secured Debt Schedule is
3 in order of priority.

4 1. Section 363(f)(2).

5
6 The Debtor is informed that all holders of Secured Claims
7 consent to the Sale. In addition, to the extent that holders of
8 Secured Claims do not object to the Motion, the Debtor requests
9 that the Court deem that such failure to oppose the Motion
10 constitutes consent to the relief requested herein.

11 2. Section 363(f)(3).

12 The Purchase Price shall be sufficient to pay the holders of
13 Secured Claims in full. The Secured Debt Schedule demonstrates
14 that the Purchase Price is sufficient to pay the Secured Claims,
15 except the claim of Sun Capital. Sun Capital, however, has
16 consented to the terms of the Agreement, and will be paid \$2.5
17 million upon the close of the Sale, which will reduce the amount
18 of Sun Capital's undisputed secured claim against the estate. As
19 liens shall attach to proceeds of the Sale, the Sale should be
20 approved over any non-consenting creditor.

21 Moreover, a secured creditor who disagrees with the proposed
22 sale has recourse to Section 363(k), which permits such creditor
23 to bid in its lien to block a sale. In re Terrace Gardens Park
24 Partnership, 96 B.R. 707, 713 (Bankr. W.D. Tex. 1989).³

25
26 ³ Permitting a sale where the secured creditors are adequately protected
27 avoids the unfair situation where a creditor refuses to consent to a sale
28 which is otherwise beneficial to the estate. As stated by one bankruptcy
court:

"[I]f a secured creditor does not desire to take the
property for itself and yet refuses to consent to a sale at
less than the amount of its lien, it is effectively insisting

DECLARATION OF MAKOTO NAKAYAMA

I, Makoto Nakayama, hereby declare as follows:

1. I am the chief of hospital administration of Veritas Health Services, Inc. dba Chino Valley Medical Center, the debtor and debtor in possession in the above-captioned chapter 11 bankruptcy case (the "Debtor"). I have personal knowledge of the facts set forth below and, if called to testify, I would and could competently testify thereto.

2. The Debtor operates a private acute care medical surgical hospital (the "Hospital") in Chino, California. The Debtor offers critical medical and surgical care to the local communities. Patients are individuals who seek medical attention for acute or chronic clinical conditions, and are referred by their personal physicians or access care through the emergency department.

3. The Debtor's hospital facility and principal place of business is located at 5451 Walnut Avenue, Chino, California. The Debtor employs approximately 525 employees to carry on the Debtor's business operations.

A. Events Leading to the Debtor's Bankruptcy Filing.

4. Prior to the commencement of the Debtor's bankruptcy case, the Debtor had year-end net revenue of approximately \$51 million, income from operations (before interest, taxes, depreciation and amortization - EBITDA) of approximately \$4 million, and a net loss of approximately \$2 million.

1 5. The Debtor's bankruptcy filing was precipitated
2 primarily by cash flow problems brought on by low patient census
3 and high expenses.

4 **B. The Debtor's Post-Petition Operations.**

5 6. Since the Petition Date, the Debtor has commenced the
6 implementation of measures to increase operating efficiencies,
7 cut costs, and increase the profitability of its operations. In
8 particular, the Debtor has made an effort to increase its
9 inpatient and outpatient service volume through new physician and
10 health plan relationships, renegotiate certain provider
11 agreements, and conduct an analysis of its contracts with medical
12 staff, medical suppliers and other service providers in order to
13 determine whether any modifications of such contracts are
14 necessary.
15

16 7. Despite these efforts, the Debtor has had negative cash
17 flows for each of the last four calendar months beginning in
18 April 2004. As of July 30, 2004, the Debtor's bank accounts
19 reflected a **negative** cash balance of \$627,223.00. A true and
20 correct copy of the Debtor's July 2004 Interim Statement is
21 attached as Exhibit "1" hereto.
22

23 8. Due to the Debtor's present inability to generate
24 sufficient positive cash flow to fund a plan of reorganization,
25 the amount of secured debt encumbering the Debtor's assets, and
26 the lack of equity in the assets of the estates due to such
27 secured debt, the Debtor has determined that a sale of its
28

1 business as a going concern will realize the greatest value for
2 the estate and its creditors.

3 C. Principal Sale Terms.

4 9. The Debtor and Prime Healthcare Systems, LLC ("Buyer")
5 have entered into an Asset Purchase Agreement (the "Agreement")⁴
6 in substantially the form attached as Exhibit "2" hereto, to sell
7 substantially all of the Debtor's assets at the price and in
8 accordance with substantially those terms contained in the
9 Agreement, free and clear of liens and interests pursuant to 11
10 U.S.C. Sec. 363(f).

11 10. The principal terms of the Agreement are as follows:

12 a. Buyer will purchase certain tangible and
13 intangible assets owned by the Debtor as defined in the Purchase
14 Agreement (the "Assets"), which Assets constitute substantially
15 all of the Assets of the Debtor;
16

17 b. The purchase price is approximately \$8,900,000
18 (the "Purchase Price"). The Purchase Price consists of:

- 19 (1) A cash payment of \$5,050,000 upon closing;
- 20 (2) Assumption of Medicare cost reporting
21 liabilities of up to \$1,200,000;
- 22 (3) Assumption of post-petition vendor payables
23 up to \$1,400,000;
- 24
- 25
- 26

27 ⁴ The Debtor shall file with this Court a definitive and final form of the
28 Agreement as soon as practicable, and in no event later than the day prior to
the hearing on this Motion.

1 (4) An additional cash payment of \$50,000 in
2 connection with the assumption of designated executory physician
3 employment contracts;

4 (5) A \$1.2 million letter of credit in connection
5 with the assumption of the Debtor's real property lease with
6 Kasirer Family Holdings #4 LLC (the "KFH Lease"); plus

7 (6) Remittal to the Debtor of any
8 Disproportionate Share Hospital Payments received relating to the
9 fiscal year 2005 report for the Debtor for calendar year 2002
10 costs.

11 c. The closing date on the Sale shall be no later
12 than September 30, 2004.

13 d. The Sale of the Assets shall be free and clear of
14 liens pursuant to 11 U.S.C. § 363(f).

15 e. Buyer shall assume the KFH Lease and a parking lot
16 lease with Immanuel Lutheran Church, and assign such leases to
17 Buyer pursuant to 11 U.S.C. § 365. Buyer shall also designate
18 such other unexpired leases and executory contracts to be assumed
19 by the Debtor and assigned to Buyer pursuant to 11 U.S.C. § 365.

20 f. The Purchase Price shall be subject to qualified
21 overbids at the Sale Hearing.

22 g. Sun Capital Healthcare, Inc. ("Sun Capital") shall
23 be paid \$2.5 million on account of its undisputed first priority
24 lien claim upon closing of the Sale.
25
26
27
28

1 D. **The Benefits of the Sale Are Substantial.**

2 11. There are several substantial benefits to the Debtor's
3 estate resulting from the Sale. First, the Agreement provides
4 the Debtor's estate with a certain, locked-in buyer with a
5 purchase price of approximately \$8,900,000 ensuring the Debtor's
6 ability to consummate a sale of the Assets at a favorable price.

7 12. At the commencement of the Debtor's chapter 11 case,
8 the Debtor believed that there was a substantial possibility that
9 the Debtor would be able to increase revenues, reduce expenses,
10 and take other steps to improve operations so that it could exit
11 this case through an operating chapter 11 plan. Consequently,
12 the Debtor did not expend efforts to solicit offers to purchase
13 its assets. However, as explained above, a sale of the Debtor's
14 assets became imminent due to continued operating losses.

15 13. Several potential buyers have been in constant contact
16 with the Debtor and its counsel, and multiple parties have
17 entered into nondisclosure agreements with the Debtor to conduct
18 due diligence. Most, if not all, of the parties expressing
19 interest in purchasing the Assets were unsolicited by the Debtor.
20 Further, the Debtor placed a weekly advertisement in "Modern
21 Healthcare," a widely circulated periodical in the healthcare
22 industry, to advertise the sale as of August 30, 2004. Due to
23 these marketing efforts and the unsolicited interest of various
24 parties in conducting due diligence in connection with a possible
25 sale, the Debtor is confident that the proposed purchase price is
26 the maximum obtainable, or it will be overbid by other interested
27
28

1 parties pursuant to the sale procedures which are now pending
2 consideration before the Court.

3 14. A further benefit of the proposed Sale is the agreement
4 by Buyer to assume responsibility for post-petition vendor claims
5 of up to \$1.4 million for items such as utilities, trade credit,
6 and other unpaid operating expenses, thereby providing a direct
7 benefit to the Debtor's trade vendors.

8 15. Moreover, because Buyer will continue to operate the
9 Hospital, the Debtor's employees stand to benefit greatly.
10 Approximately 500 full and part-time employees depend on the
11 Debtor's operations for their livelihood. Buyer has agreed to
12 offer employment to at least 80% of the Debtor's employees.
13

14 16. In addition, continued operation of the Hospital by
15 Buyer, albeit under different ownership, will continue to provide
16 healthcare to the current community it serves, and will afford
17 many creditors the opportunity to conduct future business with
18 the successor entities. Therefore, great value is created for
19 the estate over and above the proposed purchase price.

20 17. Attached as Exhibit "3" hereto is a schedule of alleged
21 secured creditors (the "Secured Debt Schedule") whom the Debtor
22 believes claim a security interest in the Assets (the "Secured
23 Claims"). The Secured Debt Schedule is in order of priority.
24

25 Based upon the foregoing, the Debtors believe that the Sale
26 is in the best interests of their estates and creditors and,
27 thus, requests that the Court approve the Agreement and grant
28 other relief requested in the Motion.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Executed on this 3rd day of September, 2004 at Chino, California.



MAKOTO NAKAYAMA

OFFICE OF THE UNITED STATES TRUSTEE

In re: VERITAS HEALTH ASSOCIATES, INC. dba CHINO VALLEY MEDICAL CENTER
Debtor.
Chapter 11 Case No.: RS 04-11158 MJ

DEBTOR IN POSSESSION INTERIM STATEMENT
Statement Number: 6
For the Period From: 7/01/04
To: 7/31/04

CASH ACTIVITY ANALYSIS (Cash Basis Only)

Total Receipts per all Prior Interim Statements
Less: Total Disbursements per all Prior Statements
Beginning Balance (A less B)
Receipts during Current Period
Description:
Deposits \$198,979
Sun Capital Advances \$3,463,152
Transfer from General to Payroll (\$1,107,700)

Table with 3 columns: General (DIP) Account, Payroll Account, Tax Account. Rows include Total Receipts, Less: Total Disbursements, Beginning Balance, Receipts during Current Period, and Ending Balance.

TOTAL RECEIPTS THIS PERIOD:

Balance Available (C plus D)
Less: Disbursements during Current Period
See Attached Schedules.

TOTAL DISBURSEMENTS THIS PERIOD:

Ending Balance (E less F)

- (1) General Account: (a) Depository Name and Location: Foothill Independent Bank, 4012 Grand Ave, Chino, CA 91710; (b) Account Number: 452110377
(2) Payroll Account: (a) Depository Name and Location: Foothill Independent Bank, 4012 Grand Ave, Chino, CA 91710; (b) Account Number: 452110385
(3) Tax Account: (a) Depository Name and Location: Foothill Independent Bank, 4012 Grand Ave, Chino, CA 91710; (b) Account Number: 452110393

Other monies on hand (Specify type and location) (i.e. Certificates of Deposit, Petty Cash): \$540 petty cash

Makoto Nakayama, declare under penalty of perjury that the information contained in the above Debtor in Possession Interim Statement is true and complete to the best of our knowledge.

dated: 8-11-04

Signature of Makoto Nakayama

CHECK #	AMOUNT	DATE WRITTEN	Purpose	PAYEE
31151	6,977.09	7/1/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31152	225.00	7/1/2004	X-Ray Repairs	MEDICAL RESOURCE IMAGING
31153		7/1/2004	Void	ARCH WIRELESS-Void
31154	5,492.37	7/1/2004	Document Storage Fees	DOCUMENT STORAGE
31155	7,099.94	7/1/2004	Laundry/Linen	ANGELICA TEXTILE SERVICES
31156		7/1/2004	2nd Page	ANGELICA TEXTILE SERVICES
31157	19,781.41	7/1/2004	Dietary Contract Service	ISSI
31158	9,000.00	7/1/2004	X-Ray Repairs	MEDICAL RESOURCE IMAGING
EFT	95.00	7/1/2004	Bank Charges	Foothill Bank
WIRE	25,301.49	7/1/2004	MEDICAL SUPPLIES	MCKESSON
WIRE	8,995.04	7/1/2004	MEDICAL SUPPLIES	MCKESSON
31159	1,086.77	7/2/2004	Respiratory Therapy Supplies	BAYER HEALTHCARE LLC
31160	825.80	7/2/2004	Respiratory Therapy Supplies	BAYER HEALTHCARE LLC
31161	201.19	7/2/2004	Laboratory Supplies	BIO-RAD LABORATORIES, INC.
31162	11,109.08	7/2/2004	Dental Insurance	GUARDIAN
31163	6,993.82	7/2/2004	MEDICAL SUPPLIES	MEDLINE INDUSTRIES INC.
31164	227.93	7/2/2004	Office Supplies	TIME MED LABELING SYSTEMS, INC.
31165	941.99	7/2/2004	Medical Supplies	TYCO HEALTHCARE GROUP LP
31166	982.68	7/2/2004	Pharmaceuticals	CARDINAL HEALTH 200, INC
31167	647.00	7/6/2004	Employee Benefits	AFLAC
31168	100.00	7/6/2004	Reimburse Auxillary	CHINO VALLEY MEDICAL CENTER
31169	22,556.25	7/6/2004	Nurse Registry	EPIC PHS
31170	300.00	7/6/2004	Repairs/Maintenance	JERRY MOORE
31171		7/6/2004	Void	CARDINAL HEALTH-Void
31172	14,057.59	7/6/2004	Nurse Registry	HRN SERVICES, INC.
31173	523.73	7/6/2004	Medical Supplies	HOSPERIA WORLDWIDE CORP.
31174	2,335.50	7/6/2004	X-Ray Supplies	ALLIED HEALTH PRODUCTS
31175	48.50	7/6/2004	X-Ray Supplies	ALLIED HEALTH PRODUCTS
31176	988.44	7/6/2004	Office Supplies	AMES SAFETY ENVELOPE CO.
31177	264.50	7/6/2004	Medical Supplies	ARROW INTERNATIONAL, INC.
31178	1,549.50	7/6/2004	Pharmaceuticals	AVENTIS PASTEUR, INC.
31179	689.89	7/6/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31180	2,423.42	7/6/2004	Pharmaceuticals	CARDINAL HEALTH 200, INC
31181	769.34	7/6/2004	Supplies	MILLIPORE CORPORATION
31182	32.40	7/6/2004	Supplies	R & D BATTERIES
31183	807.73	7/6/2004	Forms	STANDARD REGISTER
31184	4,090.18	7/6/2004	Office Supplies	STAPLES
31185	4,455.48	7/6/2004	Lease Payment	MCKESSON CAPITAL CORP
31186	8,135.00	7/6/2004	Rents/Leases	MEDICAL INFORMATION TECHNOLOGY, INC.
31187		7/6/2004	Void	XEROX CORPORATION-Void
31188	3,421.03	7/7/2004	MEDICAL SUPPLIES	ALCON LABORATORIES INC.
31189	33.07	7/7/2004	MEDICAL SUPPLIES	ALCON LABORATORIES INC.
31190	3,594.86	7/7/2004	MEDICAL SUPPLIES	ALCON LABORATORIES INC.
31191	41,947.57	7/7/2004	Lease Payment	GE HEALTHCARE FINANCIAL
31192		7/7/2004	2nd Page	GE HEALTHCARE FINANCIAL
31193	2,384.40	7/7/2004	Medical Supplies	BOSTON SCIENTIFIC CORP
31194	40.90	7/7/2004	Lease Payment	MCKESSON CAPITAL CORP
31195		7/7/2004	Process wire into A/P System	MCKESSON CORPORATION
31196		7/7/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31197		7/7/2004	Process wire into A/P System	MCKESSON CORPORATION
31198		7/7/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31199		7/7/2004	Process wire into A/P System	MCKESSON CORPORATION
31200		7/7/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31201		7/7/2004	Process wire into A/P System	MCKESSON CORPORATION
31202		7/7/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31203		7/7/2004	Process wire into A/P System	MCKESSON CORPORATION
31204		7/7/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC

CHECK #	AMOUNT	DATE WRITTEN	Purpose	PAYEE
WIRE	24,937.73	7/7/2004	MEDICAL SUPPLIES	MCKESSON
31205	2,040.00	7/8/2004	Gi Medical Supplies	BARD ACCESS SYSTEMS
31206	39.00	7/8/2004	Medical Supplies	BIOMEDTRONICS
31207	4,088.31	7/8/2004	Medical Supplies	BOSTON SCIENTIFIC CORP
31208	3,139.67	7/8/2004	Pharmaceuticals	CARDINAL HEALTH 200, INC
31209	271.10	7/8/2004	Pharmaceuticals	CARDINAL HEALTH 200, INC
31210	59.41	7/8/2004	Supplies	DATA DISTRIBUTING, LLC
31211	3,024.00	7/8/2004	Medical Supplies	DAVOL, INC., A DIV OF C.R. BARD
31212	40,000.00	7/8/2004	Physical Therapy Contract Service	INTERSTATE REHAB, LLC
31213	87.08	7/8/2004	Supplies	PHYSICIANS RECORD CO
31214	473.70	7/8/2004	Gi Medical Supplies	SERIM RESEARCH
31215	8,817.88	7/8/2004	Forms	STANDARD REGISTER
31216	126.93	7/8/2004	Surgery Supplies	SYNTHE USA
31217	2,463.17	7/8/2004	Surgery Supplies	WILSON-COOK MEDICAL, INC.
31218	2,237.97	7/8/2004	Supplies	RF TECHNOLOGIES, INC.
31219	611.16	7/8/2004	Forms	STANDARD REGISTER
31220		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31221		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31222		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31223		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31224		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31225		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31226		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31227		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31228		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31229		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31230		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31231		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31232		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31233		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31234		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31235		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31236		7/8/2004	Process wire into A/P System	MCKESSON CORPORATION
31237		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31238		7/8/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
EFT	30.00	7/8/2004	Bank Charges	Foothill Bank
WIRE	25,151.87	7/8/2004	MEDICAL SUPPLIES	MCKESSON
31239	8,370.58	7/9/2004	Oxygen/Gases	AIR LIQUIDE AMERICA LLP
31240	923.93	7/9/2004	Laundry/Linen	ANGELICA TEXTILE SERVICES
31241	6,609.73	7/9/2004	Laundry/Linen	ANGELICA TEXTILE SERVICES
31242		7/9/2004	2nd Page	ANGELICA TEXTILE SERVICES
31243		7/9/2004	3rd Page	ANGELICA TEXTILE SERVICES
31244	5,131.20	7/9/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31245	275.24	7/9/2004	Petty Cash	CASH/CHINO VALLEY MEDICAL CENTER
31246	19,129.42	7/9/2004	Laboratory Supplies	DADE BEHRING, INC
31247	8,070.00	7/9/2004	Implants	DEPUY INC.
31248	8,050.00	7/9/2004	Medical Supplies	GUIDANT SALES CORPORATION
31249	20,376.99	7/9/2004	Dietary Contract Service	ISSI
31250	5,727.14	7/9/2004	MEDICAL SUPPLIES	MEDLINE INDUSTRIES INC.
31251	3,535.84	7/9/2004	Surgery Supplies	SYNTHE USA
31252	290.00	7/9/2004	Storage Unit Rental	WALL PROPERTIES
31253	756.50	7/9/2004	Overnight Delivery	UNITED PARCEL SERVICES
31254	1,012.05	7/9/2004	Pharmaceuticals	ASD SPECIALTY HEALTHCARE, INC
31255	2,450.64	7/9/2004	MEDICAL SUPPLIES	ALCON LABORATORIES INC.
31256		7/9/2004	Process wire into A/P System	MCKESSON CORPORATION
31257		7/9/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31258		7/9/2004	Process wire into A/P System	MCKESSON CORPORATION
31259		7/9/2004	Process wire into A/P System	MCKESSON CORPORATION
31260		7/9/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31261		7/9/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC

CHECK #	AMOUNT	DATE WRITTEN	Purpose	PAYEE
EFT	1,077.70	7/9/2004	Bank Charges	Foothill Bank
EFT	204,786.69	7/9/2004	Federal/FICA Taxes	IRS
EFT	1,526.66	7/9/2004	FUI Quarterly Taxes	IRS
EFT	36,270.16	7/9/2004	State/SDI Taxes	State of California
EFT	555.15	7/9/2004	SUI/ETT Taxes	State of California
WIRE	10,889.31	7/9/2004	FACILITY RENT	Kaisier Family Trust Holdings
WIRE	271,109.68	7/9/2004	FACILITY RENT	KASRIER FAMILY TRUST
WIRE	22,000.00	7/9/2004	TRANSCRIPTION	FOCUS
31262	10,000.00	7/12/2004	Blood Products	BLOOD BANK OF SAN BERNARDINO
31263	1,532.71	7/12/2004	Lease Payment	CAPTECH FUNDING CORPORATION
31264	146.17	7/12/2004	Petty Cash	CASH/CHINO VALLEY MEDICAL CENTER
31265	6,180.59	7/12/2004	Utilities-Water/Sewer	CITY OF CHINO
31266	537.75	7/12/2004	Laboratory Supplies	IMMUCOR, INC.
31267	470.04	7/12/2004	Laboratory Supplies	IMMUCOR, INC.
31268	49,309.42	7/12/2004	Electricity	SOUTHERN CALIFORNIA EDISON COMPANY
31269	48.20	7/12/2004	Repairs/Maintenance	ADVANCED AUTO
31270	2,289.72	7/12/2004	X-Ray Supplies	ALLIED HEALTH PRODUCTS
31271	3,662.00	7/12/2004	Medical Supplies	DAVOL, INC., A DIV OF C.R. BARD
31272	580.80	7/12/2004	Medical Supplies	HOSPERIA WORLDWIDE CORP.
31273	289.46	7/12/2004	Laboratory Supplies	IMMUCOR, INC.
31274	12,237.50	7/12/2004	Repairs/Maintenance	SUPERIOR SCIENTIFIC, INC
31275	280.15	7/12/2004	Medical Supplies	TYCO HEALTHCARE GROUP LP
WIRE	16,819.48	7/12/2004	MEDICAL SUPPLIES	MCKESSON
31276	94.54	7/13/2004	MEDICAL SUPPLIES	ABBOTT LABORATORIES DIAG
31277	5,023.81	7/13/2004	Laboratory Supplies	BECKMAN COULTER
31278	256.79	7/13/2004	Employee Benefits-Garnishment	COURT TRUSTEE
31279	136.26	7/13/2004	Employee Benefits-Garnishment	FRANCHISE TAX BOARD
31280	28.00	7/13/2004	Employee Deductions	MT. BALDY UNITED WAY
31281	3,071.91	7/13/2004	Contract Services	MUTUAL OF OMAHA-MEDICARE
31282		7/13/2004	2nd Page	MUTUAL OF OMAHA-MEDICARE
31283	352.00	7/13/2004	Employee Benefits-Garnishment	SAN BERNARDINO COUNTY
31284	25.00	7/13/2004	Employee Benefits-Garnishment	SHERIFF'S COURT SERVICES
31285	176.14	7/13/2004	Employee Benefits-Garnishment	UNITED STATES TREASURY
31286	175.00	7/13/2004	Employee Benefits-Garnishment	UNITED STATES TREASURY
EFT	23.75	7/13/2004	Bank Charges	Foothill Bank
31287	647.00	7/14/2004	Employee Benefits	AFLAC
31288	3,770.50	7/14/2004	Implants	HOWMEDICA
31289	140.41	7/14/2004	Petty Cash	CASH/CHINO VALLEY MEDICAL CENTER
31290	200.51	7/14/2004	Repairs/Maintenance	NASH ENTERPRISES, INC
31291	5,035.50	7/14/2004	Supplies	OMNI TRACT
31292		7/14/2004	Void	STATE FUND COMPENSATION INSURANCE
31293	283,870.00	7/14/2004	Workers Compensation	STATE FUND COMPENSATION INSURANCE
31294	35,466.79	7/14/2004	Workers Compensation	STATE FUND COMPENSATION INSURANCE
31295	882.85	7/14/2004	MEDICAL SUPPLIES	ABBOTT LABORATORIES DIAG
31296	507.23	7/14/2004	Office Supplies	AMES SAFETY ENVELOPE CO.
31297	739.84	7/14/2004	Medical Supplies	ARROW INTERNATIONAL, INC.
31298	738.56	7/14/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31299	797.86	7/14/2004	Petty Cash	CASH/CHINO VALLEY MEDICAL CENTER
31300	1,315.89	7/14/2004	Implants	DEPUY INC.
31301		7/14/2004	Void	IMMUCOR, INC.
31302	160.45	7/14/2004	Surgery Supplies	LINVATEC
31303	59.68	7/14/2004	Implants	MEDTRONIC NEURO
31304	757.80	7/14/2004	Medical Supplies	STERIS CORPORATION
31305	182.11	7/14/2004	Repairs/Maintenance	VALLEYLAB/RADIONICS, A DIVISION OF
31306	89,892.15	7/14/2004	Employee Medical Benefits	CALIFORNIA PHYSICIANS SERVICE
WIRE	33,874.38	7/14/2004	MEDICAL SUPPLIES	MCKESSON
31307	3,770.50	7/15/2004	Implants	HOWMEDICA
31308	232.50	7/15/2004	Licenses/Permits	DEPARTMENT OF TOXIC SUBSTANCE
31309	225.00	7/15/2004	Licenses/Permits	DEPARTMENT OF TOXIC SUBSTANCE
31310	6,723.30	7/15/2004	Implants	DEPUY INC.

CHECK #	AMOUNT	DATE WRITTEN	Purpose	PAYEE
31311	143.00	7/15/2004	Licenses/Permits	DMV RENEWAL
31312	3,662.76	7/16/2004	X-Ray Supplies	ALLIED HEALTH PRODUCTS
31313	10,680.61	7/16/2004	Laundry/Linen	ANGELICA TEXTILE SERVICES
31314		7/16/2004	2nd Page	ANGELICA TEXTILE SERVICES
31315		7/16/2004	3rd Page	ANGELICA TEXTILE SERVICES
31316	21,729.04	7/16/2004	Dietary Contract Service	ISSI
31317	741.89	7/16/2004	Laboratory Supplies	BIO-RAD LABORATORIES, INC.
31318	7,271.53	7/16/2004	Medical Supplies	BOSTON SCIENTIFIC CORP
31319	2,946.00	7/16/2004	Implants	HOWMEDICA
31320	420.75	7/16/2004	Laboratory Supplies	DIAGNOSTICA STAGO INC.
31321	3,456.35	7/16/2004	Supplies	MIRANDA, RAPHAEL
31322	140.39	7/16/2004	Medical Supplies	STERIS CORPORATION
31323	1,900.00	7/16/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31324	4,287.40	7/16/2004	MEDICAL SUPPLIES	MEDLINE INDUSTRIES INC.
31325	207.54	7/16/2004	Forms	STANDARD REGISTER
WIRE	42,184.73	7/16/2004	MEDICAL SUPPLIES	MCKESSON
31326	5,712.50	7/19/2004	Implants	BIOTRONIK, INC
31327	10,000.00	7/19/2004	Blood Products	BLOOD BANK OF SAN BERNARDINO
31328		7/19/2004	Void	KINETIKOS MEDICAL-Void
31329	1,405.00	7/19/2004	Medical Supplies	WRIGHT MEDICAL TECHNOLOGY INC.
WIRE	22,531.54	7/19/2004	401 K	GUARDIAN
WIRE	19,297.58	7/19/2004	402 K	GUARDIAN
WIRE	17,464.75	7/19/2004	MEDICAL SUPPLIES	MCKESSON
WIRE	1,654.23	7/19/2004	PAGERS	ARCH WIRELESS
31330	110,753.10	7/20/2004	Workers Compensation	STATE FUND COMPENSATION INSURANCE
31331	110,753.10	7/20/2004	Workers Compensation	STATE FUND COMPENSATION INSURANCE
31332	6,537.72	7/20/2004	Document Storage Fees	DOCUMENT STORAGE
31333	3,355.00	7/20/2004	Contract Services	LINDSEY, VILLA
31334	200.00	7/20/2004	Licenses/Permits	INLAND COUNTIES EMERGENCY MEDICAL
31335	64.65	7/20/2004	Employee Reimbursement	JERRY SERVICE
31336	300.00	7/20/2004	Employee Reimbursement	MITCH FORTIER
31337	260.00	7/20/2004	Delivery Service	ORANGE COURIER INC.
31338	286.01	7/20/2004	Employee Reimbursement	SUE BACHLE
31339	3,200.00	7/21/2004	Repairs/Maintenance	ATLAS MEDICAL TECHNOLOGIES
31340	7,909.85	7/21/2004	Implants	HOWMEDICA
31341	13,446.60	7/21/2004	Implants	DEPUY INC.
31342	3,910.00	7/21/2004	Implants	KINETIKOS MEDICAL, INC.
31343	5,000.00	7/21/2004	Lease Payment	IMMANUAL LUTHERAN CHURCH
WIRE	29,105.34	7/21/2004	MEDICAL SUPPLIES	MCKESSON
31344	133,447.25	7/22/2004	Liability Insurance	AFCO
31345	14,851.59	7/22/2004	Lease Payment	MCKESSON CAPITAL CORP
31346	102.94	7/22/2004	Surgery Supplies	PETER BRASSELER HOLDINGS, LP
31347	46.36	7/22/2004	Surgery Supplies	PETER BRASSELER HOLDINGS, LP
31348		7/22/2004	Process wire into A/P System	MCKESSON CORPORATION
31349		7/22/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31350		7/22/2004	Process wire into A/P System	MCKESSON CORPORATION
31351		7/22/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31352		7/22/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31353	20,536.24	7/23/2004	Dialysis Contract Service	GAMBRO HEALTHCARE
31354	20,000.00	7/23/2004	Physical Therapy Contract Service	INTERSTATE REHAB, LLC
31355	20,171.25	7/23/2004	Dietary Contract Service	ISSI
31356	832.00	7/23/2004	Medical Staff Legal Services	LAHANA, JAMES R.
31357	18,661.18	7/23/2004	Laboratory Contract Service	QUEST DIAGNOSTICS INCORPORATED (NV)
31358	12,497.00	7/23/2004	Mri Contract Service	SOCAL MR SITE MANAGEMENT, INC.
31359		7/23/2004	Void wrong check paper	ALLIED HEALTH PRODUCTS
31360		7/23/2004	Void wrong check paper	BAXTER HEALTHCARE CORP.
31361		7/23/2004	Void wrong check paper	BAXTER HEALTHCARE CORP.
31362		7/23/2004	Void wrong check paper	BIOTRONIK, INC
31363		7/23/2004	Void wrong check paper	BLOOD BANK OF SAN BERNARDINO
31364		7/23/2004	Void wrong check paper	INLAND PHYSICIANS SVCS

CHECK #	AMOUNT	DATE WRITTEN	Purpose	PAYEE
31365		7/23/2004	Void wrong check paper	LALLY, JAMES D.O.
31366		7/23/2004	Void wrong check paper	MCKESSON CORPORATION
31367		7/23/2004	Void wrong check paper	MEDISCAN STAFFING
31368		7/23/2004	Void wrong check paper	SUZETTE LEHRMANN
31369		7/23/2004	Void wrong check paper	SYNTHESES USA
31370		7/23/2004	Void wrong check paper	WESCOR, INC.
31371	113.14	7/23/2004	X-Ray Supplies	ALLIED HEALTH PRODUCTS
31372	4,404.47	7/23/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31373	1,703.10	7/23/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31374	5,527.00	7/23/2004	Implants	BIOTRONIK, INC
31375	10,000.00	7/23/2004	Blood Products	BLOOD BANK OF SAN BERNARDINO
31376	8,050.00	7/23/2004	Director Fees/Interns/Residents	INLAND PHYSICIANS SVCS
31377	10,500.00	7/23/2004	Director Fees/Interns/Residents	LALLY, JAMES D.O.
31378	2,945.40	7/23/2004	RT/X-Ray registry	MEDISCAN STAFFING
31379	1,510.45	7/23/2004	MEDICAL SUPPLIES	MEDLINE INDUSTRIES INC.
31380	778.84	7/23/2004	Patient Refund	SUZETTE LEHRMANN
31381	3,422.53	7/23/2004	Surgery Supplies	SYNTHESES USA
31382	375.50	7/23/2004	Laboratory Supplies	WESCOR, INC.
31383		7/23/2004	Process wire into A/P System	MCKESSON CORPORATION
31384		7/23/2004	Process wire into A/P System	MCKESSON CORPORATION
31385		7/23/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31386		7/23/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31387	120.00	7/23/2004	Repairs/Maintenance	ADVANCED AUTO
31388		7/23/2004	Process wire into A/P System	MCKESSON CORPORATION
31389		7/23/2004	Process wire into A/P System	MCKESSON CORPORATION
31390		7/23/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31391		7/23/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31392		7/23/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31393		7/23/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
EFT	201,540.09	7/23/2004	Federal/FICA Taxes	IRS
EFT	1,529.52	7/23/2004	FUI Quarterly Taxes	IRS
EFT	35,778.28	7/23/2004	State/SDI Taxes	State of California
EFT	556.19	7/23/2004	SUI/ETT Taxes	State of California
WIRE	12,238.44	7/23/2004	MEDICAL SUPPLIES	MCKESSON
31394	11,500.00	7/26/2004	Contract Services	HEALTHCARE CONCEPTS
31395	256.79	7/26/2004	Employee Benefits-Garnishment	COURT TRUSTEE
31396	144.98	7/26/2004	Employee Benefits-Garnishment	FRANCHISE TAX BOARD
31397	352.00	7/26/2004	Employee Benefits-Garnishment	SAN BERNARDINO COUNTY
31398	25.00	7/26/2004	Employee Benefits-Garnishment	SHERIFF'S COURT SERVICES
31399	176.14	7/26/2004	Employee Benefits-Garnishment	UNITED STATES TREASURY
31400	175.00	7/26/2004	Employee Benefits-Garnishment	UNITED STATES TREASURY
31401	280.00	7/26/2004	EKG Professional Fees	ABEA NEURADIAGNOSTICS, INC.
WIRE	17,628.90	7/26/2004	TRANSCRIPTION	FOCUS
31402	445.00	7/27/2004	EKG Professional Fees	ABEA NEURADIAGNOSTICS, INC.
31403	3,519.20	7/27/2004	RT/X-Ray registry	MEDISCAN STAFFING
31404	300.00	7/27/2004	Savings Bond-Employee	FEDERAL RESERVE BANK
31405	1,275.00	7/27/2004	Licenses/Permits	INFRARED TECHNICS INC.
31406	4,177.60	7/27/2004	MEDICAL SUPPLIES	MEDLINE INDUSTRIES INC.
31407	28.00	7/27/2004	Employee Deductions	MT. BALDY UNITED WAY
31408	90.00	7/27/2004	Patient Lost Items	MYRON FEIL
WIRE	12,913.21	7/27/2004	MEDICAL SUPPLIES	MCKESSON
31409	92,069.84	7/28/2004	Employee Medical Benefits	CALIFORNIA PHYSICIANS SERVICE
31410	500.00	7/28/2004	Repairs/Maintenance	COMMERCIAL DOOR METAL SYSTEMS, INC
31411	21,325.85	7/28/2004	Laboratory Supplies	DADE BEHRING, INC
31412		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
31413		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
31414		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
31415		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
31416		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
31417		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION

CHECK #	AMOUNT	DATE WRITTEN	Purpose	PAYEE
31418		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
31419		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
31420		7/28/2004	Process wire into A/P System	MCKESSON CORPORATION
EFT	23.75	7/28/2004	Bank Charges	Foothill Bank
WIRE	49,469.78	7/28/2004	MEDICAL SUPPLIES	MCKESSON
31421	303.23	7/29/2004	Implants	Stryker Corporation
31422	500.00	7/29/2004	Repairs/Maintenance	T R L SYSTEMS, INC.
31423		7/29/2004	Process wire into A/P System	MCKESSON CORPORATION
31424	3,550.82	7/29/2004	O/R supplies	MEGADYNE MEDICAL PRODUCTS
31425		7/29/2004	Process wire into A/P System	MCKESSON CORPORATION
31426		7/29/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31427		7/29/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31428	3,000.00	7/29/2004	Contract Services	FLEX ED
31429	2,500.00	7/29/2004	Lease Payment	IMMANUAL LUTHERAN CHURCH
31430		7/29/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31431		7/29/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31432		7/29/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31433		7/29/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31434		7/29/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
EFT	47.50	7/29/2004	Bank Charges	Foothill Bank
31435	2,946.00	7/30/2004	Implants	Stryker Corporation
31436	8,463.45	7/30/2004	Implants	Stryker Corporation
31437	5,841.60	7/30/2004	Implants	DEPUY INC.
31438	410.53	7/30/2004	Laboratory Supplies	EDWARDS LIFESCIENCES
31439	110.00	7/30/2004	Delivery Service	ORANGE COURIER INC.
31440	310.50	7/30/2004	Contract Services	SILVER BULLET CORP, THE
31441	949.00	7/30/2004	Sales Tax Quarterly	STATE BOARD OF EQUALIZATION
31442	3,048.45	7/30/2004	Surgery Supplies	SYNTHEUS USA
31443	1,000.00	7/30/2004	Postage for Meter	UNITED STATES POSTAL SERVICE
31444	589.70	7/30/2004	Phone Service	VERIZON
31445	28,176.27	7/30/2004	Phone Service	VERIZON CALIFORNIA
31446	5,527.00	7/30/2004	Implants	BIOTRONIK
31447	823.08	7/30/2004	MEDICAL SUPPLIES	ABBOTT LABORATORIES DIAG
31448		7/30/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31449		7/30/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31450		7/30/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31451		7/30/2004	Process wire into A/P System	MCKESSON MEDICAL - SURGICAL, INC
31452		7/30/2004	Process wire into A/P System	MCKESSON CORPORATION
31453		7/30/2004	Process wire into A/P System	MCKESSON CORPORATION
31454		7/30/2004	Process wire into A/P System	MCKESSON CORPORATION
31455		7/30/2004	Process wire into A/P System	MCKESSON CORPORATION
31456	1,364.10	7/30/2004	MEDICAL SUPPLIES	3M COMPANY
31457	6,335.36	7/30/2004	Medical Supplies	BAXTER HEALTHCARE CORP.
31458	1,946.29	7/30/2004	Pharmaceuticals	CARDINAL HEALTH 200, INC
31459	1,648.50	7/30/2004	Pharmaceuticals	CARDINAL HEALTH 200, INC
31460	1,131.70	7/30/2004	Repairs/Maintenance	MEDICAL EQUIP. SERVICES, INC.
31461	5,569.53	7/30/2004	MEDICAL SUPPLIES	MEDLINE INDUSTRIES INC.
31462	647.58	7/30/2004	X-Ray Supplies	MEDRAD, INC.
31463	101.94	7/30/2004	Repairs/Maintenance	PHYSIO-CONTROL
31464	1,094.12	7/30/2004	Forms	STANDARD REGISTER
31465	102.21	7/30/2004	Medical Supplies	STERIS CORPORATION
EFT	5.25	7/30/2004	Bank Charges	Foothill Bank
WIRE	32,770.61	7/30/2004	MEDICAL SUPPLIES	MCKESSON
	2,914,442.55			
	(2,914,442.55)			

VERITAS HEALTH SERVICES DBA CHINO VALLEY MEDICAL CENTER
 PAYROLL (DIP) ACCOUNT
 CASH DISBURSEMENTS
 07/01/04 TO 07/30/04

From	To	DATE			
CHECK #	CHECK #	AMOUNT	WRITTEN	Purpose	PAYEE
15451		-	7/1/2004		VOID
15452		-	7/2/2004		VOID
15453		-	7/1/2004		VOID
15454		2931.65	7/2/2004	Termination	RAY,HARLAN
15455		702.57	7/2/2004	Termination	ESCOBEDO,LOURDES J.
15456	15966	541,957.69	7/9/2004	Regular P/R	All Employees
15535		(2,139.69)	7/9/2004	Voided	Jover, Monna
15482		(715.15)	7/9/2004	Voided	Bachar, Imelda
15967		2,061.13	7/8/2004	Adjustment	Jover, Monna
15968		1,419.27	7/9/2004	Adjustment	Bachar, Imelda
15969		490.92	7/9/2004	Adjustment	Dabu, Grace
15970		289.54	7/9/2004	Adjustment	Lowther, Laura
15971		90.15	7/9/2004	Adjustment	Gonzales, Hope
15972		335.38	7/9/2004	Adjustment	Verkler, Michael
15973		363.45	7/9/2004	Adjustment	Ruggio, Linda
15974		403.73	7/9/2004	Adjustment	Traina, Sandra
15975		159.44	7/9/2004	Adjustment	Zubia, Michelle
15976		365.24	7/12/2004	Termination	Mortan, Christine
15977		755.21	7/15/2004	Termination	Mitchell, Rod
15978	16440	540,487.92	7/23/2004	Regular P/R	All Employees
16328		(788.47)	7/23/2004	Voided	Bradley, Leon
15989		(565.20)	7/24/2004	Voided	Garcia, Shirley
15990		(565.20)	7/25/2004	Voided	Garcia, Shirley
15991		(1,026.85)	7/26/2004	Voided	Garcia, Shirley
16441		2,990.31	7/23/2004	Termination	Ochoa, Cruz
16442		186.44	7/23/2004	Adjustment	Verkler, Michael
16443		420.41	7/23/2004	Adjustment	Jackson, Mishawn
16444		990.45	7/23/2004	Adjustment	Eily, Lucia
16445		818.03	7/23/2004	Adjustment	Bradley, Leon
16446		84.78	7/23/2004	Adjustment	Jerez, Jessica
16447		197.68	7/23/2004	Adjustment	Zaretki, Debra
16448		153.72	7/23/2004	Adjustment	Smith, Laurel
16449		110.91	7/23/2004	Adjustment	Thomas, Maritza
16450		306.35	7/26/2004	Adjustment	Zafra, Majorie
EFT		(285.00)	7/1/2004	Bank Charges	Foothill Bank
EFT		76.50	7/6/2004	Bank Charges	Foothill Bank
EFT		147.75	7/7/2004	Bank Charges	Foothill Bank
EFT		234.47	7/9/2004	Bank Charges	Foothill Bank
EFT		23.75	7/21/2004	Bank Charges	Foothill Bank
EFT		118.75	7/29/2004	Bank Charges	Foothill Bank
EFT		23.75	7/30/2004	Bank Charges	Foothill Bank

1,093,611.78

(1,093,611.78)

PROOF OF SERVICE
STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am an employee in the County of Los Angeles, State of California. I am over the age of 18 and am not a party to the within action; my business address is: 1801 Avenue of the Stars, Suite 1120, Los Angeles, California 90067.

On August 31, 2004, I served the foregoing document(s) described as:

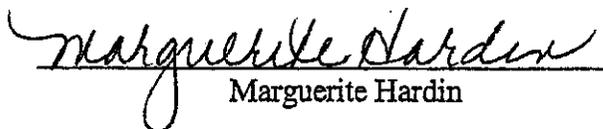
INTERIM STATEMENT NO. 6

on the interested parties in this action by placing a true copy thereof enclosed in a sealed envelope with postage thereon fully prepaid in the United States mail at Los Angeles, California, addressed as follows:

<u>Attys for Sun Capital Healthcare</u> Mary H. Rose, Esq. Proskauer, Rose 2049 Century Park East, # 3200 Los Angeles, CA 90067	<u>Counsel for Creditors Committee</u> Howard Levine, Esq. 1801 Century Park East Suite 2400 Los Angeles, CA 90067
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 X (By Mail) I caused such envelope with postage thereon, fully prepaid to be placed in the United States mail. Executed on August 31, 2004 at Los Angeles, California.

 X (Federal) I declare under penalty of perjury under the the laws of the United States of America that the foregoing is true and correct.


Marguerite Hardin

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this "Agreement"), dated as of _____, 2004, is made and entered into by and between Prime Healthcare Systems, LLC ("Buyer"), and Veritas Health Services, Inc. ("Seller").

WHEREAS, Seller is engaged in the business, among others, of operating the Chino Valley Medical Center located at 5451 Walnut Avenue, Chino, CA 91710, together with the Emanuel Lutheran Church parking lot. Both leases are further identified on Exhibit A (the business and properties are collectively the "Chino Valley Medical Center"); and

WHEREAS, Seller desires to sell and assign to Buyer, and Buyer desires to purchase and assume from Seller, on the terms and subject to the conditions set forth in this Agreement, all of the assets of Seller that are currently being used by Seller in the conduct of the Chino Valley Medical Center, all upon the terms and conditions hereinafter set forth, in each case, in accordance with Sections 363 and 365 of Title 11, United States Code, as amended (the "Bankruptcy Code"); and

WHEREAS, pursuant to the Bankruptcy Code, Seller is currently in possession of its assets as a Chapter 11 Debtor-in-Possession in Case No. RS 04-11158 MJ (hereinafter referred to as the "Bankruptcy Case"), presently pending in the United States Bankruptcy Court for the Central District of California (3420 Twelfth Street Riverside, California 92501) (hereinafter referred to as the "Bankruptcy Court"), and Seller, upon proper approval and authorization from the Bankruptcy Court, may sell and assign assets outside of the ordinary course of business.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements and the conditions set forth in this Agreement, Buyer and Seller hereby agree as follows:

I. Transfer of Chino Valley Medical Center Assets; Assumption of Liabilities

1.1 Transfer of Chino Valley Medical Center Assets. On the terms and subject to the conditions set forth in this Agreement, Seller shall, at the Closing (as defined in Section 3.1 hereof), sell, transfer and assign to Buyer, and Buyer shall purchase and acquire from Seller, all of Seller's right, title and interest, as of the Closing Date (as defined in Section 3.1 hereof), in and to all of the tangible and intangible assets, including but not limited to real property leases and equipment leases of Seller related to, or used in conjunction with, the Chino Valley Medical Center (collectively, except for the excluded assets set forth in Section 1.2 hereof, the "Chino Valley Medical Center Assets"). Said Chino Valley Medical Center Assets to be free and clear of any mortgage, lien, security interest, charge, hypothecation, pledge, adverse claim, encumbrance or restriction of any kind or nature whatsoever (each a "Lien"), other than those related solely to the Assumed Liabilities which Liens are disclosed on Schedule 1.1 (the "Permitted Liens"), including, but not limited to:

(a) All of the equipment and machinery, owned by Seller and used by Seller in the operation of the Chino Valley Medical Center, including the equipment and machinery listed on Schedule 1.1(a) attached hereto;

EXHIBIT 2

(b) Seller's interest in those Real Property Leases (hereinafter defined), equipment leases, other leases, licenses, contracts or agreements with respect to the Chino Valley Medical Center and to which Seller is a party, and that are listed on Schedule 1.1(b) attached hereto;

(c) The software used in connection with Chino Valley Medical Center (all such software and code described in this subsection is collectively referred to herein as the "Transferred Software").

(d) All rights to the Disproportionate Share Hospital funding except as specifically set forth in section 2.1 (f) hereof.

(e) All rights in any trademarks, service marks, trade names, domain names, associated applications and registrations, and any good will associated with the foregoing, including but not limited to the trademark and the name "Chino Valley Medical Center" or any combination of words in which the name "Chino Valley Medical Center" appears, or any rights associated with such name, or any right to use such name in all jurisdictions in which Seller either currently uses any such name or has any right to use any such name (collectively, the "Transferred Trademarks") owned by Seller and used in connection with the Chino Valley Medical Center, and including the rights to institute or maintain any action or investigation, and to recover damages, for any past infringement thereof or any actions of unfair competition relating thereto.

(f) Goodwill associated with the Chino Valley Medical Center (including all goodwill associated with and symbolized by the name or names identified in subsection (f) above as used as a trademark or service mark, and all goodwill associated with and symbolized by any other trademark or service mark, trade name or corporate name used in the conduct of the Chino Valley Medical Center (including, without limitation, the Transferred Trademarks) as now conducted, all related tangibles and intangibles which Seller uses in the conduct of the Chino Valley Medical Center and all rights to continue to use the Chino Valley Medical Center Assets in the conduct of a going business.

The parties hereto expressly agree that Buyer is not assuming any of the liabilities, obligations or undertakings relating to the foregoing Chino Valley Medical Center Assets, except for those liabilities and obligations specifically assumed by Buyer in Section 1.3 hereof.

1.2 Excluded Assets and Agreements. Notwithstanding the foregoing, the assets and agreements set forth in Schedule 1.2 (the "Excluded Assets") are expressly excluded from the purchase and sale contemplated hereby and are not included in the Chino Valley Medical Center Assets.

1.3 Assumption of Liabilities. Buyer shall assume, pay, perform in accordance with their terms or otherwise satisfy, as of the Closing Date, the following:

(a) Trade vendor claims arising on or after the Petition Date in an amount not to exceed \$1.4 million (the "Assumed Trade Vendor Claims"). The list of Assumed Trade Vendor Claims shall be agreed to at or prior closing.

(b) Seller's obligations under the real property leases, equipment leases, other leases, licenses, contracts and agreements listed on Schedule 1.1(b) (the "Purchased Contracts") provided, however, Buyer shall not assume any obligations under Purchased Contracts that are not assigned or transferred to Buyer; provided, further, however, that Buyer shall not assume any obligation arising as a result of Seller's breach of, or failure to pay in the ordinary course in accordance with, the terms of any Purchased Contract prior to the Closing Date; and further provided that the monthly rental payments assumed for the Chino Valley Medical Center located at 5451 Walnut Avenue, Chino, CA 91710 shall be equal to [amount and terms to be determined] and that the Security Deposit will be paid as provided in Section 2.1 (c) hereof. Seller shall be solely and exclusively responsible for (i) the payment of any Cure Amounts due with respect to any Purchased Contracts (except for the payment of the Security Deposit being paid by Buyer to Seller's Landlord as part of the Purchase Price in accordance with Section 2.1 (b) hereof), and shall (A) pay all undisputed Cure Amounts with respect to such Purchased Contracts from the proceeds of the sale, (B) contest by appropriate proceedings (as determined by Seller) all disputed Cure Amounts with respect to such Purchased Contracts, and (C) after resolution of any related dispute, pay the disputed Cure Amounts in accordance with the Bankruptcy Court's order with respect thereto, and (ii) the payment of all costs and penalties attributable or associated with rejection of any agreements to which Seller is a party. In the event that Buyer is required to pay any cure amounts, Buyer may deduct said cure amounts from the Purchase Price. Seller shall pay the transfer fees, if any.

1.4 Excluded Liabilities. Other than as set forth above in Section 1.3, Seller shall retain, and Buyer shall not assume, and nothing contained in this Agreement shall be construed as an assumption by Buyer of, any liabilities, obligations or undertakings of Seller of any nature whatsoever, whether accrued, absolute, fixed or contingent, known or unknown, due or to become due, unliquidated or otherwise. Seller shall be responsible for all of the liabilities, obligations and undertakings of Seller not assumed by Buyer pursuant to Section 1.3 hereof.

1.5 Meditech Equipment Lease. Notwithstanding anything elsewhere provided, Seller shall obtain an extension of the period to assume or reject the Meditech Equipment Lease until the earlier of end of the first quarter of 2005 or confirmation of Buyer's plan, but in no event before January 31, 2005. Buyer shall have until ten (10) business days prior to the end of said extension to elect to acquire and assume the Meditech Equipment Lease. Buyer shall make all payments on the Meditech Equipment Lease from and after the Closing until the lease is assumed or rejected.

1.6 Executory Contracts and Unexpired Leases. The Seller may elect, in its sole discretion, to take such action it deems necessary to cause all executory contracts and unexpired leases not expressly assumed in this Agreement to be rejected pursuant to 11 U.S.C. § 365.

1.7 Definitions. Certain capitalized terms used herein have the meanings set forth below.

"Alternative Transaction" means any direct or indirect sale, transfer or other disposition of all or any portion of the Chino Valley Medical Center Assets, in either case in one or more transactions with one or more Persons other than Buyer; provided,

however, that for any transaction or series of transactions to constitute an Alternative Transaction, it must comply with the Auction and Bid Procedures and the Bid Procedures Order.

“Auction” means an auction for the sale of the Assets conducted by Seller pursuant to the Bid Procedures Order and the Bankruptcy Code.

“Auction and Bid Procedures” means the Auction and Bid Procedures attached as Exhibit AA to this Agreement.

“Bid Procedures Motion” means the motion to be filed by Seller with the Bankruptcy Court seeking, among other things, the entry of the Bid Procedures Order.

“Bid Procedures Order” means a Final Order or Orders of the Bankruptcy Court that is reasonably satisfactory to Buyer and, among other things: (a) establishes the bidding procedures for the purchase of the Assets in substantial conformity with the Auction and Bid Procedures, including, without limitation, (i) a deadline by which bids for Alternative Transactions to this Agreement must be submitted by bidders, and (ii) the Break-up Fee and Expense Reimbursement payable to Buyer (or Buyer’s Affiliate) in the event Buyer (or such Affiliate) is not the successful bidder for the Assets; (b) provides that the Break-Up Fee and Expense Reimbursement shall constitute priority administrative expenses of Seller’s bankruptcy estate; (c) establishes procedures for the auction process upon submission to Seller of qualified competing bids; and (d) contains such other provisions as are consistent with the Auction and Bid Procedures, are reasonably satisfactory to Buyer and are usual and customary for orders governing bankruptcy auctions.

“Break-up Fee and Expense Reimbursement” shall mean an amount equal to \$400,000.

“Cure Amounts” means all payments required to be made in order to effectuate, pursuant to the Bankruptcy Code, the assumption by Seller and assignment to Buyer of the Purchased Contracts under Section 365 of the Bankruptcy Code and 1.2 of this Agreement.

“Encumbrance” shall mean any charge, claim, community or other marital property interest, condition, equitable interest, lien (including, without limitation, any lien held or asserted by any Governmental Authority, including the Pension Benefit Guaranty Corporation and the Environmental Protection Agency), option, pledge, security interest, mortgage, right of way, easement, encroachment, servitudes, right of first option, right of first refusal, or similar restriction, including restrictions of use, voting (in the case of any security or equity interest), transfer, receipt of income or exercise of any attribute of ownership, or other encumbrance, option or defect in title of every type and description, whether imposed by law, agreement, understanding or otherwise, including, without limitation, all liens, encumbrances, and interests in property as set forth in Section 363 of the Bankruptcy Code.

"Equipment Leases" shall mean those leases for equipment set forth on Schedule 1.1 (b) hereof.

"Final Order" shall mean an order as to which there is no appeal, motion for reconsideration, stay or similar request for relief pending, and as to which the time period to seek or file any such appeal, motion for reconsideration, stay or similar request for relief has expired.

"Governmental Authority" shall mean the government of the United States, or any other foreign country or any state, provincial or political subdivision thereof, and any entity, body or authority exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Material Adverse Effect" shall mean any event, circumstance, change or effect that has a material and adverse effect on the Chino Valley Medical Center Assets or the business, operation or financial condition of the Chino Valley Medical Center, taken as a whole, including, without limitation, a prospective effect that would likely result from a current event or circumstance.

"Petition Date" shall mean January 30, 2004, the date that Seller filed in voluntary petition under chapter 11 of title 11 of the United States Code.

"Person" shall mean any individual, corporation, business trust, proprietorship, firm, partnership, limited partnership, limited liability partnership, limited liability company, trust, association, joint ventures, Governmental Authority or other entity.

"Real Property Leases" the leases for the real property commonly known as Chino Valley Medical Center located at 5451 Walnut Avenue, Chino, CA 91710, and the lease for the real property commonly known as the Emanuel Lutheran Church parking lot. Such leases further identified on Exhibit A hereof and each as listed on Schedule 1.1 (b) hereof.

"Sale Approval Order" means a Final Order or Orders of the Bankruptcy Court that, among other things: (a) approves, pursuant to Sections 363 and 365 of the Bankruptcy Code, (i) the execution, delivery and performance by Seller of this Agreement, and the other instruments and agreements contemplated hereby; (ii) the sale of the Chino Valley Medical Center Assets to Buyer (or one of its Affiliates) on the terms set forth herein; and (iii) the performance by Seller of its obligations under this Agreement, including, without limitation, the assumption and assignment of the Purchased Contracts; (b) finds and concludes that (i) due and proper notice has been afforded in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules of the Bankruptcy Court and the orders of the Bankruptcy Court; (ii) the Purchase Price (as defined in Section 2.1) under the Agreement constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code for the Chino Valley Medical Center Assets; (iii) Buyer (or Buyer's Affiliate, as appropriate) is a good faith purchaser as that term is used in Section 365(m) of the Bankruptcy Code; (iv) Buyer (or Buyer's Affiliate, as appropriate) has not engaged in collusive bidding or otherwise violated the provisions

of Section 365(n) of the Bankruptcy Code; (v) title to the Chino Valley Medical Center Assets shall vest in Buyer (or Buyer's Affiliate, as applicable) free and clear of all liens, mortgages, security interests and other Encumbrances of any type or nature under the Bankruptcy Code except for only those Permitted Encumbrances set forth on Schedule 1.6; and (vi) Buyer shall not be liable for any claims or debts of Seller, except those liabilities expressly assumed pursuant to this Agreement; and (c) is in all other respects reasonably satisfactory to Buyer.

"Sale Motion" means the motion to be filed with the Bankruptcy Court by Seller seeking entry of the Sale Approval Order, which Sale Motion shall include a copy of the proposed form of a Sale Approval Order.

II. Purchase Price

2.1 Total Consideration. The total consideration to be received by Seller from Buyer (the "Purchase Price") for the Chino Valley Medical Center Assets shall be the sum of (a), (b), (c), (d), (e) and (f) below, which totals approximately \$8,900,000:

(a) a deposit of Two Hundred and Fifty Thousand Dollars (\$250,000) to be wired to the client trust account of Seller's general bankruptcy counsel, Levene, Neale, Bender, Rankin & Brill LLP, upon the execution by Buyer of this Agreement (the "Deposit");

(b) Four Million Eight Hundred Thousand Dollars (\$4,800,000) shall be paid in cash at the Closing by wire transfer to Seller's account at _____ Bank, (account # _____).

(c) Posting a Letter of Credit in the sum of One Million Two Hundred Thousand Dollars (\$1,200,000) with the landlord for the Chino Valley Medical Center real property as the security deposit required by the lease;

(d) Assumption of Medicare Cost Reporting expenses of up to One Million Two Hundred Thousand Dollars (\$1,200,000);

(e) Assumption of pre-petition arrearages in physician executory contracts in the sum of Fifty Thousand Dollars (\$50,000);

(f) Assumption of Post Petition Vendor claims in the amount of One Million Four Hundred Thousand Dollars (\$1,400,000) (as referenced in Section 1.3(a)) and

(g) Payment of the Disproportionate Share Hospital funding, if any, and net of consultant's fee, received relating to the fiscal year 2005 report for Chino Valley Medical Center for calendar year 2002 costs.

2.2 Allocation of Purchase Price. The Buyer has allocated the Purchase Price among the Chino Valley Medical Center Assets as set forth on Exhibit B, which exhibit shall be updated as of the Closing Date in such a manner as determined by Buyer subject to Seller's consent (which shall not be unreasonably withheld), after taking into account the applicable Treasury Regulations and the fair market value of such items. Buyer shall prepare for filing all tax returns

that may be required with respect to the transaction provided for herein pursuant to Section 1060 of the Internal Revenue Code of 1986, as amended (the "Code"), any Treasury Regulations promulgated thereunder, any other similar provision of the Code and any other similar, applicable foreign, state or local tax law or regulation. Seller shall provide information that may be required by Buyer for the purpose of preparing such returns, execute and file such returns as requested by Buyer and file all other returns and tax information on a basis that is consistent with such returns prepared by Buyer.

III. Closing

3.1 Closing. The closing (the "Closing") of the purchase and sale of the Purchased Assets shall take place on a date no later than September 30, 2004, or such later date as to which the parties may mutually agree (the "Closing Date"), with hard copy originals of executed closing documents to be exchanged via overnight mail or other method as agreed to by the parties. The Closing shall be effective as of 12:01 a.m. Pacific Time on the Closing Date. All matters at the Closing shall be considered to take place simultaneously, and no delivery of any document or instrument shall be deemed complete until all transactions and deliveries of documents and instruments and payments contemplated by this Agreement are completed or have been waived by the party to whom delivery or payment was due hereunder.

3.2 General Procedure.

Deliveries by Seller. At the Closing on the Closing Date, Seller shall deliver to Buyer:

- (a) Such certificates, assignments, instruments, bills of sale, deeds, and other documents necessary to transfer title to all the Purchased Assets free of Liens (except for Permitted Liens) (the "Transfer Documents") to Buyer;
- (a) Assignment of Real Property Leases
- (c) Assignment of Equipment Leases
- (d) The documents listed on Schedule 3.2; and
- (e) A certified copy of the Sale Approval Order.

Deliveries by Buyer. At the Closing on the Closing Date, Buyer shall deliver, or cause to be delivered

- (a) An amount in cash equal to the Cash Consideration by wire transfer of immediately available funds.
- (b) Assumption of Real Property Lease Agreements
- (c) Assumption of Equipment Leases

IV. Representations and Warranties of Seller

Seller hereby represents and warrants to Buyer that, except as set forth in the Disclosure Schedule delivered by Seller to Buyer on the date hereof (the "Disclosure Schedule") (which Disclosure Schedule sets forth the exceptions to the representations and warranties contained in this Article IV under captions referencing the Sections to which such exceptions apply):

4.1 Incorporation and Corporate Power. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California and has all requisite corporate power and authority and all authorizations, licenses, permits and certifications necessary to carry on the Chino Valley Medical Center as now being conducted and to own, lease and operate the Chino Valley Medical Center Assets.

4.2 Execution, Delivery, Valid and Binding Agreement. The execution, delivery and performance of this Agreement by Seller, and the consummation of the transactions contemplated hereby, have been duly and validly authorized by the Board of Directors and Shareholders of Seller, and no other proceedings on its part are necessary to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by Seller and, assuming that this Agreement is the valid and binding agreement of Buyer, constitutes the valid and binding obligation of Seller, enforceable in accordance with its terms, except for approval by the Bankruptcy Court having jurisdiction over Seller.

4.3 Authority; No Breach. Seller has the requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by Seller, and the consummation of the transactions contemplated hereby, do not conflict with or result in any breach of any of the provisions of, or constitute a default under, result in a violation of, result in the creation of a right of termination or acceleration or any lien, security interest, charge or encumbrance upon any assets of Seller, or require any authorization, consent, approval, exemption or other action by or notice to any court or other governmental body, under the provisions of the Articles of Incorporation or Bylaws of Seller or any indenture, mortgage, lease, loan agreement or other agreement or instrument by which Seller or the Chino Valley Medical Center Assets are bound or affected, or any law, statute, rule or regulation or order, judgment or decree to which Seller or the Chino Valley Medical Center Assets are subject, except for approval by the Bankruptcy Court having jurisdiction over Seller.

4.4 Governmental Authorities; Consents; Notices. The Seller is not required to submit any notice, report or other filing with any governmental authority in connection with the execution or delivery by it of this Agreement or the consummation of the transactions contemplated hereby. Except as set forth in the Disclosure Schedule, no consent, approval or authorization of any governmental or regulatory authority is required to be obtained by Seller in connection with its execution, delivery and performance of this Agreement. Seller represents and warrants that it shall provide notice to all Persons who are entitled to receive notice of the Sale Motion by virtue of the Bankruptcy Code or the Bankruptcy Rules or the local rules of the Bankruptcy Court or any order of the Bankruptcy Court or other applicable law, or which Seller reasonably believes have or may assert a "claim" (as defined in the Bankruptcy Code) against or related to the Chino Valley Medical Center Assets (provided that, if the Bid Procedures Order

requires other Persons to receive notice of the Sale Motion, Seller represents and warrants that those Persons have received notice. After the Sale Hearing, all of the parties (if any) who filed a response or an objection to the Sale Motion or who appeared at the Sale Hearing will have been sent notice of the proposed entry of the Sale Approval Order within the time periods required by, and otherwise in accordance with the provisions of, applicable law.

4.5 Chino Valley Medical Center Assets.

(a) Seller has good and marketable title to all of the Chino Valley Medical Center Assets, and shall convey same free and clear of all Liens (except for Permitted Liens). To the knowledge of Seller, there are no condemnation, zoning or other land use regulation proceedings, either instituted or planned to be instituted, that would detrimentally affect the use, occupancy and operation of the real property for hospital use. There are no parties in possession of the premises demised under the Real Property Leases other than Seller.

(b) There are no claims pending or threatened against Seller relating to or arising out of an environmentally hazardous substance, nor to the knowledge of Seller has any Seller received any notice alleging or warning that any real property operated by Seller is in violation of or in noncompliance in any material respect with any applicable environmental laws. There are no hazardous substance is now present in amounts, concentrations or conditions requiring removal, remediation or any other response, action or corrective action under, or forming the basis of a claim pursuant to, any applicable environmental law. The Chino Valley Medical Center is not being and has not been during the period of time it has been operated by Seller used in connection with the business of manufacturing, storing or transporting hazardous substances. There neither are now nor have there been during the period of time they have been operated by Seller any underground storage tanks, lagoons or other containment facilities of any kind which contain or contained any hazardous substances on the Chino Valley Medical Center.

4.6 Contracts and Commitments. No contracts and commitment, other than the Real Property Leases and the Meditech Equipment Lease (which is subject to Section 1.5 hereof) are being assigned to or assumed by Buyer.

4.7 Litigation. Except as set forth in the Disclosure Schedule under the caption referencing this Section 4.7 and for law suits seeking to collect on past due financial obligations, there are no actions, suits, proceedings, orders or investigations pending or, to the best knowledge of Seller, threatened against Seller, at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, and there is no reasonable basis known to Seller for any of the foregoing. Seller shall provide Buyer a "loss run" report in form reasonably acceptable to Buyer.

4.8 Employees. To the best knowledge of Seller: (a) no employee of Seller and no group of Seller's employees has any plans to terminate his or her employment, other than Seller is generally aware that employees may elect to terminate their employment to preserve their claims to accrued and unused PTO and MTO; (b) Seller has complied with all laws relating to

the employment of labor, including provisions thereof relating to wages, hours, equal opportunity, collective bargaining and the payment of social security and other taxes; (c) Seller has no material labor relations problem pending and its labor relations are satisfactory; (d) no employee of Seller is subject to any secrecy or noncompetition agreement or any other agreement or restriction of any kind that would impede in any way the ability of such employee to carry out fully all activities of such employee in furtherance of the Chino Valley Medical Center; and (e) no employee or former employee of Seller has any claim with respect to any of the Chino Valley Medical Center Assets.

4.9 Affiliate Transactions. No officer or director of Seller or any member of the immediate family of any such officer or director or any entity in which any of such persons owns any beneficial interest (collectively "Insiders"), has any agreement with Seller (other than normal employment arrangements) or any interest in any property, real, personal or mixed, tangible or intangible, used in or pertaining to the Chino Valley Medical Center of Seller (other than ownership of capital stock of Seller). None of the Insiders has any direct or indirect interest in any competitor, supplier or customer of Seller or in any person, firm or entity from whom or to whom Seller leases any property, or in any other person, firm or entity with whom Seller transacts business of any nature. For purposes of this Section 4.9, the members of the immediate family of an officer or director shall consist of the spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, and brothers- and sisters-in-law of such officer or director.

4.10 Compliance with Laws; Permits

(a) Seller and its officers and directors have complied in all material respects with all applicable laws, regulations and other requirements, including, but not limited to, federal, state, local and foreign laws, ordinances, rules, regulations and other requirements pertaining to product labeling, consumer products safety, equal employment opportunity, employee retirement, affirmative action and other hiring practices, occupational safety and health, workers' compensation, unemployment and building and zoning codes, which materially affect the Chino Valley Medical Center, the Chino Valley Medical Center Assets and to which Seller may be subject, and no claims have been filed against Seller alleging a violation of any such laws, regulations or other requirements. Seller has no knowledge of any action, pending or threatened, to change the zoning or building ordinances or any other laws, rules, regulations or ordinances affecting the Chino Valley Medical Center Assets. Seller is not relying on any exemption from or deferral of any such applicable law, regulation or other requirement that would not be available to Buyer after it acquires the Chino Valley Medical Center Assets.

(b) Seller has, in full force and effect, all licenses, permits and certificates, from federal, state, local and foreign authorities (including, without limitation, federal and state agencies regulating occupational health and safety) necessary to conduct its Chino Valley Medical Center and own and operate Chino Valley Medical Center Assets (collectively, the "Permits"). A true, correct and complete list of all the Permits is set forth under the caption referencing this Section 4.9 in the Disclosure Schedule. To the best of its knowledge, Seller has conducted its business in compliance with all material terms and conditions of the Permits.

(c) In connection with the Chino Valley Medical Center, Seller has not made or agreed to make gifts of money, other property or similar benefits (other than incidental gifts of articles of nominal value) to any actual or potential customer, supplier, governmental employee or any other person in a position to assist or hinder Seller in connection with any actual or proposed transaction.

(d) In particular, but without limiting the generality of the foregoing, Seller has not violated and has no liability, and has not received a notice or charge asserting any violation of or liability under, the federal Occupational Safety and Health Act of 1970 or any other federal or state acts (including rules and regulations thereunder) regulating or otherwise affecting employee health and safety in connection with the Chino Valley Medical Center.

4.10 Disclosure. Neither this Agreement nor any of the Exhibits hereto nor any of the documents delivered by or on behalf of Seller pursuant to Article VI hereof nor the Disclosure Schedule, taken as a whole, contain any untrue statement of a material fact regarding Seller or the Chino Valley Medical Center or any of the other matters dealt with in this Article IV relating to Seller or the transactions contemplated by this Agreement. This Agreement and the Disclosure Schedule do not omit any material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they were made, not misleading.

4.11 Further Condition. A condition precedent to the effectiveness of this Agreement shall be that Seller seeks Bankruptcy Court approval of this Agreement within five (5) business days after execution of this Agreement, and Seller represents it shall use its best efforts to seek such approval.

V. Representations and Warranties of Buyer

Buyer hereby represents and warrants to Seller that:

5.1 Formation and Power. Buyer is a limited liability company duly incorporated, validly existing and in good standing under the laws of the State of California, with the requisite power and authority to enter into this Agreement and perform its obligations hereunder.

5.2 Execution, Delivery, Valid and Binding Agreement. The execution, delivery and performance of this Agreement by Buyer and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite company action, and no other corporate proceedings on its part are necessary to authorize the execution, delivery or performance of this Agreement. This Agreement has been duly executed and delivered by Buyer and constitutes the valid and binding obligation of Buyer, enforceable in accordance with its terms.

5.3 No Breach. The execution, delivery and performance of this Agreement by Buyer and the consummation by Buyer of the transactions contemplated hereby do not conflict with or result in any breach of any of the provisions of, constitute a default under, result in a violation of, result in the creation of a right of termination or acceleration or any lien, security interest, charge or encumbrance upon any assets of Buyer, or require any authorization, consent, approval, exemption or other action by or notice to any court or other governmental body, under the

provisions of the Articles of Organization or Operating Agreement of Buyer or any indenture, mortgage, lease, loan agreement or other agreement or instrument by which Buyer is bound or affected, or any law, statute, rule or regulation or order, judgment or decree to which Buyer is subject.

5.4 No Financing Contingency. Buyer has cash reserves or availability under existing credit facilities to pay the purchase price in cash to Seller on Closing Date without new debt or equity financing. Buyer's obligations hereunder are not contingent upon procuring financing for the transaction contemplated hereunder.

V(A). Covenants.

5A.1 Employees. Seller shall terminate all of its employees located at Chino Valley Medical Center effective as of the Closing Date. Seller shall be responsible for any severance pay or other severance-related benefits, and any accrued vacation, owing to any such employee in connection with such termination, all of which are Excluded Liabilities. Seller shall be responsible for providing termination notices to such terminated employees and for otherwise effecting such termination in compliance with applicable laws. Buyer shall offer employment to at least eighty percent (80%) of the full time employees so terminated by Seller who meet Buyer's requirements of licensing, certification, experience, skills, and background check, and whom Buyer determines are needed to meet Buyer's anticipated service mix and volume as of the Closing Date, upon terms and conditions to be determined by Buyer.

5A.2 Employee Benefit Plans. Seller shall be responsible for providing notices required by the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") to all employees of any Seller and their dependents and qualified beneficiaries. Seller shall provide Buyer, at its request, with copies of each such required notice sent. Seller shall bear any and all costs and Liabilities arising from such terminations (including, without limitation, any benefit under any Plan which becomes payable as a result of the transactions contemplated by this Agreement). After the Closing, Seller will comply with all of the requirements of COBRA. Buyer will not assume any of the assets or liabilities of any of the Plans, all of which are Excluded Assets and Excluded Liabilities. Buyer will neither assume sponsorship of, nor take over any assets directly from, any 401(k) plan applicable to employees of Seller, and Seller shall continue to be responsible for any such 401(k) plan.

5A.3 Interim Operations. Following the Closing, Buyer shall make prompt and diligent application for the transfer of all necessary licenses and permits or if such permits or licenses cannot be transferred for new permits and or licenses to be issued to the Buyer. Until such time as said licenses and permits are transferred to or otherwise acquired by the Buyer, Buyer shall operate the Chino Valley Medical Center under Seller's existing licenses and permits as Seller's attorney in fact (which power of attorney Seller acknowledges is coupled with an interest and may not be canceled by Seller) and all income, costs, benefits and liabilities arising after the Closing will belong to and be the responsibility of Buyer and Buyer hereby agrees to indemnify and protect Seller for all claims related to Buyer's use of Seller's licenses and permits after the Closing.

VI. Covenants and Conditions to Closing

6.1 Conduct of the Chino Valley Medical Center. In connection with the Chino Valley Medical Center Assets or the Chino Valley Medical Center, Seller agrees to observe each term set forth in this Section 6.1 and agrees that, from the date hereof until the Closing Date, unless otherwise consented to by Buyer in writing:

(a) The Chino Valley Medical Center shall be conducted only in, and Seller shall not take any action except in, the ordinary course of Seller's business, on an arm's-length basis and in accordance in all material respects with all applicable laws, rules and regulations and Seller's past custom and practice;

(b) Seller shall not, directly or indirectly, do or permit to occur any of the following insofar as they relate to the Chino Valley Medical Center or the Chino Valley Medical Center Assets: (i) sell, pledge, dispose of or encumber any of the Chino Valley Medical Center Assets, except in the ordinary course of business; (ii) acquire (by merger, exchange, consolidation, acquisition of stock or assets or otherwise) any corporation, partnership, joint venture or other business organization or division or material assets thereof; (iii) incur any indebtedness for borrowed money or issue any debt securities except the borrowing of working capital in the ordinary course of business and consistent with past practice;; or (iv) enter into or propose to enter into, or modify or propose to modify, any agreement, arrangement or understanding with respect to any of the matters set forth in this Section 6.1(b);

(c) Seller shall not cancel or terminate its current insurance policies covering the Chino Valley Medical Center Assets and the Chino Valley Medical Center, or lower the insurance on Buyer's inventory below \$1 million, or cause any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies providing coverage equal to or greater than the coverage under the canceled, terminated or lapsed policies for substantially similar premiums are in full force and effect;

(d) Seller shall (i) use its best efforts to preserve intact the organization and goodwill of the Chino Valley Medical Center, keep available the services of Seller's officers and employees as a group and maintain satisfactory relationships with suppliers, customers and others having business relationships with Seller in connection with the Chino Valley Medical Center; (ii) confer on a regular and frequent basis with representatives of Buyer to report operational matters and the general status of ongoing operations with respect to the Chino Valley Medical Center; (iii) not intentionally take any action which would render, or which reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue at the Closing; (iv) notify Buyer of any emergency or other change in the normal course of the Chino Valley Medical Center or in the operation of the properties of the Chino Valley Medical Center and of any governmental or third party complaints, investigations or hearings (or communications indicating that the same may be contemplated) if such emergency, change, complaint, investigation or hearing would be material, individually or in the aggregate, to the business, operations or financial condition of Seller or to Seller's or Buyer's ability to consummate the transactions contemplated by this Agreement; and (v) promptly notify Buyer in writing if Seller shall discover that any representation or

warranty made by it in this Agreement was when made, or has subsequently become, untrue in any respect;

6.2 Seller's Chapter 11 Bankruptcy Case

(a) This Agreement and the transactions contemplated thereby are contingent upon the approval and authorization of the Bankruptcy Court and subject to Seller's right to obtain a higher bid for the Chino Valley Medical Center Assets through the Auction and Bid Procedures and subject to the entry of the Bid Procedures Order, Seller agrees to cooperate with Buyer in accordance with the terms of this Agreement, follow the Auction and Bid Procedures and support the entry of an order (and not withdraw any motion) seeking the Bankruptcy Court's approval of the sale of the Chino Valley Medical Center Assets to the successful bidder under the Auction and Bid Procedures. Seller shall promptly advise Buyer of any written objections filed with the Bankruptcy Court to this Agreement. Seller shall have no liability under this Agreement unless and until such approval and authorization shall be given by the Bankruptcy Court. Seller agrees that it will promptly take such actions as reasonably requested by Buyer to assist in obtaining the Sale Approval Order, including furnishing affidavits or other documents or information for filing with the Bankruptcy Court for the purposes, among others, of demonstrating that Buyer is a "good faith" purchaser under Section 363(m) of the Bankruptcy Code. In the event the Sale Approval Order is appealed, Seller shall use its commercially reasonable efforts to defend such appeal, provided that Buyer and Seller shall proceed with the Closing despite the pendency of an appeal if no stay of the Sale Approval Order is in effect.

(b) Neither Seller nor any of its Affiliates or Representatives shall have any liability to Buyer, either under or relating to this Agreement or any applicable law, by virtue of entering into or seeking Bankruptcy Court approval of an Alternative Transaction, provided, that no such Alternative Transaction may be accepted or consummated by Seller except in accordance with the Bid Procedures Order. Seller shall not object to Buyer's standing to be heard in any proceeding before the Bankruptcy Court to determine (A) whether the consideration to be received in a transaction or series of transactions is sufficient to make such transaction(s) an Alternative Transaction or is otherwise in the best interests of the estate or (B) whether such Alternative Transaction complies with the Bid Procedures Order.

(c) Seller shall send notices, in form and substance reasonably satisfactory to Buyer, regarding the sale of the Chino Valley Medical Center to such parties as Buyer may designate, in addition to all parties as may be required by the Bankruptcy Court or the Bankruptcy Code. Seller shall take such further action in its Bankruptcy Case, as Buyer may reasonably request, in order to (i) reduce the risk of any successor liability to Buyer relating to Seller's or its subsidiaries' conduct or action or inaction (including providing notice of the sale of Seller's assets to potential claimants) and (ii) otherwise effect the sale of the Chino Valley Medical Center Assets. Seller shall comply with all of its obligations set forth in Section 1.2(b) hereof.

(d) Seller shall provide notice of (i) the Sale Motion (including the form of the proposed Sale Approval Order to be included therein) to all of the Notice Parties in the manner set forth in the Bid Procedures Order and (ii) entry of the Sale Approval Order to those parties who file a response or objection to the Sale Motion and to those parties who appear at the hearing at which the Sale Approval Order is entered.

(e) Seller shall use its best efforts to obtain the consent of any and all parties to Purchased Contracts to the assignment of such contracts to Buyer, to the extent such consent is required under the Bankruptcy Code (including Section 365(c) thereof), including without limitation, any required consent from any entities which have licensed any intellectual property to Seller.

(f) Seller shall not include in any plan of reorganization (or in any order confirming any such plan) which it seeks to confirm in the Bankruptcy Case any provision or term which would limit, prejudice or modify any rights of Buyer hereunder or any obligations of Seller hereunder.

6.3 Taxes. Notwithstanding any other provision hereof to the contrary, Seller shall be solely responsible for all taxes arising by virtue of this transaction or due and payable as a result of operations of the Chino Valley Medical Center Assets prior to Closing.

6.4 Conditions to Buyer's Obligations. The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions on or before the Closing Date:

(a) On the Closing Date, Seller shall have delivered to Buyer all of the following:

(1) the Bill of Sale and such other instruments of conveyance, transfer, assignment and delivery as Buyer shall have reasonably requested pursuant to Section 3.2 hereof;

(2) the Assignment and Assumption of Real Property Lease Agreements in the form set forth on Schedule 6.3 (2) hereof properly executed;

(3)

(3) a copy of the text of the resolutions adopted by the board of directors and shareholders of Seller authorizing the execution, delivery and performance of this Agreement and the consummation of all of the transactions contemplated by this Agreement; along with a certificate executed on behalf of Seller, by its corporate secretary certifying to Buyer that such copy is a true, correct and complete copy of such resolutions, and that such resolutions were duly adopted and have not been amended or rescinded;

(4) such other certificates, documents and instruments as Buyer reasonably requests related to the transactions contemplated hereby.

(b) The Bankruptcy Court shall have entered in Seller's Bankruptcy Case the Sale Approval Order with respect to the transactions contemplated by this Agreement; the Sale Approval Order shall provide (i) that the Chino Valley Medical Center Assets shall be conveyed to Buyer free and clear of all Encumbrances, including any and all liens which may arise from the failure to comply with any applicable statute relating to bulk transfers or bulk sales and (ii) that any and all such liens shall attach to the proceeds of the sale.

(c) Buyer shall have entered into a "Wholesale Lockbox Deposit and Blocked Account Service Agreement with Provider" ("Buyer Lockbox Agreement") with Sun Capital Healthcare, Inc. ("Sun Capital"), and SunTrust Bank ("Bank"), in form and substance reasonably acceptable to Buyer. The Buyer Lockbox Agreement and any related agreements, each of which shall also be in form and substance reasonably acceptable to Buyer, shall provide, among other things, that:

(1) Buyer shall send, or cause to be sent, all collections on accounts receivable of Buyer arising out of the delivery after the Closing of medical, surgical, diagnostic, or other healthcare related goods or services ("Buyer Accounts"), together with all related Explanations of Benefits (EOB's), to the lockboxes and lockbox bank accounts established by Sun Capital with the Bank (collectively, "Buyer Lockboxes");

(2) Buyer shall send, or cause to be sent, all collections received by Buyer on accounts receivable of Seller arising out of the delivery prior to the Closing of medical, surgical, diagnostic, or other healthcare related goods or services ("Seller Accounts"), together with all related Explanations of Benefits (EOB's), to the lockboxes and lockbox bank accounts previously established by Sun Capital for the receipt of collections on Seller Accounts (collectively, "Seller Lockboxes");

(3) Sun Capital shall remit to Buyer, within three (3) business days after receipt in cleared funds, all collections that it receives on Buyer Accounts, whether received in the Buyer Lockboxes, the Seller Lockboxes, or otherwise;

(4) the Buyer Lockbox Agreement, the Buyer Lockboxes, and the foregoing procedures regarding collections on Buyer Accounts shall be at no cost to Buyer and shall continue for a period of one (1) year after the Closing Date; and

(5) Buyer and Sun Capital shall each have reasonable rights to audit the foregoing collections and payments by the other.

6.5 Conditions to Seller's Obligations. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the satisfaction of the following conditions on or before the Closing Date:

(a) On the Closing Date, Buyer will have delivered to Seller:

(1) a wire transfer in immediately available funds in the amount of \$4,800,000;

(2) the Assignment and Assumption of Lease Agreements in the form set forth on Schedule 6.3 (2) hereof properly executed;

VII. TERMINATION

7.1 Termination. This Agreement may be terminated at any time on or prior to the Closing:

- (a) By the mutual written agreement of Seller and Buyer;
- (b) By Buyer at its option if the Closing shall not have taken place on or before September 30, 2004; provided, however, that the terminating party shall not have failed to fulfill any obligation under this Agreement or be in breach of any representation or warranty under this Agreement, which failure or breach was the cause of or resulted in the failure of the Closing to occur on or before such date;
- (c) By Seller or Buyer, if any court of competent jurisdiction or other Governmental Authority shall have issued a final and non-appealable order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby;
- (d) By Seller or Buyer, if prior to the Closing Date, the other party is in default or breach in any material respect of any representation, warranty, covenant, or agreement contained herein, and such default or breach shall not be cured within ten (10) business days after the date written notice of such breach is delivered by the party claiming such default or breach to the party in default or breach;
- (e) By Buyer if an event or circumstance shall have occurred since the date of this Agreement that, independently or together with any other event or circumstance that has occurred or is reasonably likely to occur, has or is reasonably likely to have a Material Adverse Effect;
- (f) By Buyer upon conversion or dismissal of Seller's Bankruptcy Case; and
- (g) By Buyer upon Seller's acceptance of an Alternative Transaction and approval of such Alternative Transaction by the Bankruptcy Court.

In the event of any termination pursuant to this Section 7.1 (other than pursuant to clause (a)), written notice setting forth the reasons therefore shall forthwith be given promptly by the terminating party to the other party.

7.2 Break-Up Fees and Expense Reimbursement. In the event the Seller closes an Alternative Transaction approved by the Bankruptcy Court, Seller shall pay to Buyer the Break-up Fee and Expense Reimbursement no later than three Business Days thereafter.

7.3 Effect of Termination. If this Agreement is terminated pursuant to Section 7.1, all obligations of the parties hereunder shall terminate, except for the obligations set forth in 9.1 (Expenses), 9.10 (Governing Law) and 9.11 (Jurisdiction), which shall survive the termination of

this Agreement, and except that no such termination shall relieve any party from liability for any prior breach of this Agreement; and, provided, however, that if this Agreement is terminated by a party as a result of the other party's willful failure to comply with its agreements and covenants hereunder, then the party that terminated this Agreement shall have the right to pursue all legal and equitable remedies available to it.

VIII. Survival

8.1 Survival of Representations and Warranties. Notwithstanding any investigation made by or on behalf of any of the parties hereto or the results of any such investigation and notwithstanding the participation of such party in the Closing, the representations and warranties contained in Article IV and Article V hereof shall survive the Closing for a period ending on the earlier of (1) confirmation by the Seller of a chapter 11 plan of reorganization; (2) conversion of the Seller's chapter 11 bankruptcy proceeding to a case under chapter 7 of the Bankruptcy Code; or (3) dismissal of the Seller's bankruptcy case..

IX. Miscellaneous

9.1 Expenses. Except as otherwise expressly provided for herein, Seller and Buyer will pay all of their own expenses (including attorneys' and accountants' fees, in connection with the negotiation of this Agreement, the performance of their respective obligations hereunder and the consummation of the transactions contemplated by this Agreement (whether consummated or not).

9.2 Further Assurances. Seller agrees that, on and after the Closing Date, it shall take all appropriate action and execute any documents, instruments or conveyances of any kind which may be reasonably necessary or advisable to carry out any of the provisions hereof, including, without limitation, putting Buyer in possession and operating control of the Chino Valley Medical Center Assets and transferring all Permits and Environmental Permits to Buyer that are transferable.

9.3 Cooperation and Exchange of Information. Buyer and Seller shall provide each other with such cooperation and information as either of them reasonably may request of the other in filing any tax return, amended return or claim for refund, determining a liability for taxes or a right to a refund of taxes or in conducting any audit or proceeding in respect of taxes. Such cooperation and information shall include providing copies of relevant tax returns or portions thereof, together with accompanying schedules and related work papers and documents relating to rulings or other determinations by taxing authorities. Each party shall make its employees available on a mutually convenient basis to provide explanation of any documents or information provided hereunder. The Seller upon written request by Buyer, will provide to Buyer such factual information reasonably necessary for filing tax returns, tax planning and contesting any tax audit that Seller possesses as Buyer may reasonably request with respect to the Chino Valley Medical Center Assets (which information Seller agrees to maintain and preserve for so long as it may be needed by Buyer).

9.4 Amendment and Waiver. This Agreement may not be amended or waived except in a writing executed by the party against which such amendment or waiver is sought to be

enforced. No course of dealing between or among any persons having any interest in this Agreement will be deemed effective to modify or amend any part of this Agreement or any rights or obligations of any person under or by reason of this Agreement.

9.5 Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement will be in writing and will be deemed to have been given when personally delivered or three business days after being mailed by first class U.S. mail, return receipt requested, or when receipt is acknowledged, if sent by facsimile, telecopy or other electronic transmission device. Notices, demands and communications to Buyer and Seller will, unless another address is specified in writing, be sent to the address indicated below:

Notices to Buyer:

Prime Healthcare Systems, LLC
16850 Bear Valley Road
Victorville CA 92392
Attention: Roger Krissman

Fax 760-242-8220

Notices to Seller:

Veritas Health Services, Inc.
Chino Valley Medical Center
5451 Walnut Avenue
Chino, CA 91710

Fax:

With a copy to:

Marshack Shulman Hodges & Bastian LLP
Attn: Michael J. Petersen
26632 Towne Centre Drive, Suite 300
Foothill Ranch, CA 92610

Fax: (949) 340-3000

With a copy to:

Daniel H. Reiss, Esq.
Partner
Levene, Neale, Bender, Rankin & Brill LLP
1801 Avenue of the Stars, Suite 1120
Los Angeles, CA 90067

Fax: (310) 229-1244

9.6 Assignment. This Agreement and all of the provisions hereof will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, except that neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by either party hereto without the prior written consent of the other party hereto. In the event that a chapter 11 trustee or post-confirmation liquidating trustee should be appointed for Seller, or in the event that Seller's chapter 11 case should be converted to a case under chapter 7 of the Bankruptcy Code, the obligations of Seller hereunder shall be binding upon such trustee or liquidating trustee or other post-confirmation entity or successor chapter 7 estate.

9.7 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

9.8 Complete Agreement. This Agreement and the Exhibits, Schedules including the Disclosure Schedule hereto and the other documents referred to herein contain the complete agreement between the parties and supersede any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

9.9 Counterparts. This Agreement may be executed in one or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together will constitute one and the same instrument.

9.10 Governing Law. The internal law, without regard to conflicts of laws principles, of the State of California will govern all questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement, except for those issues which are governed by title 11 of the United States Code, which law shall govern.

9.11 Jurisdiction. Any suit, action or proceeding between the parties hereto relating to this Agreement or to any agreement, document or instrument delivered pursuant hereto or in connection with the transactions contemplated hereby, or in any other manner arising out of or relating to the transactions contemplated by or referenced in this Agreement shall be commenced and maintained exclusively in the Bankruptcy Court. The parties hereto submit themselves unconditionally and irrevocably to the personal jurisdiction of such court, whether or not Seller's bankruptcy case remains open.

SIGNATURES ON FOLLOWING PAGE

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

Prime Healthcare Systems, LLC.

By: _____
Name: _____
Title: _____

Veritas Health Services, Inc.

By: _____
Name: _____
Title: _____

APA Schedules and Exhibits

1. Exhibit A – Further description of Emanuel Lutheran Church parking lot
2. Exhibit AA – Bid Procedures Schedule 1.1 Permitted Liens
3. Schedule 1.1(a) – Equipment and Machinery (Owned and Leased)
4. Schedule 1.1(b) – Leases, Equipment Leases, Other Leases, Contracts and Agreements
5. Schedule 1.2 – Excluded Assets and Agreements
6. Exhibit B – Purchase Price Allocation
7. Schedule 3.2 – Closing Documents
8. Disclosure Schedule
9. Schedule 6.3(2) – Assignment and Assumption of Real Property Leases
10. Schedule 6.3(3) – Assignment and Assumption of Equipment Leases

Exhibit A

Lease dated April 7, 2001 by Kasirer Family Holdings #4 LLC (Lessor) and Veritas Health Services Inc. (Lessee) for the property located at 5451 Walnut Avenue, Chino CA, as amended by Amendment #1 dated August 29, 2002 and as modified by the Side Letters dated August 15, 2001 and September 20, 2001 (which clarifies the early Side Letter)

Restated and Amended Lease Agreement (Parking Lot) dated March ____, 2001 by Immanuel Lutheran Church ("Lessor") and Chino Community Hospital Corporation, Inc.

Exhibit AA

Bid Procedures

1. Competing offers to acquire the Chino Valley Medical Center Assets shall (i) be submitted in writing to Seller and Buyer and their respective counsel on or before 4:00 p.m. P.S.T. three (3) Court days prior to the sale hearing, (i) provide a purchase price to be paid to Debtor that exceeds the Purchase Price herein by at least the sum of the Break-up Fee and a \$50,000 overbid; (ii) remain open until the conclusion of the Sale Hearing (as defined below); (iii) contain terms and conditions no less favorable to Seller than the terms and conditions of the Purchase Agreement; (iv) be accompanied by admissible evidence establishing the bidder's good faith, within the meaning of Section 363(m) of the Bankruptcy Code, and financial ability to complete the transaction, or be prepared to present such evidence through documents or live testimony at the Sale Hearing; (v) be accompanied by a cashier's check made payable to the order of Seller in an amount equal to the Break Up Fee approved by prior order of the Bankruptcy Court, or the sum of \$250,000, whichever is greater (the "Overbidder's Deposit"), and further provide that (A) if the Bankruptcy Court approves a sale of the Chino Valley Medical Center Assets to that bidder, Seller may retain the Overbidder's Deposit as a non-refundable deposit for application against the actual purchase price at the closing of the transaction, and (B) if the Bankruptcy Court does not approve a sale of the Chino Valley Medical Center Assets to that bidder, Seller will promptly return the Overbidder's Deposit to Overbidder; and (vi) contain a proposed closing date that is not later than the Closing Date hereunder, unless agreed otherwise by Seller.

2. If any bidders have submitted a qualifying competing bid in accordance with (a) (above) hereof (each such bid, a "Qualified Bid"), then a public auction of the Chino Valley Medical Center Assets (the "Auction") shall be at the United States Bankruptcy Court, Central District of California, located at 3420 Twelfth Street Riverside, California 92501. The Auction shall be governed by the following procedures:

i. all bidders shall be deemed to have consented to the core jurisdiction of the Bankruptcy Court and to have waived any right to jury trial in connection with any disputes relating to the Auction or the sale of the Chino Valley Medical Center Assets ;

ii. bidding will commence at the amount of the highest Qualified Bid;

iii. each subsequent bid shall be in increments of no less than \$50,000;

iv. For Buyer, the Break-up Fee shall be taken into account as a credit in the bidding process;

v. the Debtor may, with Bankruptcy Court approval, elect to deem any final bid to be the highest bid, notwithstanding the receipt of an apparently higher bid from another bidder.

3. The Breakup Fee is approved and shall be paid to Buyer upon three (3) business days after Closing of the sale of the Chino Valley Medical Center Assets to a party other than Buyer, and;

4. Payment of the Breakup Fee shall have a super-priority status over any and all administrative expenses, including, without limitation, the kind specified in sections 503(b) and 507(b) of the Bankruptcy Code; provided, however, the Breakup Fee shall be junior in priority to any fees due and payable to the Office of the United States Trustee;

5. No other bidder for Debtor's assets shall be entitled to payment of any breakup fee;

6. Any entity that fails to submit a timely, conforming Qualified Bid, as set forth above, shall be disqualified from bidding for the Chino Valley Medical Center Assets at the Sale Hearing; and if no timely, conforming Qualified Bid is submitted, Debtor shall request at the Sale Hearing that the Court approve the proposed sale of the Chino Valley Medical Center Assets to Buyer under the Purchase Agreement.

Schedule 1.1

Permitted Liens

None

Schedule 1.1(a)

Equipment and Machinery

OWNED

None

LEASED

None (except for the Meditech Equipment Lease which shall be governed by 1.5 of the Agreement)

Schedule 1.1(b)

Leases, Equipment Leases, Other Leases, Licenses, Contracts and Agreements

Real Property Leases

"Real Property Leases" as defined in the Agreement and identified in Exhibit A hereof

Equipment Leases

None

Other Leases

None

Licenses

None other than governmental licenses

Contracts

None

Agreements

None

Schedule 1.2

Excluded Assets and Agreements

CASH, CASH EQUIVALENTS, RECEIVABLES, AVOIDANCE ACTIONS

**The so-called "Co-generation Agreement" with Western Energy Marketers, LLC. Dated
September __, 2002**

Exhibit B

Purchase Price Allocation

Schedule 3.2

Closing Documents

1. Bill of Sale
2. Assignment of Real Property Leases
3. Assignment of Equipment Leases
4. Assignment of Contracts, Agreements and Licenses

Disclosure Schedule

Schedule 6.3 (2)

Assignment and Assumption of
Real Property Leases
("Assignment")

THIS ASSIGNMENT is made and entered into on this _____ day of _____, 2004, by and between _____, a _____ ("Assignor"), and _____, a ("Assignee").

WITNESSETH

WHEREAS, Assignor, as seller, and Assignee, as buyer, entered into that certain Asset Purchase Agreement dated September __, 2004 (the "APA");

WHEREAS, the APA provides, in part, that Assignor shall assign all of its right, title and interest in and to the leases (including without limitation all security deposits) set forth on Exhibit A to Assignment attached hereto;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. Assignor hereby assigns to Assignee all of its right, title and interest in and to the leases (including, without limitation the right to receive the return of any and all security deposits).
2. Assignee hereby assumes the obligations under the assigned leases as of the Closing Date as defined in the APA.
3. This Agreement shall be binding on and inure to the benefit of the Parties hereto, their heirs, executors, administrators, successors in interest and assigns.
4. This document may be executed in two or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

Signatures on Following Page

IN WITNESS WHEREOF, the Parties have caused these presents to be executed on the day and year first above written.

"ASSIGNOR":

_____, a

By: _____

Its: _____

"ASSIGNEE":

_____, a

By: _____

Its: _____

SCHEDULE OF ALLEGED SECURED CREDITORS

Name of Creditor	Amount of Alleged Claim	Disputed?	Basis for Dispute	Undisputed Amount of Secured Claim
Sun Capital Healthcare, Inc.	\$12,441,455.51	NO		\$ 12,441,455.51
McKesson Capital Corporation	\$ 58,157.85	YES	Filed UCC-1 Statement based on an equipment lease. McKesson's security interest is limited only to the leased equipment. The Debtor disputes that McKesson has any security interest in the assets to be sold.	N/A
Allegiance Healthcare Corporation	\$ 93,531.81	YES	Filed UCC-1 Statement based on an equipment lease. AHC's security interest is limited only to the leased equipment. The Debtor disputes that AHC has any security interest in the assets to be sold.	N/A
Kasirer Family Holdings #4, LLC	Unknown	YES	The Debtor has no record of any security agreement or other document that would evidence a secured claim. This claim will be paid, or otherwise released, in connection with the assumption of the Debtor's real property lease.	N/A
GE Healthcare Financial Services	\$ 536,984.00	YES	Filed UCC-1 Statement based on various equipment leases. GE's security interest is limited only to the leased equipment. The Debtor disputes that GE has any security interest in the assets to be sold.	N/A

SCHEDULE OF ALLEGED SECURED CREDITORS

Name of Creditor	Amount of Alleged Claim	Disputed?	Basis for Dispute	Undisputed Amount of Secured Claim
Fleet Capital Leasing Healthcare Finance (a division of Fleet Business Credit, LLC)	\$ 962,102.25	YES	Filed UCC-1 Statement based on an equipment lease. Fleet's security interest is limited only to the leased equipment. The Debtor disputes that Fleet has any security interest in the assets to be sold.	N/A
Dade Behring Financial Services	\$ 70,183.36	YES	Filed UCC-1 Statement based on an equipment lease. Dade Behring's security interest is limited only to the leased equipment. The Debtor disputes that Dade Behring has any security interest in the assets to be sold.	N/A
Captech Funding Corporation	Unknown	YES	Filed UCC-1 Statement based on an equipment lease. Captech's security interest is limited only to the leased equipment. The Debtor disputes that Captech has any security interest in the assets to be sold.	N/A
County of San Bernardino Tax Collector	\$ 45,105.31	YES	This claim has been paid in full.	N/A
Allied Masonry & Construction, Inc.	\$ 74,067.34	YES	Alleged secured claim is based on a mechanics' lien against the Debtor's leased property. This claim is part of the claim of All Temperatures Controlled, Inc. listed above, and will be paid, or otherwise released, in connection with the assumption of the Debtor's real property lease.	N/A

SCHEDULE OF ALLEGED SECURED CREDITORS

Name of Creditor	Amount of Alleged Claim	Disputed?	Basis for Dispute	Undisputed Amount of Secured Claim
U.S. Power Corporation	Unknown	YES	Alleged secured claim is based on a UCC-1 Statement filed on March 15, 2004, after the commencement of the Debtor's bankruptcy case and in violation of the automatic stay. Accordingly, the UCC Financing Statement is void. Moreover, the Debtor has no record of any security agreement or other document that would evidence a secured claim.	N/A
All Temperatures Controlled, Inc.	\$157,319.43	YES	Alleged secured claim is based on a mechanics' lien against the Debtor's leased property. This claim will be paid, or otherwise released, in connection with the assumption of the Debtor's real property lease.	N/A
GKK Corporation	\$ 79,218.79	YES	Alleged secured claim is based on a mechanics' lien against the Debtor's leased property. This claim will be paid, or otherwise released, in connection with the assumption of the Debtor's real property lease.	N/A
Department of the Treasury - Internal Revenue Service	\$ 7,417.49	YES	No tax lien has been filed by the IRS. Alleged secured claim is based on the IRS's right to setoff. Although the Debtor does not dispute that the IRS may have a right of setoff against pre-petition tax refund(s) owed to the Debtor, the Debtor disputes that the IRS has any security interest in the assets to be sold.	N/A

SCHEDULE OF ALLEGED SECURED CREDITORS

Name of Creditor	Amount of Alleged Claim	Disputed?	Basis for Dispute	Undisputed Amount of Secured Claim
Department of the Treasury - Internal Revenue Service	\$ 16,140.30	YES	No tax lien has been filed by the IRS. Alleged secured claim is based on the IRS's right to setoff. Although the Debtor does not dispute that the IRS may have a right of setoff against pre-petition tax refund(s) owed to the Debtor, the Debtor disputes that the IRS has any security interest in the assets to be sold.	N/A
Chino Community Hospital Corp.	\$ 813,954.41	YES	The Debtor has no record of any security agreement, UCC filing statement or other document that would evidence a secured claim. The Debtor disputes the bases for and amount of CCHC's alleged claim. Moreover, the Debtor believes it has claims against CCHC which would offset any claim by CCHC.	N/A

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PROOF OF SERVICE
STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am an employee in the County of Los Angeles, State of California. I am over the age of 18 and am not a party to the within action; my business address is: 1801 Avenue of the Stars, Suite 1120, Los Angeles, California 90067.

On September 3, 2004, I served the foregoing document(s) described as:

MOTION BY DEBTOR AND DEBTOR IN POSSESSION TO APPROVE THE SALE OF SUBSTANTIALLY ALL OF THE DEBTOR'S ASSETS FREE AND CLEAR OF LIENS AND INTERESTS; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATIONS OF MAKOTO NAKAYAMA AND DR. PREM REDDY

on the interested parties in this action by placing a true copy thereof enclosed in a sealed envelope with postage thereon fully prepaid in the United States mail at Los Angeles, California, addressed as follows:

SEE ATTACHED SERVICE LIST

(By Mail) I caused such envelope with postage thereon, fully prepaid to be placed in the United States mail. Executed on September 3, 2004 at Los Angeles, California.

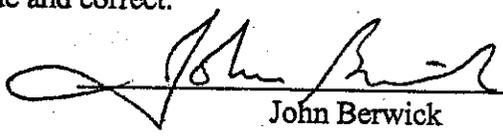
(By Federal Express/Overnight Mail) I caused such envelope to be delivered by Federal Express (or Express Mail), next business day delivery to the offices of the addressees. Executed on September __, 2004, at Los Angeles, California.

(By Facsimile) I caused said document to be sent via facsimile to the offices of the addressee so designated on the attached list. Executed on September __, 2004, at Los Angeles, California.

(By Personal service) I caused such envelope to be delivered by hand to the offices of the addressee. Executed on September __, 2004 at Los Angeles, California.

(State) I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

(Federal) I declare under penalty of perjury pursuant to the laws of the United States of America that the foregoing is true and correct.



John Berwick

**Chino Valley
RSN
Secured Creditors
(Limited Notice List)**

Office of the United States Trustee (3505-30)
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