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UNITED STATES BANKRUPTCY COURT

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CENTRAL DISTRICT OF CALIFORNIA

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LOS ANGELES DIVISION

11 In re

CASE NO. 2:09-bk-34714-BB

12 DOWNEY REGIONAL MEDICAL  
CENTER-HOSPITAL, INC.,

Chapter 11

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Debtor and Debtor-in Possession.

**NOTICE OF OCCURRENCE OF EVENTS  
OF DEFAULT UNDER FINAL DIP  
ORDER ENTERED OCTOBER 19, 2009**

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No Hearing Required:

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Date of Notice: March 19, 2010

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Pursuant to (i) that certain Final Order Pursuant to 11 U.S.C. §§ 105, 362, 363,

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364(c), and 364(e) and Fed. R. Bankr. P. 4001 and 9014 (A) Authorizing Debtor To Obtain

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Postpetition Financing; (B) Granting Superpriority Expense Claims And Security Interests; and

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(C) Granting Other Relief Under 11 U.S.C. §§ 105, 361, 362, 363, and 364 and F.R.B.P. 2002,

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4001 and 9014 and LBRS 2002-1 and 4001-2 (the "Final DIP Order") and (ii) the provisions of

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that certain Secured Super-Priority Debtor In Possession Loan and Security Agreement (the "DIP

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Credit Agreement"), by and among Debtor, as borrower, the lenders party thereto from time to

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time (the "DIP Lenders") and Healthcare Finance Group, LLC, as administrative and collateral

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agent for such lenders (in such capacity, the "DIP Agent"), the DIP Agent

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1           HEREBY GIVES NOTICE to the Debtor, the Office of the United States Trustee, Wells  
 2 Fargo Bank, N.A., in its capacity as Indenture Trustee of that certain Indenture Dated as of  
 3 August 1, 1993, as amended by that First Supplemental Indenture dated February 26, 2004 (the  
 4 "Indenture Trustee") Apollo Health Street, Inc. ("Apollo"), the Official Committee of Unsecured  
 5 Creditors (the "Committee"), the Health Care Ombudsman appointed herein of the occurrence of  
 6 various Events of Default, including but not limited to the following Events of Default under the  
 7 Final DIP Order and the DIP Credit Agreement:

| <b>DIP Order Requirement</b>   | <b>Other Relevant DIP Order or DIP Credit Agreement Requirement</b>   | <b>Events of Default</b>  |
|--|---|---|
| <p>10 <b>1. Cumulative Net Cash Flow Covenants</b><br/>                     11 24(u) - Debtor shall default in the<br/>                     12 performance or observance of any<br/>                     13 covenant, agreement or provision<br/>                     14 contained in the DIP Credit<br/>                     15 Agreement or any other DIP<br/>                     16 Document or in any other<br/>                     17 instrument or document<br/>                     18 evidencing or creating any<br/>                     19 obligation, guaranty or lien in<br/>                     20 favor of the DIP Agent or the DIP<br/>                     21 Lenders in connection with or<br/>                     22 pursuant to the DIP Credit<br/>                     23 Agreement.<br/>                     24<br/>                     25<br/>                     26<br/>                     27</p> | <p>Paragraph 12(a)(iv) of the Final<br/>                     DIP Order and Section 10.01 of<br/>                     the DIP Credit Agreement - For<br/>                     any Applicable Period, if (a) the<br/>                     "Cumulative Net Cash Flow" in<br/>                     the DIP Budget is a negative<br/>                     number, the Cumulative Net Cash<br/>                     Flow as reported in the Weekly<br/>                     Reports for such Applicable<br/>                     Period must not be less than<br/>                     115% of such negative number,<br/>                     or (b) the Cumulative Net Cash<br/>                     Flow in the DIP Budget is a<br/>                     positive number, the Cumulative<br/>                     Net Cash Flow as reported in the<br/>                     Weekly Reports for such<br/>                     Applicable Period must not be<br/>                     less than 85% of such positive<br/>                     number, <i>provided however</i>, if the<br/>                     Variance (as defined below) is<br/>                     less than \$100,000 it will not be<br/>                     considered a Default under this<br/>                     Covenant. The "Variance" is the<br/>                     absolute value difference between<br/>                     the DIP Budget Cumulative Net<br/>                     Cash Flow and the (Actual)<br/>                     Cumulative Net Cash Flow<br/>                     reported in the Weekly Reports<br/>                     for any Applicable Period.</p> | <p>The Debtor's Cumulative<br/>                     Net Cash Flow violated<br/>                     the applicable covenant<br/>                     in each of the following<br/>                     periods:<br/>                     October 23, 2009,<br/>                     November 6, 2009,<br/>                     November 20, 2009,<br/>                     November 27, 2009 and<br/>                     December 4, 2009.</p> |

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| <p><b>2. Cumulative Disbursements By Line Item In Excess of Variance</b></p> <p>24(u) - Debtor shall default in the performance or observance of any covenant, agreement or provision contained in the DIP Credit Agreement or any other DIP Document or in any other instrument or document evidencing or creating any obligation, guaranty or lien in favor of the DIP Agent or the DIP Lenders in connection with or pursuant to the DIP Credit Agreement.</p> | <p>Paragraph 12(a)(ii) of the Final DIP Order and Section 10.01 of the DIP Credit Agreement - The Debtor's actual cumulative disbursements for an Applicable Period (other than in respect of salary and employee benefits) on a line item basis shall not be more than 125% of projected cumulative disbursements in the pertinent line item of the DIP Budget for such Applicable Period, provided that there shall be no permitted variation from the DIP Budget for Bond Payments.</p>  | <p>The Debtor's cumulative disbursements for each of the following periods was more than 125% of the projected disbursements of the DIP Budget: October 23, 2009, October 30, 2009, November 6, 2009, November 20, 2009, November 27, 2009, December 4, 2009, December 11, 2009, December 18, 2009, December 25, 2009, January 1, 2010, January 8, 2010, January 15, 2010, January 22, 2010, January 29, 2010, February 5, 2010, February 12, 2010, February 19, 2010, February 26, 2010 and March 5, 2010.</p> |
| <p><b>3. EBITDA Less Than \$1.2 million</b></p> <p>24(u) - Debtor shall default in the performance or observance of any covenant, agreement or provision contained in the DIP Credit Agreement or any other DIP Document or in any other instrument or document evidencing or creating any obligation, guaranty or lien in favor of the DIP Agent or the DIP Lenders in connection with or pursuant to the DIP Credit Agreement.</p>                              | <p>Paragraph 12(b) of the Final DIP Order and Section 10.02 of the DIP Credit Agreement - EBITDA (as defined below) of the Debtor and its Subsidiaries on a consolidated basis and calculated on a monthly basis shall not be less than \$1,200,000. As used herein, "EBITDA" of any Person for any period means, the sum of (a) net income (or net loss) of such Person during such period (calculated before extraordinary items, provided, however, that bankruptcy expenses, including but not limited to fees and expenses accrued by or paid to Professional Persons (as defined below) shall</p> | <p>Debtor reported EBITDA of: positive \$38,000 for September, 2009 (a \$1,162,000 deficiency); negative \$210,000 for October, 2009 (a \$1,410,000 deficiency); positive \$151,000 for November, 2009 (a \$1,049,000 deficiency); positive \$289,000 for December 2009 (a \$911,000 deficiency); and positive \$419,000 for</p>  |

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|  | <p>not be deemed extraordinary items) plus (b) the total of the following, in each case (unless otherwise indicated) to the extent included in determining such net income (or net loss): (i) interest expense (including that portion attributable to Capital Leases in accordance with GAAP (as such terms are defined in the DIP Credit Agreement) and capitalized interest) during such period; plus (ii) the greater of income taxes accruing, paid or payable during such period; plus (iii) depreciation and amortization expense; minus (iv) gains from asset dispositions outside of the normal course of business minus (v) pension liability adjustment to the extent that such an adjustment increases pension liability and has been excluded in determining such net income (or net loss), determined in each case in accordance with GAAP. For the purposes of determining EBITDA of any Person for any period, "net income (or net loss)" means and refers to the amount set forth on the applicable financial statements of such Person for such period as "Net Increase/Decrease in Unrestricted Assets".</p> | <p>January, 2010, a \$781,000 deficiency.</p>  |
| <p><b>4. Failed to Submit Variance and Compliance Reports</b><br/>24(q) - Failure of the Debtor to satisfy in a timely fashion any of the Reporting Requirements of the Interim DIP Order, this Final DIP Order, DIP Documents and the DIP Credit Agreement.</p> | <p>Paragraph 11(f) of the Final DIP Order- On each Thursday, after delivery of the Actual Cash Flow Report, Debtor shall deliver to the DIP Agent a reasonably detailed explanation for any Variance (as defined below) in the Actual Cash Flows Report from the DIP Budget and stating the Debtor's compliance with, or identifying</p>  | <p>Debtor failed to submit a Variance and Compliance Report for each of the following weeks:<br/>September 25, 2009,<br/>October 2, 2009,<br/>October 9, 2009,<br/>October 16, 2009, and</p> |

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|  | <p>any areas of the Debtor's non-compliance with the Financial Covenants of this Final DIP Order or the DIP Credit Agreement, in a form reasonably satisfactory to the DIP Agent, (each, a "Variance and Compliance Report").</p>  | <p>November 13, 2009.</p>  |
| <p><b>5. Failed to Provide Audited Financial Statements Within 90 Days After Fiscal Year End</b><br/><br/>24(q) - Failure of the Debtor to satisfy in a timely fashion any of the Reporting Requirements of the Interim DIP Order, this Final DIP Order, DIP Documents and the DIP Credit Agreement.</p> | <p>Exhibit "C", sub-paragraph (o) of the DIP Credit Agreement – The Debtor shall provide the DIP Agent a copy of the audited individual and combined and combining financial statements (together with explanatory notes thereon) and the auditor’s unqualified report letter for such year for the Debtor, containing financial statements for such year audited by independent certified public accountants of recognized standing acceptable to the DIP Agent and a copy of any management letter or written report submitted to the Debtor by independent certified public accountants with respect to the business, condition (financial or otherwise), operations, prospects, or properties of the Debtor within 90 days of its fiscal year-end.</p> | <p>The Debtor failed to provide the DIP Agent its annual audited financial statements and the corresponding auditor's unqualified report letter for the fiscal year ended June 30, 2009 within 90 days of its fiscal year end (September 28, 2009) and had not delivered same as of the date of this Notice. This Event of Default occurred on September 29, 2009.</p> |
| <p><b>6. Failed to Provide Monthly and Quarterly Financial Statements.</b><br/><br/>24(q) - Failure of the Debtor to satisfy in a timely fashion any of the Reporting Requirements of the Interim DIP Order, this Final DIP Order, DIP Documents and the DIP Credit Agreement.</p>                       | <p>Exhibit "C", sub-paragraph (k) of the DIP Credit Agreement – The Debtor shall provide the DIP Agent monthly, as soon as available and in any event no later than 30 days after the end of each month that is not the last month of a fiscal quarter and 45 days after the end of each month that is the last month of a fiscal quarter of the Debtor, a copy of the combined and combining balance sheets, income statements and statements of changes in cash flow of the Debtor as of the end</p>   | <p>The Debtor failed to provide the DIP Agent its monthly and quarterly financial statements on a timely basis as provided in Exhibit "C", sub-paragraph (k) of the DIP Credit Agreement for each of the following months: November 2009, December 2009 and January 2010.</p>  |

1 of such month or quarter.

2 Section 2.2(b) of the DIP Credit Agreement and Paragraph 15(a) of the Final DIP Order  
3 provide that from and after the occurrence of an Event of Default, interest accrues at rate which is  
4 four percent (4.00%) greater than the otherwise applicable rate of interest (the "Default Rate"). .  
5 Pursuant to the Event of Default set forth in item 5 above, interest has accrued at the Default Rate  
6 since September 29, 2009, and is due and payable by the Debtor to the extent not previously paid.  
7 Further, interest shall continue to accrue at the Default Rate until the DIP Obligations are paid in  
8 full.

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10 DIP Lenders and DIP Agent reserve all rights and remedies with respect to the foregoing  
11 Events of Default and any other Events of Default not yet known to or identified by them,  
12 including but not limited to the right to declare a Termination Date as provided in paragraph 8 of  
13 the Final DIP Order and thereafter to assert the rights and remedies under paragraph 25 of the  
14 Final DIP Order.

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16 The delay or failure of the DIP Agent to seek relief or otherwise exercise or enforce any of  
17 its rights and remedies under the Final DIP Order, the DIP Credit Agreement or any other DIP  
18 Document shall not constitute a waiver of the DIP Agent's or the DIP Lenders' rights or remedies  
19 thereunder.

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21 This Notice is not intended to state a Termination Date, which right is expressly reserved.

22 Dated: March 19, 2010

MCGUIREWOODS LLP

23 By: /S/ William H. Kiekhofer, III  
24 WILLIAM H. KIEKHOFER. III  
25 Attorneys for Healthcare Finance Group, LLC  
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