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REGISTRATION
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REGISTER OF DEEDS
WAKE COUNTY

Drafted by and return to:
William H. McBride
Huston & Williams
Post Office Box 109
Raleigh, NC 27602

TRANSFER AGREEMENT

This TRANSFER AGREEMENT, dated as of April 1, 1997 (the "Agreement"), between the COUNTY OF WAKE, a political subdivision of the State of North Carolina (the "County"), acting by and through its Board of County Commissioners (the "County Board"), and WAKE COUNTY HOSPITAL SYSTEM, INC., a North Carolina nonprofit corporation (the "Corporation"), acting by and through its Board of Directors (the "Hospital Board");

WITNESSETH:

WHEREAS, the County has determined to transfer to the Corporation certain hospital facilities and related property (with and including property acquired after the date hereof as replacements, additions or facilities to be operated with such facilities, the "System") and executed a Bill of Conveyance and General Warranty Deed (the "Deed") conveying the System, as described therein, to the Corporation and such Deed has been recorded in the Office of the Wake County Register of Deeds; and

WHEREAS, the consideration to the County for such transfer included agreements and undertakings accepted by the Corporation and the parties hereto desire to set forth such agreements and undertakings as covenants affecting title to the System;

NOW THEREFORE, in consideration of the premises and mutual agreements herein contained, the County and the Corporation hereby agree as follows:

Section 1. Title to System; Definitions. This Agreement, with the Deed, constitutes a complete agreement between the parties and, to the extent the terms hereof are in conflict with, supersedes the Agreement in Principle dated as of November 18, 1996. The provisions of this Agreement constitute covenants and agreements affecting title to the System and are encumbrances thereon and the Deed conveys a fee simple determinable interest and a fee simple subject to condition subsequent to property in which the County retains a right of reversion and transfer.

In addition to the other terms defined herein, the definitions and computation rules set forth on Schedule I shall apply to the terms used herein. Schedule I is hereby incorporated by reference and made a part of this Agreement as if set forth herein.

Section 2. Operation as Community General Hospital. The Corporation agrees that it shall operate the System as a community general hospital, as defined in NCGS Section 131E-6(2) or a successor section, open to the general public, free of discrimination based upon race, creed, color, sex or national origin, and offering health care services at least substantially comparable to services offered at regionally prominent primary health care facilities also serving a community role.

Section 3. Services to Indigent Patients and Additional Consideration. (a) The Corporation shall provide community general hospital services to the citizens of Wake County without regard to their ability to pay. Moreover, the Corporation shall ensure that the types and levels of any other service it may from time to time provide, whether inpatient or outpatient, is in no way discriminatorily limited or restricted to any Wake County resident based on his ability to pay. As a means to quantify and measure its compliance with this open-door admissions requirement, the Corporation agrees to provide at a minimum services and resources to indigent patients and the community at large directly or indirectly through Other Indigent Care Providers annually such that Out of Pocket Indigent Costs in each Fiscal Year equal or exceed 4.8% of Total Adjusted Revenue and Effective Indigent Costs in each Fiscal Year equal or exceed 15.8% of Total Adjusted Revenue; provided in the event that, for reasons other than described in paragraph (b), for a Fiscal Year either (1) Out of Pocket Indigent Costs are less than 4.8% of Total Adjusted Revenue (an "Out of Pocket Deficiency"), (2) Effective Indigent Costs are less than 15.8% of Total Adjusted Revenue (an "Effective Cost Deficiency"), or (3) both an Out of Pocket Deficiency and an Effective Cost Deficiency occur, if the Corporation shall contribute an amount equal to such deficiency (or, if there are two, the larger of the two deficiencies) to a reserve fund to be held for the purposes of covering the cost of future services to indigent patients then it shall not be in default under the requirements of this sentence. Amounts in such reserve fund shall be available for use by the Corporation for indigent care costs but only after it has expended in a Fiscal Year amounts such that there is neither an Out of Pocket Deficiency nor an Effective Cost Deficiency; provided if there is in such reserve fund an amount greater than 2.37% of Total Adjusted Revenue for the prior Fiscal Year, the Corporation will make best efforts to expend such excess on health services for indigent citizens within the next 12 months.

For purposes of this section, the following definitions shall apply to the terms used herein:

"Care Cost Percentage" means a fraction, the numerator of which is Total Operating Expenses *less* provision for bad debt and the denominator of which is net patient service revenue, as determined for the Corporation for its most recent audited Fiscal Year in accordance with general accepted accounting principles for hospitals consistently applied. For the Fiscal Year ended September 30, 1995, the Care Cost Percentage was 61%.

"Effective Indigent Costs" means (i) Out of Pocket Indigent Costs *plus* (ii) the Care Cost Percentage times (A) bad debt and (B) Medicaid contractual adjustments , as determined for both the Corporation and all controlled affiliates of the Corporation which are providing patient care in accordance with generally accepted accounting principles for hospitals consistently applied. For the budget for the Fiscal Year ended September 30, 1997, Effective Indigent Costs is $53,124,313.00.

"Other Indigent Care Providers" means, without limitation, the Hospital Alliance for Community Health, the Open Door Clinic and other providers of health services in Wake County to indigent citizens and other medically underserved groups.

"Out of Pocket Indigent Costs" means the total of (i) Area Health Education Center physician services *plus* (ii) the Care Cost Percentage times (A) charity care and (B) WCHI, as determined for both the Corporation and all controlled affiliates of the Corporation which are providing patient care in accordance with generally accepted accounting principles for hospitals consistently applied. For the budget for the Fiscal Year ended September 30, 1997, Out of Pocket Indigent Costs is $16,279,626.00.

"Total Adjusted Revenue" means total patient service revenues *plus* all other operating and non-operating revenues *less* contractual deductions, as determined for both the Corporation and all controlled affiliates of the Corporation which are providing patient care in accordance with generally accepted accounting principles for hospitals consistently applied. For the budget for the Fiscal Year ended September 30, 1997, Total Adjusted Revenues was $336,146,999.

"Total Operating Expenses" means Operating Expenses as defined on Schedule I except any depreciation or amortization shall not be excluded.

"WCHI" means the Wake County Hospital Indigent program.

(b) The parties further acknowledge that circumstances in health care which are beyond the Corporation's control, including but not limited to changes in governmental programs or reimbursement systems which may affect such items as charity care or Medicaid contractual adjustments, or circumstances arising due to improved performance or increased efficiencies on the part of the Corporation which may affect such items as bad debt and physician services, may occur which will reduce the dollar amount that has theretofore previously been expended towards indigent care without any resulting reduction in the nature or scope of services provided (a "Change in Circumstances"). In the event a Change in Circumstances occurs, but the Corporation has in no way discriminatorily limited the level of services to indigent patients, then the Corporation shall have no liability or obligation for an Out of Pocket Deficiency or an Effective Cost Deficiency to the extent such deficiency resulted from the Change in Circumstances.

(c) The Corporation acknowledges that its agreements herein to provide services without regard to ability to pay and to further provide at least a minimum financial commitment for services and resources to indigent patients and the community at large is a significant component of the consideration received by the County for the transfer of the System. The Corporation further acknowledges that the County will be depending on the Corporation to fulfill such agreements and therefore the Corporation agrees not to request a subsidy from the County for such purposes.

Section 4. Covenant on Liens. The Corporation agrees that there will not be created any Lien upon Property now or hereafter a part of the System other than Permitted Liens unless the County Board has specifically consented to the creation thereof.

Section 5. Covenant on Indebtedness. The Corporation may incur any Indebtedness only if, after giving effect to all other Indebtedness, such additional Indebtedness could be incurred pursuant to at least one of paragraphs (a) through (n), inclusive, of the definition of Permitted Indebtedness on Schedule I or the County Board has specifically consented to the incurrence thereof.

Section 6. Covenant on Disposition of Assets. The Corporation agrees that (a) it will not sell, lease or otherwise dispose of all or a substantial portion of the System without the consent of the County Board, (b) it will not allow all or a substantial portion of the System to be managed (whether by contract or otherwise) by an entity not controlled by the Corporation, and (c) there will not be any sale, lease or other disposal of Property, Plant and Equipment or transfer or disposal of cash or investments unless specifically approved by the County Board except for dispositions or transfers which are Permitted Dispositions.

Nothing herein shall be construed as limiting the ability of the System to (1) purchase or sell Property in the ordinary course of business or to transfer cash, securities and other investment properties in connection with ordinary investment transactions where such purchases, sales or transfers are for substantially equivalent value, including without limitation, the making of loans to affiliates or to other persons pursuant to a legally binding obligation for such loan to be repaid or the capitalization of a stock corporation through the purchase of newly issued or treasury stock thereof or of a non-stock corporation through a capital contribution thereto, or (2) use Revenues in the ordinary course of business. However, the forgiveness of such loan, the writing off on a balance sheet of such stock as worthless, or such time as the "non-stock corporation capital" is deemed worthless, as hereinafter described, such shall be considered to be a disposition of Property, Plant and Equipment in the Fiscal Year of such loan, purchase of stock or capital contribution. For purposes of this paragraph, a contribution to a nonstock corporation to capitalize the same shall be treated as a loan to such non-stock corporation and, upon the occurrence of such conditions as would require the writing off of such a loan, then the "non-stock corporation capital" shall be deemed worthless.

Accounts may be sold in any Fiscal Year if fair market value is received and there is an independent certified public accountants' statement that such sale is a "sale" under generally accepted accounting principles.

Section 7. Financial Strength Covenant. The Corporation agrees that (a) if the Long-Term Debt Service Coverage Ratio of the Corporation falls below 1.10 or (b) if the ratio of fund balances to total assets of the Corporation falls below .20, in either case as of the end of a Fiscal Year, then by the end of the second Fiscal Year thereafter such ratio will be improved to be equal to or better than 1.10 or .20, respectively.

Section 8. Automatic Reversion. If there is (a) a violation of, or default under, the requirements of Sections 2, 3 or 4 by the Corporation or any successor thereto, (b) any amendment to Articles V, VI, VII and IX of the Restated Articles of Incorporation of the Corporation which has not been specifically approved by the County, or (c) dissolution of the Corporation without a successor nonprofit corporation to carry out the terms and conditions of this Agreement, the title and ownership to the System and other property as described in Section 10 shall revert or transfer to the County automatically.

Section 9. Non-automatic Reversion. If there is a violation of, or default under, the requirements of Sections 5, 6 or 7 by the Corporation or any successor thereto, during the period between 30 days and 180 days after the County Board becomes aware of such violation, default or finding, the County Board, by resolution, may require that the title and ownership to the System and other property as described in Section 10 revert or transfer to the County.

Section 10. General Reversion Provisions. The property to revert or transfer shall include (a) the property transferred by the Deed, (b) all improvements thereto or replacements thereof, (c) all additions or other facilities essential to the operation of (a) or (b), (d) all other facilities intended to be operated with (a), (b) or (c), and (e) all cash, accounts, equipment, permits, contractual rights and property rights relating to (a), (b), (c), or (d). In connection with a reversion, the Corporation shall execute and deliver any documents requested by the County to evidence or effectuate the transfer of all such property including property, whether real or personal and whether a part of a facility which could be operated on its own or not, which is acquired after recordation of the Deed.

The Corporation shall, in connection with the creation of any Lien on real property which (i) is a part of the System but (ii) is not described in the attachments to the Deed, ensure that the document by which the Lien is created (A) states that the title to such real property is held subject to the terms and conditions hereof, and (B) provides such Lien is not accelerated upon transfer of such real property pursuant to this section.

Upon a reversion and transfer hereunder, Indebtedness of the Corporation will be assumed by the County (solely as a limited obligation payable only from revenues of the System) if (1) the Indebtedness is secured by a Lien on property reverting or being transferred to the County (including a Lien on Accounts), (2) the Indebtedness and the Lien securing it were permitted by the terms of Sections 4 and 5, and (3) the County receives the benefit of, or has assigned to it, all security for the Indebtedness, including any third party guaranties, assets, contract rights or letters of credit that secure such Indebtedness.

Section 11. Reports. The Corporation shall have an annual financial audit performed by a nationally recognized firm of independent auditing and accounting consultants of favorable repute for skill and expertise. Such audit shall include a review of compliance by the Corporation with the provisions hereof. The annual audit shall be provided to the County within 30 days of availability. The County shall have the right, upon reasonable notice, to review other financial information with respect to the Corporation and the System.

Section 12. Indemnification by Corporation. The Corporation shall at all times protect, indemnify and save harmless the County from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, interest paid on and all counsel fees and expenses) imposed upon or incurred by or asserted against the County on account of (a) any failure of the Corporation to comply with any of the terms of this Agreement, or (b) any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the System or the use thereof, or (c) any action, suit, claim, proceeding or investigation of a judicial, legislative, administrative or regulatory nature arising from or in connection with the financing, acquisition, ownership, operation, occupation or use of the System, or (d) any suit, whether based on a contractual claim, a tort claim or otherwise, or private action of any kind whatsoever commenced against the County relating to the System or its operation.

If any action, suit or proceeding is brought or threatened against the County for any loss or damage for which the Corporation is required to provide indemnification under this section, the County shall promptly notify the Corporation and the Corporation shall at its expense resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by the Corporation. The Corporation shall have full control of such defense and proceedings, including any compromise or settlement thereof; provided the Corporation may not expressly admit liability or culpability on the part of the County without its consent. The obligations of the Corporation under this section are with respect to the period during which the System is operated or owned by the Corporation, shall be unaffected by when the failure, loss or damage occurred, whether before or after the date hereof, and shall survive any reversion or transfer of the System.

Section 13. Bylaws. The Corporation agrees that, during the period ending on May 26, 2001, there will be no change to any provision of its Bylaws without the consent of the County if such change affects or relates to the qualification or disqualification of directors.

Section 14. Essentiality; Severability. The provisions of Section 2, 3 and 8 are hereby deemed essential and if, for any reason, any of such provisions are found to be void or unenforceable, this Agreement shall be deemed entirely void and the Corporation shall transfer to the County all property which would revert under Section 10. If any other provision of this Agreement shall, for any reason, be invalid or unenforceable, such provision shall be ineffective only to the extent of such invalidity or unenforceability and the remaining provisions hereof shall nevertheless be valid, enforceable and in full force and effect.

Section 15. Fees and Expenses. The Corporation shall pay all costs, fees and expenses of the County, including counsel fees and the fees of any Consultant, in connection with any action or review by it under this Agreement or as a result of any consent or waiver requested by the Corporation.

Section 16. Notices; Communications. Any notice or communication required to be given pursuant to the terms and provisions hereof shall be in writing and shall be sent by certified or registered mail, return receipt requested, postage prepaid or by hand delivery to the parties at:

if to County - Wake County, North Carolina
Wake County Office Building
Post Office Box 550
Raleigh, NC 27602-0550
Attn: County Manager

if to Corporation - Wake County Hospital System, Inc.
3000 New Bern Avenue
Post Office Box 14465
Raleigh, NC 27620
Attn: President

Section 17. Relationship of Parties. The relationship between the County and the Corporation is that of independent contractors, and neither shall be considered an agent or representative of the other for any purpose.

Section 18. Gender. The use of the masculine, feminine or neuter gender and the use of the singular and plural shall not be given the effect of any exclusion or limitation herein.

Section 19. Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute a single instrument.

Section 20. Governing Law. This Agreement shall be construed in accordance with the laws of the State of North Carolina and the venue for any litigation related hereto shall be Wake County.

Section 21. Compliance with Terms. Failure to insist upon strict compliance with any of the terms herein (by way of waiver or breach) by either party hereto shall not be deemed to be a continuous waiver in the event of any future breach or waiver of any condition hereunder.

Section 22. Third Party Beneficiary. This Agreement shall not create nor be construed to create any rights in any manner whatsoever in any other person or entity as a third-party beneficiary, including holders or a trustee for holders of Indebtedness.

Section 23. Binding Agreement; Amendments. This Agreement shall be binding upon the successors or assigns of the parties hereto. This Agreement may be amended only with the agreement of both parties hereto.

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

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WAKE COUNTY

By J Stewart Adcock
Chairman, Board of County Commissioners

ATTEST:

Gwen Reynolds
Clerk

(SEAL)

WAKE COUNTY HOSPITAL SYSTEM, INC.

By
President

ATTEST:

Secretary

STATE OF NORTH CAROLINA)
) ss:
COUNTY OF WAKE)

I, the undersigned Notary Public for the aforesaid jurisdiction, certify that Gwen Reynolds personally came before me this day and acknowledged that she is the Clerk of the Board of County Commissioners of the County of Wake, North Carolina, a political subdivision of the State of North Carolina, and that by authority duly given and as the act of said County, the foregoing Transfer Agreement was signed in its name by the Chairman of the Board of County Commissioners, sealed with its seal, and attested by her as the Clerk of the Board of County Commissioners.

Witness my hand and official seal, this the 26th day of March, 1997.

(Official Seal)

Lore Weber-Gottberg
Notary Public

My commission expires:

LORE WEBER-GOTTBERG
NOTARY PUBLIC
WAKE COUNTY, N.C.
My Commission Expires 11-29-2000

STATE OF NORTH CAROLINA)
) ss:
COUNTY OF WAKE)

I, the undersigned Notary Public for the aforesaid jurisdiction, certify that Etta C. Kimbrell personally came before me this day and acknowledged that she is Secretary of Wake County Hospital System Inc., a North Carolina nonprofit corporation, and that by authority duly given and as the act of the corporation, the foregoing Transfer Agreement was signed in its name by its President, sealed with its corporate seal, and attested by her as its Secretary.

Witness my hand and official seal, this the 31 day of March, 1997.

(Official Seal)

Carolyn A. Odere
Notary Public

My commission expires: 12/06/98

CAROLYN A. ODERE NOTARY PUBLIC WAKE COUNTY, NC

NORTH CAROLINA — WAKE COUNTY
The foregoing certificate(s) of Lore Weber-Gottberg
Carolyn A. Odere
Notar(y)(ies) Public
is (are) certified to be correct. This instrument and this certificate are duly registered at the date and time and in the book and page shown on the first page hereof.
LAURA M. RIDDICK, Register of Deeds
By Meta W. Harris
~~Asst.~~/Deputy Register of Deeds

Schedule I

DEFINED TERMS AND COMPUTATION RULES

The following definitions and computation rules shall apply to the terms used in the attached Transfer Agreement dated as of April 1, 1997, between the County of Wake and Wake County Hospital System, Inc., and this Schedule I is a part of that agreement.

Definitions

"Account Lien Amount" means the product of (a) the Coverage Factor, multiplied by (b) an amount equal to net patient accounts of the Corporation with respect to the System as shown on the audited financial statements for the preceding Fiscal Year.

"Accounts" means any right to payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness 25% or more of the principal payments of which are due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date. Balloon Long-Term Indebtedness shall be subject to calculation as herein provided.

"Book Value," when used in connection with Property, Plant and Equipment or other Property of any Person, means either the value of such Property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles for hospitals consistently applied, or the current market value of such Property as of the time a ratio is to be calculated or value determined. Book Value shall be that value set forth in the most recent financial statements of the Person except that greater current market value may be assigned to Property or any portion thereof on the basis of an appraisal of an independent party qualified by reputation and experience completed within one year prior to the date of such calculation or, with respect to Property other than real property and fixed assets, the current market value of such Property if there is appropriate documentation indicating the basis of such valuation.

"Consultant" means a firm selected by the County or the Corporation, that is an independent professional management consultant having the skill and experience necessary to render the particular report required by the provision hereof. The report of a Consultant showing forecast financial performances may be in the form of a forecast of the Corporation that is accompanied by a statement of a Consultant to the effect that the Consultant has reviewed the assumptions and procedures used by management and that the underlying assumptions provide a reasonable basis for the forecast of management.

"Coverage Factor" means a factor determined in accordance with the following schedule:

Long-Term Debt Service Coverage Ratio for Preceding Fiscal Year	Coverage Factor
greater than or equal to 4.0	1
less than 4.0 but greater than or equal to 3.0	0.75
less than 3.0 but greater than or equal to 2.0	0.50
less than 2.0 but greater than or equal to 1.2	0.25
less than 1.2	0

"Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" means Indebtedness refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such Cross-over Refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest either on such refunding Indebtedness or such refunded Indebtedness until the Cross-over Date.

"Debt Service" means the amount of principal of, premium, if any, and interest owing on the Indebtedness when due and payable.

"Fiscal Year" means the period beginning on October 1 of each calendar year and extending through September 30 of the succeeding calendar year or such other fiscal year used with respect to the System from time to time.

"Governmental Restrictions" means Federal, state or other applicable governmental laws or regulations noncompliance with which will adversely affect any operations of the System by placing restrictions and limitations on (a) the fees and charges to be fixed, charged and collected or (b) the timing of the receipt of such revenues or that, if violated, would cause any Person that is a Tax-Exempt Organization to lose such status or any Person to lose the right to continue its operations or receive reimbursement therefor from third-party Federal or state payors or their intermediaries.

"Hedge Agreement" means an interest rate swap, cap, collar, floor, forward, or other hedging agreement, arrangement or security however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on all or a portion of any Indebtedness where (a) interest on such Indebtedness or such portion of such Indebtedness is payable at a variable rate of interest for any future period of time or is calculated at a varying rate per annum, and (b) a fixed rate is specified as payable by the Corporation in such Hedge Agreement or such Indebtedness, taken together with the Hedge Agreement, results in a net fixed rate payable by the Corporation for such period of time (the "Hedge Fixed Rate"), assuming the Corporation and the party(ies) with whom the Corporation has entered into the Hedge Agreement make all payments required to be made by the terms of the Hedge Agreement.

"Income Available for Debt Service" means the excess of Revenues over Operating Expenses for each Fiscal Year before depreciation, amortization and interest, as determined in accordance with generally accepted accounting principles for hospitals consistently applied; provided, however, that no determination thereof shall take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business.

"Indebtedness" means (a) all indebtedness of the Corporation with respect to the System for borrowed money, (b) all installment sales and capital lease obligations incurred or assumed by the Corporation with respect to the System, and (c) all guaranties of the obligation of any Person by the Corporation, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include (1) obligations for which there is on deposit with a third party escrow agent, cash or government obligations registered in the name of such third party escrow agent that are irrevocably pledged to payment of either or both principal of and interest on the Indebtedness and that are sufficient, together with investment earnings thereon, to provide for payment of that portion of the Indebtedness for which they are pledged, or (2) obligations under a line of credit, letter of credit, standby bond purchase agreement or similar liquidity facility established in connection with the issuance of any Indebtedness to the extent that such liquidity facilities have not been used or drawn upon. If such liquidity facility is used or drawn upon to retire or purchase Indebtedness then the liability incurred by such use or draw shall be included in Indebtedness.

"Interest Liability Swap" means a contract pursuant to which a party (the "Counterparty") has agreed to make payments to the System during a particular period equal to the interest payable on specified Indebtedness or on a specified nominal amount at the actual rate or rates or, if on a nominal amount at a stated rate or rates, payable thereon and, in consideration therefor, the party obligated on the Indebtedness or otherwise executing the agreement agrees to make payments to the Counterparty equal to the interest required to be paid on the specified Indebtedness or stated to be due on the nominal amount during the period calculated as if the specified Indebtedness or nominal amount bore an assumed rate of interest specified in the contract (the "Swap Rate"). Interest Liability Swaps relating to specified Indebtedness are termed "Debt Swaps." Interest Liability Swaps relating to nominal amounts are termed "Investment Swaps." Interest Liability Swaps shall be subject to calculations as provided herein.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance or other lien on Net Revenues or any other Property of any Person that secures any Indebtedness.

"Long-Term Debt Service Coverage Ratio" means, for any period of time, the ratio determined by dividing the Income Available for Debt Service by the Long-Term Debt Service Requirement.

"Long-Term Debt Service Requirement" means, for any Fiscal Year for which such determination is made, the aggregate of the payments to be made in respect of principal and interest on outstanding Long-Term Indebtedness during such period; provided, however, that interest shall be excluded from determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness or otherwise provided so as to be available for deposit into an account for capitalized interest not later than the date of delivery of and payment for such Long-Term Indebtedness.

"Long-Term Indebtedness" means all Indebtedness, including Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms that would, if such commitment were implemented, constitute Long-Term Indebtedness, and the current portion of Long-Term Indebtedness, for any of the following:

(a) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(b) leases required to be capitalized in accordance with generally accepted accounting principles that have an original term, or are renewable at the option of the lessee for a period from the date originally incurred, longer than one year; and

(c) installment sale or conditional sale contracts having an original term in excess of one year.

"Maximum Annual Debt Service" means the largest Long-Term Debt Service Requirement for any current or succeeding Fiscal Year.

"Net Proceeds," when used with respect to any insurance proceeds or any condemnation award, means the amount remaining after deducting all expenses (including attorneys' fees) incurred in the collection of such proceeds or award from the gross proceeds thereof.

"Net Revenues," when used with respect to any period, means the excess, if any, of the Revenues for such period, over the Operating Expenses for such period.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien, the liability for which is effectively limited to the Property the purchase, acquisition or improvement of which was financed by the proceeds of such Indebtedness and for which there is no recourse against the Corporation or the System (except as to such Property).

"Operating Expenses" means the reasonable and necessary current expenses of maintaining, repairing and operating the System, including, without limiting the generality of the foregoing, all administrative, general and commercial expenses, insurance and surety bond premiums, payments for the billing and collection of rents, rates, fees or other charges imposed or charged by the System or the income or operations thereof or the property forming a part thereof, rentals of equipment or other property, usual expenses of maintenance and repair, and any other current expenses required to be paid by the Corporation by law, all to the extent properly and directly attributable to the System; provided "Operating Expenses" shall not include (a) any payments on leases other than leases which are operating leases under generally accepted accounting principles for hospitals consistently applied, (b) any depreciation or amortization, or (c) any interest other than interest on Special Operating Indebtedness.

"Permitted Dispositions" means any dispositions or transfers:

(a) To any Person if, prior to the sale, lease or other disposition, there is delivered to the County a certificate stating that, in the judgment of the signer, such Property, Plant and Equipment (including complete operating facilities not in operation for at least six months) have become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property, Plant and Equipment; provided, however, that Property, Plant and Equipment with a Book Value aggregating not more than 5% of the Book Value of the Property, Plant and Equipment of the System may be transferred at any time or from time to time within any Fiscal Year without the delivery of such certificate.

(b) To any Person, if there are substituted or installed other items of Property free and clear of all liens and encumbrances except Permitted Liens, of at least equal market value though not necessarily of like kind or having the same function.

(c) To any Person if prior to such sale, lease or other disposition the conditions described herein have been satisfied for the incurrence of an additional one dollar of Indebtedness, assuming such sale, lease or disposition occurred at the beginning of the most recent period of 12 full consecutive calendar months for which audited financial statements are available.

(d) To a successor corporation of the Corporation pursuant to a merger or consolidation approved by the County.

(e) To any Person of real or personal property received through gifts, grants or bequests and not used in the provision of health care services.

"Permitted Indebtedness" means:

(a) Long-Term Indebtedness if, prior to the incurrence of such Long-Term Indebtedness there is delivered to the County:

(1) evidence that (A) immediately after the incurrence of the proposed Long-Term Indebtedness, the aggregate principal amount of all Long-Term Indebtedness does not exceed 90% of Total Capitalization, and, based on the most recent period of 12 full consecutive months for which audited financial statements are available, the incurrence of the proposed Long-Term Indebtedness shall not reduce the Long-Term Debt Service Coverage Ratio to less than 1.10; or (B) the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months preceding the date of delivery of such evidence for which financial statements are available, taking all outstanding Long-Term Indebtedness and the proposed Long-Term Indebtedness into account, is not less than 1.20; or

(2) (A) evidence demonstrating that the Long-Term Debt Service Coverage Ratio for the period mentioned in paragraph (a)(l)(B), excluding the proposed Long-Term Indebtedness, is at least 1.10 and (B) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio for each of the two full Fiscal Years succeeding the date of completion of the facilities being financed with the proceeds of such proposed Long-Term Indebtedness (or, in the case of Long-Term Indebtedness not financing capital improvements, for each of the two full Fiscal Years succeeding the date of incurrence of such Long-Term Indebtedness), taking all outstanding Long-Term Indebtedness and the proposed Long-Term Indebtedness into account, is not less than 1.20, as shown by forecasted financial statements for each such period, accompanied by a statement of the relevant assumptions upon which such forecasted financial statements are based; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00; or

(3) without compliance with either of the tests mentioned in (1) and (2) above, additional Long-Term Indebtedness in an amount not to exceed 20% of Total Operating Revenues for the most recent Fiscal Year for which audited financial statements are available. The total amount of Long-Term Indebtedness incurred under this clause (3) and outstanding without compliance with one of the tests mentioned in (1) and (2) above, when combined with the Indebtedness described in paragraph (m), may not in the aggregate exceed at any time 20% of Total Operating Revenues for the most recent Fiscal Year for which audited financial statements are available.

(b) Indebtedness to complete a project already begun for which Indebtedness was approved or permitted hereby without limitation provided there is an architect's estimate of the completion costs and a certificate of the Corporation (1) stating that such Indebtedness will be sufficient to complete the construction or acquisition and (2) explaining why such Indebtedness is being incurred.

(c) Long-Term Indebtedness to refund any outstanding Long-Term Indebtedness if the Corporation shall have adopted a resolution finding that such refunding is in the best interest of the System.

(d) Short-Term Indebtedness if immediately after the incurrence of such Indebtedness, the unpaid principal balance of all such Short-Term Indebtedness to be incurred together with the unpaid principal balance of all Short-Term Indebtedness outstanding does not exceed 25% of the Total Operating Revenues for the most recent period of 12 full consecutive months for which financial statements are available.

(e) Indebtedness having a term of 60 months or less issued in anticipation of financing of capital improvements by the issuance of Long-Term Indebtedness, provided that, at the time such Indebtedness is incurred:

(1) evidence (which shall be accompanied by and based on an opinion of a banking or investment banking institution knowledgeable in health care finance) is present that the anticipated financing is reasonably expected to be completed within the next 60 months; and

(2) the conditions described in (a)(l)(A) or (B) or (a)(2) are met with respect to such Indebtedness as if it were being repaid in substantially level annual debt service over a term of 20 years and bearing interest at an interest rate at which it would reasonably expect to borrow the same amount by issuing an obligation with the same term.

(f) Balloon Long-Term Indebtedness with a term in excess of 60 months (if such Indebtedness has a term of 60 months or less, the provisions of paragraph (e) hereof shall apply) provided at the time such Indebtedness is incurred any of the incurrence tests set forth in paragraph (a) can be met utilizing the assumptions set forth herein.

(g) Variable Rate Indebtedness provided at the time such Variable Rate Indebtedness is incurred any of the incurrence tests set forth in paragraph (a) can be met utilizing the assumptions set forth herein.

(h) Put Indebtedness provided at the time such Indebtedness is incurred (1) any of the incurrence tests described in paragraph (a) can be met utilizing the assumptions set forth herein and (2) a binding commitment from a bank or other financial institution exists to provide financing sufficient to pay the purchase price or principal of such Put Indebtedness on any date on which the owner of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness.

(i) Cross-over Refunding Indebtedness provided the test set forth in paragraph (c) is met.

(j) Interest Liability Swaps without limitation.

(k) Non-Recourse Indebtedness without limitation provided the Liens therefor are Permitted Liens.

(l) Liability under a line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with any other Permitted Indebtedness.

(m) Special Operating Indebtedness provided the total Indebtedness described in this paragraph (m) and paragraph (a)(3) may not exceed 20% of Total Operating Revenues for the most recent Fiscal Year for which audited financial statements are available.

(n) Indebtedness secured by a lien on Accounts if immediately after the incurrence of such Indebtedness, the amount of such Accounts pledged to secure Indebtedness issued under this paragraph (n) and then outstanding will not exceed the difference between (1) the Account Lien Amount and (2) 110% of the Book Value of Accounts sold in the current Fiscal Year; provided, however, (A) the determination of whether a disposition of Accounts is a sale or loan shall be made in accordance with generally accepted accounting principles and (B) any Indebtedness issued under this paragraph (n) shall also be considered Short-Term Indebtedness subject to the incurrence test set forth in paragraph (d).

"Permitted Liens" means the following:

(a) Any encumbrance on title to any Property created by the Transfer Agreement.

(b) Liens arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure public or statutory obligations, Liens to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges.

(c) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the maintenance of self-insurance or participation in any funds established to cover any insurance risks or in connection with workers compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements.

(d) Any judgment lien so long as such judgment is being contested in good faith and execution thereon is stayed, or provision for payment of the judgment has been made in accordance with applicable law or by the deposit with a trustee of cash, security or other property.

(e) (1) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of zoning or other law, affecting any Property; (2) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, that are not due and payable or that are not delinquent, the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors that have been due for less than 90 days; and (3) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property as normally exist on Property of a character of the System and either are shown on title policies obtained contemporaneously with the purchase of such Property or that do not materially impair the use of such Property for the purposes intended.

(f) Any Lien existing on January 1, 1988, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property not subject to such Lien on such date or to secure Indebtedness not outstanding on such date, unless such Lien as extended, renewed or modified otherwise qualifies as a Permitted Lien.

(g) Any Lien, including a mortgage, on Property acquired as a part of the System securing Permitted Indebtedness that was assumed in connection with the acquisition of such Property;

(h) Purchase Money Liens securing Permitted Indebtedness; provided the total Indebtedness secured by Liens described in paragraphs (h) and (i) may not exceed 35% of Total Operating Revenues, as shown on the most recent audited financial statements;

(i) (1) Liens, including mortgages, on Property, Plant and Equipment securing Permitted Indebtedness so long as the Book Value of the Property pledged in aggregate under all such Liens allowed pursuant to this subparagraph is less than the greater of 25% of Total Operating Revenues, as shown on the most recent audited financial statements, or 30% of the Book Value of all Property, Plant and Equipment of the System, and (2) Liens (other than Purchase Money Liens), including mortgages, securing Non-Recourse Indebtedness, provided the total Indebtedness secured by Liens described in paragraphs (h) and (i) may not exceed 35% of Total Operating Revenues as shown on the most recent audited financial statements;

(j) Any Lien, including a mortgage, in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(k) Liens on moneys deposited by patients or others as security for or as prepayment for the cost of patient care;

(l) Liens on Property received through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(m) Liens on Property due to rights of third party payors for recoupment of amounts paid;

(n) Rights of the United States of America under Title 42, United States Code Section 291;

(o) Any Lien arising by reason of any escrow established to pay Debt Service with respect to Indebtedness;

(p) Any Lien on Accounts sold pursuant hereto or that are pledged to secure Permitted Indebtedness; and

(q) Liens on Net Revenues securing Special Operating Indebtedness.

"Person" means an individual, partnership, corporation, trust, unincorporated organization, association, joint venture or a government or agency or political subdivision thereof.

"Property" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"Property, Plant and Equipment" means all Property in the System that is property, plant and equipment under generally accepted accounting principles.

"Purchase Money Lien" means (a) any Lien on any Property to secure the initial financing of the acquisition or construction of such Property, provided such Lien attaches within 120 days after the date such Property was acquired or construction thereof was completed, which "initial financing" may include the refinancing of advances to or by a Person if such refinancing occurs within 120 days after such date of acquisition or completion of construction, and (b) any Lien on Property subject to a Purchase Money Lien to secure the refinancing of Indebtedness secured with such Purchase Money Lien.

"Put Indebtedness" means Indebtedness a feature of which is an option on the part of the holders of such Indebtedness to tender all or a portion of such Indebtedness to the obligor or a trustee or other fiduciary for mandatory purchase or redemption prior to the stated maturity date of such Indebtedness. Put Indebtedness shall be subject to calculations as provided herein.

"Revenues" means all revenues, income, receipts and money (other than proceeds of borrowings) received in any period with respect to the System by or on behalf of the Corporation and all controlled affiliates which are providing patient care, including without limitation (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of obligations, (c) proceeds derived from (1) business interruption or similar insurance, (2) Accounts, (3) securities and other investments, (4) inventory and other tangible and intangible property, (5) medical or hospital insurance, indemnity or reimbursement programs or agreements, and (6) contract rights and other rights and assets now or hereafter owned, held or possessed, and (d) rentals received from the leasing of real or tangible personal property; provided revenues, income, receipts and money to which the System is not entitled and as to which it is obligated to make reimbursement, forwarding payments or other remittances of such amounts to other parties shall not constitute Revenues.

"Short-Term Indebtedness" means all obligations, other than the current portion of Long-Term Indebtedness, incurred or assumed for any of the following:

(a) payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(b) payments under leases that are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(c) payments under installment purchase or conditional sale contracts having an original term of one year or less.

"Special Operating Indebtedness" means Indebtedness which is within the limitations hereof and specifically designated as such in writing by the Corporation.

"System" means the hospital facilities and related property noted in the Deed and all additions thereto, replacements thereof and after-acquired facilities to be operated therewith, including all real and personal property related thereto, as such may now or hereafter exist.

"Tax-Exempt Organization" means any Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and exempt from Federal income taxes under Section 501(a) of the Code, or corresponding provisions of Federal income tax laws from time to time in effect.

"Total Capitalization" means the sum of the aggregate outstanding Long-Term Indebtedness, plus aggregate general (including Hospital Board designated) fund balances, all as calculated in accordance with generally accepted accounting principles based upon the most recent period of 12 full consecutive months for which audited financial statements are available.

"Total Operating Revenues" means total operating revenues, being the sum of gross patient service revenue *less* contractual allowances and provisions for uncollectible accounts, free care and discounted care *plus* other operating revenues, as determined in accordance with generally accepted accounting principles for hospitals consistently applied.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate. Variable Rate Indebtedness shall be subject to calculations as provided herein.

Computation Rules

(a) For any Balloon Long-Term Indebtedness, it shall be assumed that such indebtedness is to be amortized over a 20-year period, beginning on the date of incurrence of such Indebtedness, assuming level annual debt service and a rate of interest equal to the most recent Bond Buyer Revenue Bond Index or successor index;

(b) The interest on Variable Rate Long-Term Indebtedness or Put Indebtedness shall

(1) for the purpose of determining whether the Indebtedness may be incurred, the debt service requirements thereon shall be deemed to include a maturity equal to the lesser of 20 years or the actual maturity of such Indebtedness and interest at the rate set forth in the most recent (as of the date of binding commitment to incur such Indebtedness) Bond Buyer Revenue Bond Index or a successor index; and

(2) for the purpose of any other required calculation of the debt service requirements, such Indebtedness shall be deemed to bear interest at a rate equal to the weighted average for the twelve-month period (or for the portion of such period during which the Indebtedness was outstanding) ending on the date of calculation or on the latest practicable date prior to such calculation.

(c) With respect to guaranties, the annual principal and interest payments on any indebtedness represented by such guaranty shall, so long as such guaranty constitutes a contingent liability, be deemed to be:

(1) 20% of the annual principal and interest requirements with respect to the indebtedness which is guaranteed, unless in such Fiscal Year the guarantor is required to make a debt service payment pursuant to the guaranty; and

(2) for each Fiscal Year and each of the two Fiscal Years succeeding such Fiscal Year if, in such Fiscal Year, the guarantor is required to make a debt service payment pursuant to any guaranty, 100% of the annual principal and interest requirements on the guaranteed indebtedness in each Fiscal Year.

(d) For any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the Corporation, be made on the assumption that such Indebtedness will be amortized in accordance with such credit arrangement.

(e) Upon issuance of Cross-over Refunding Indebtedness, the total debt service on the Cross-over Refunded and Refunding Indebtedness shall be calculated assuming the Cross-over Refunded Indebtedness is redeemed on the Cross-over Date.

(f) Except for Hedge Agreements, Interest Liability Swaps are to be disregarded. Upon incurrence of a Hedge Agreement, all calculations, including for debt service to be paid, on the Indebtedness subject to the Hedge Agreement shall be made using the Hedge Fixed Rate for the applicable period and such Indebtedness shall not be Variable Rate Indebtedness for such period.

END OF SCHEDULE I to Transfer Agreement dated as of April 1, 1997, between the County of Wake and Wake County Hospital System, Inc.