

## REMARKETING CIRCULAR

**Remarketing – Not a New Issue – Book-Entry Only**

**Ratings: See "Ratings" herein**

*In the opinion of Bond Counsel rendered on and dated as of the date of original issuance of the Series 2006 Bonds, assuming compliance with certain covenants, interest on the Series 2006 Bonds is excluded from gross income for purposes of federal income taxation. In connection with the issuance of the Liquidity and Credit Facility (as defined below) Bond Counsel will render its opinion to the effect that the substitution of such Liquidity and Credit Facility in and of itself will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds. See, however "TAX MATTERS" herein for a description of certain federal minimum and other special taxes that may affect the tax treatment of interest on the Series 2006 Bonds.*

**\$75,000,000**  
**CITY OF LEESBURG, FLORIDA**  
**Hospital Revenue Bonds**  
**(The Villages Regional Hospital Project)**  
**Series 2006**  
**CUSIP No. 524360FF6**



**Dated: January 19, 2006**

**Due: July 1, 2036**

The Series 2006 Bonds were originally issued on January 19, 2006. The Series 2006 Bonds are limited obligations of the City of Leesburg, Florida (the "Issuer") payable solely from and secured by the Trust Estate (defined herein) which includes, among other things, payments made by (i) the Bank under the Liquidity and Credit Facility (as such terms are defined below), (ii) Leesburg Regional Medical Center, Inc. (the "Medical Center"), LPMC Home Health Services, Inc. ("LRMC Home Health") and The Villages Tri-County Medical Center, Inc. d/b/a The Villages Regional Hospital ("TVRH" and together with the Medical Center and LRMC Home Health, referred to as the "Restricted Group") pursuant to the Financing Agreement dated as of June 1, 1988, as supplemented and amended, and particularly as amended and supplemented by a Ninth Supplemental Financing Agreement dated as of January 1, 2006, each among the Issuer and the Restricted Group (collectively, the "Financing Agreement"), and (iii) certain funds and accounts established under the Indenture of Trust dated as of June 1, 1988, as amended and supplemented, and particularly as amended and supplemented by an Eighth Supplemental Indenture of Trust dated as of January 1, 2006, and a First Supplement to the Eighth Supplemental Indenture of Trust dated as of \_\_\_\_\_, 2007, each between the Issuer and The Bank of New York, as successor trustee (the "Trustee") (collectively, the "Indenture").

THE SERIES 2006 BONDS ARE NOT A GENERAL DEBT, LIABILITY OR OBLIGATION OF THE ISSUER, BUT ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM THE (I) PAYMENTS TO BE MADE BY (A) THE BANK UNDER THE LIQUIDITY AND CREDIT FACILITY AND (B) THE RESTRICTED GROUP PURSUANT TO THE FINANCING AGREEMENT AND (II) ALL AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS CREATED PURSUANT TO THE INDENTURE (COLLECTIVELY, THE "PLEDGED FUNDS"), AS MORE FULLY DESCRIBED HEREIN. THE SERIES 2006 BONDS ARE NOT A DEBT, LIABILITY OR OBLIGATION OF THE

STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE ISSUER. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE ISSUER, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2006 BONDS, AND NONE OF THE ISSUER, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF SHALL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER FOR THE PAYMENT OF THE SERIES 2006 BONDS OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT FROM ANY SOURCE EXCEPT THE PLEDGED FUNDS.

The Series 2006 Bonds were originally issued and are being remarketed in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof, bearing interest at a variable rate, adjusted weekly, payable on the first Business Day of each month. Interest on the Series 2006 Bonds may be converted to a fixed rate through the maturity of the Series 2006 Bonds or an auction rate, as described herein. The Series 2006 Bonds were originally issued and are being remarketed as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") to which the principal and interest payments on the Series 2006 Bonds will be made. Individual purchases may be made by book-entry form only and purchasers of Series 2006 Bonds will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the Series 2006 Bonds, references herein to the holders of the Series 2006 Bonds or registered owners of the Series 2006 Bonds will mean Cede & Co., and will not mean the beneficial owners of the Series 2006 Bonds. So long as Cede & Co. is the registered owner of the Series 2006 Bonds, the principal and interest on the Series 2006 Bonds are payable to Cede & Co., as nominee for DTC, which will in turn remit such payments to the DTC Participants (as defined herein) for subsequent disbursements to the beneficial owners of the Series 2006 Bonds. See "THE SERIES 2006 BONDS – Book-Entry Only System."

The Series 2006 Bonds are subject to mandatory and optional redemption and tender for purchase prior to maturity as more fully described herein.

When originally issued, the purchase price of Series 2006 Bonds tendered or deemed tendered for purchase and not remarketed was payable by The Bank of Nova Scotia, New York Agency (the "Bank"), pursuant to a Standby Bond Purchase Agreement among the Restricted Group, the Bank and The Bank of New York, as tender agent, subject to the terms and conditions set forth therein. In connection with the remarketing of the Series 2006 Bonds, the Bank is terminating the Standby Bond Purchase Agreement and issuing its irrevocable direct pay letter of credit securing the payment of the principal of, purchase price, and interest on the Series 2006 Bonds, when due (the "Liquidity and Credit Facility"). Unless extended pursuant to its terms, the Liquidity and Credit Facility will expire on \_\_\_\_\_, \_\_\_\_\_, or earlier upon the occurrence of certain events as described herein under the caption "LIQUIDITY AND CREDIT FACILITY."



Payment of principal of and interest on the Series 2006 Bonds are also insured in accordance with the terms of a financial guaranty insurance policy issued simultaneously with the original issuance of the Series 2006 Bonds by Radian Asset Assurance Inc. (the "Bond Insurer")

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELATING TO AN INVESTMENT IN THE SERIES 2006 BONDS. INVESTORS ARE ADVISED TO READ THIS REMARKETING CIRCULAR IN ITS ENTIRETY BEFORE MAKING AN INVESTMENT DECISION. THIS REMARKETING CIRCULAR GENERALLY DESCRIBES THE TERMS OF THE

SERIES 2006 BONDS ONLY WHILE THE SERIES 2006 BONDS ARE IN A WEEKLY INTEREST RATE PERIOD, NOT AN AUCTION RATE PERIOD OR FIXED RATE PERIOD.

*Bryant Miller Olive P.A., Orlando, Florida, Bond Counsel, rendered its opinion as to the validity of the Series 2006 Bonds and the exclusion from gross income of interest thereon at the time of original issuance and delivery of the Series 2006 Bonds. The remarketing of the Series 2006 Bonds is subject to the receipt of an opinion of Bryant Miller Olive P.A., as Bond Counsel, to the effect that the substitution of the Liquidity and Credit Agreement in and of itself will not adversely effect the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds. Certain legal matters will be passed upon for the Issuer by its counsel McLin & Burnsed P.A., Leesburg, Florida, for the Restricted Group by its counsel Cauthen & Feldmen, P.A., Tavares, Florida, for the Bank by its counsel Kirkpatrick & Lockhart Preston Gates Ellis LLP, New York, New York and for the Remarketing Agent by its counsel, Nabors, Giblin & Nickerson, P.A., Tampa, Florida. It is expected that the Series 2006 Bonds will be available upon remarketing for delivery through the facilities of DTC on or about \_\_\_\_\_, 2007.*

**RBC CAPITAL MARKETS**

\_\_\_\_\_, 2007.

The Series 2006 Bonds are exempt from registration under both the Securities Act of 1933, as amended, and the securities laws of Florida. No dealer, broker, salesperson or other person has been authorized by the Issuer, the Restricted Group, the Bank, the Bond Insurer or the Remarketing Agent to give any information or to make any representations other than as contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Remarketing Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Series 2006 Bonds offered hereby, nor shall there be any sale of the Series 2006 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information contained in this Remarketing Circular has been furnished by the Issuer, the Restricted Group, the Bank, the Bond Insurer, DTC and other sources that are believed to be reliable. The information set forth herein is subject to change after the date of this Remarketing Circular and no sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions stated herein or in the affairs of the Issuer, the Restricted Group, the Bank, the Bond Insurer or DTC since the date of this Remarketing Circular.

**OTHER THAN WITH RESPECT TO INFORMATION CONCERNING RADIAN ASSET ASSURANCE INC. CONTAINED UNDER THE CAPTION "FINANCIAL GUARANTY INSURANCE" HEREIN AND IN APPENDIX F HERETO, NONE OF THE INFORMATION IN THIS REMARKETING CIRCULAR HAS BEEN SUPPLIED OR VERIFIED BY RADIAN ASSET ASSURANCE INC. AND RADIAN ASSET ASSURANCE INC MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION, (II) THE VALIDITY OF THE SERIES 2006 BONDS, OR (III) THE TAX STATUS OF THE INTEREST ON THE SERIES 2006 BONDS.**

**OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE BANK CONTAINED UNDER THE CAPTION "LIQUIDITY AND CREDIT FACILITY" HEREIN AND IN APPENDIX G HERETO, NONE OF THE INFORMATION IN THIS REMARKETING CIRCULAR HAS BEEN SUPPLIED OR VERIFIED BY THE BANK, AND THE BANK MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION, (II) THE VALIDITY OF THE SERIES 2006 BONDS, OR (III) THE TAX STATUS OF THE INTEREST ON THE SERIES 2006 BONDS.**

Certain statements included or incorporated by reference in this Remarketing Circular constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget," or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Restricted Group does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur or fail to occur.

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## **REMARKETING CIRCULAR**

Relating To

**\$75,000,000**

**CITY OF LEESBURG, FLORIDA**

**Hospital Revenue Bonds**

**(The Villages Regional Hospital Project)**

**Series 2006**

### **INTRODUCTION**

The purpose of this Remarketing Circular, including the cover page and the Appendices hereto, is to furnish certain information with respect to the remarketing of \$75,000,000 City of Leesburg, Florida Hospital Revenue Bonds (The Villages Regional Hospital Project), Series 2006 (the "Series 2006 Bonds") originally issued by the City of Leesburg, Florida (the "Issuer") on January 19, 2006.

This Introduction is only a brief description of the matters described in this Remarketing Circular, and a full review of this Remarketing Circular should be undertaken by potential investors in the Series 2006 Bonds. This Remarketing Circular speaks only as of its date, and the information contained herein is subject to change.

The Issuer is a municipal corporation of the State of Florida. The Series 2006 Bonds were issued pursuant to the Constitution of the State of Florida, Chapter 166, Florida Statutes, Chapter 163, Part I, Florida Statutes, Chapter 159, Part II, Florida Statutes, and other applicable provisions of law (collectively, the "Act"), an authorizing resolution adopted by the Issuer on January 9, 2006, and an Indenture of Trust dated as of June 1, 1988, as amended and supplemented by a First Supplemental Indenture of Trust dated as of November 1, 1991, each between the Issuer and First Florida Bank, N.A., as trustee, a Second Supplemental Indenture of Trust dated as of May 1, 1993, and a Third Supplemental Indenture of Trust dated as of October 1, 1993, each between the Issuer and Barnett Bank of Tampa (successor by merger to First Florida Bank, N.A.), as Trustee, a Fourth Supplemental Indenture of Trust, dated as of March 15, 1996, a Fifth Supplemental Indenture of Trust, dated as of January 1, 2001, a Sixth Supplemental Indenture of Trust, dated as of August 1, 2002, a Seventh Supplemental Indenture of Trust, dated as of June 1, 2003, an Eighth Supplemental Indenture of Trust, dated as of January 1, 2006, and a Ninth Supplemental Indenture of Trust, dated March 31, 2006, each between the Issuer and The Bank of New York, as successor to Barnett Bank of Tampa, as trustee (the "Trustee") (collectively, the "Original Indenture"). In connection with the remarketing of the Series 2006 Bonds and the issuance of the Liquidity and Credit Facility (described below), the Issuer and the Trustee will execute and delivery a First Supplement to the Eighth Supplemental Indenture, dated as of \_\_\_\_\_, 2007 (collectively with the Original Indenture, the "Indenture").

The Series 2006 Bonds were issued for the principal purpose of providing a loan to Leesburg Regional Medical Center, Inc. (the "Medical Center"), LRMC Home Health Services, Inc. ("LRMC Home Health") and The Villages Tri-County Medical Center, Inc. d/b/a The Villages Regional Hospital ("TVRH" and together with the Medical Center and LRMC Home Health, referred to as the "Restricted Group") to be used, together with other funds available for such purpose, to (i) fund the acquisition, construction and equipping of a three-story, approximately 138-bed expansion to TVRH's existing 60-bed acute care hospital located in The Villages, Florida (the "Project"), (ii) refund certain outstanding indebtedness of TVRH (the "Refunded Debt"), and (iii) pay costs and expenses related to the issuance of the Series 2006 Bonds. See "THE PLAN OF FINANCE" herein.

The Series 2006 Bonds were issued as Additional Bonds payable on a parity with the Issuer's Hospital Revenue Refunding Bonds (Leesburg Regional Medical Center Project) Series 1996A (the "Series 1996A Bonds") which remain outstanding in the principal amount of [\$3,845,000], the Issuer's Auction Rate Hospital Revenue Bonds (Leesburg Regional Medical Center Project), Series 2001 (the "Series 2001 Bonds") which remain outstanding in the principal amount of [\$25,325,000], the Issuer's Hospital Revenue Bonds (Leesburg Regional Medical Center Project), Series 2002 (the "Series 2002 Bonds") which remain outstanding in the principal amount of [\$31,460,000], and the Issuer's Hospital Revenue Refunding Bonds (Leesburg Regional Medical Center Project), Series 2003 (the "Series 2003 Bonds") which remain outstanding in the principal amount of [\$42,495,000].

The Series 2006 Bonds, Series 2003 Bonds, Series 2002 Bonds, Series 2001 Bonds, Series 1996A Bonds and any Additional Bonds issued pursuant to the Indenture are referred to herein as the "Bonds."

The proceeds from the sale of the Series 2006 Bonds were loaned to the Restricted Group pursuant to a Financing Agreement among the Issuer, the Medical Center and LRMC North, Inc. (LRMC North, Inc. has been merged into the Medical Center), dated as of June 1, 1988, as amended and supplemented by a First Assumption Agreement and Supplemental Financing Agreement dated April 24, 1991, between the Medical Center and LRMC Home Health (which added LRMC Home Health as a Member of the Restricted Group), a Second Supplemental Financing Agreement dated as of November 1, 1991, a Third Supplemental Financing Agreement dated as of May 1, 1993, a Fourth Supplemental Financing Agreement dated as of October 1, 1993, a Fifth Supplemental Financing Agreement dated as of March 15, 1996, a Sixth Supplemental Financing Agreement dated as of January 1, 2001, a Seventh Supplemental Financing Agreement dated as of August 1, 2002, an Eighth Supplemental Financing Agreement dated as of June 1, 2003, a Ninth Supplemental Financing Agreement dated as of January 1, 2006 (which added TVRH as a Member of the Restricted Group) and an Amendment to Financing Agreement and Sixth Supplemental Financing Agreement dated as of March 1, 2006, each between the Issuer and the Restricted Group (collectively, the "Financing Agreement").

Pursuant to the Financing Agreement, the Restricted Group agrees to make payments (the "Bond Payments") in such amounts and at such times as are sufficient to pay the principal of, premium, if any, and interest on the Bonds, including the Series 2006 Bonds, when due. To secure the payment of Bond Payments and the performance by each Member of the Restricted Group of its other obligations under the Financing Agreement, each Member of the Restricted Group has assigned and granted to the Issuer and the Trustee a security interest in certain revenues, accounts receivable, contract rights and general intangibles, as more fully described herein (the "Pledged Revenues"). Additionally, pursuant to a Mortgage and Security Agreement, dated as of January 1, 2001, as amended and supplemented (the "Medical Center Mortgage"), the Medical Center has granted to the Issuer a mortgage on and security interest in certain real and tangible personal property comprising the Main Campus of Leesburg Regional Medical Center (the "Medical Center Campus"), and pursuant to a Mortgage and Security Agreement, dated as of January 1, 2006 (the "TVRH Mortgage" and together with the Medical Center Mortgage, referred to herein collectively as the "Mortgage"), TVRH has granted to the Issuer a mortgage on and security interest in certain real and tangible personal property comprising the Main Campus of The Villages Regional Hospital (the "TVRH Campus" and together with the Medical Center Campus, referred to herein as the "Mortgaged Property"). Pursuant to the Indenture, and an Assignment of Mortgage, dated as of January 1, 2001, as amended and supplemented, and an Assignment of Mortgage, dated as of January 1, 2006, each, from the Issuer to the Trustee (collectively, the "Assignment"), all of the Issuer's right, title and interest (with certain exceptions specified therein) in and to the Financing Agreement and Mortgage, including the Issuer's right to receive Bond Payments and the security interest granted in Pledged Revenues, have been assigned and pledged to the Trustee.

When originally issued, the purchase price of the Series 2006 Bonds tendered or deemed tendered for purchase and not remarketed was payable by The Bank of Nova Scotia, New York Agency (the "Bank"), pursuant to a Standby Bond Purchase Agreement (the "Original Standby Bond Purchase Agreement") among the Restricted Group, the Bank and The Bank of New York, as tender agent, subject to the terms and conditions set forth therein. In connection with the remarketing of the Series 2006 Bonds, the Bank is terminating the Standby Bond Purchase Agreement and issuing its irrevocable direct pay letter of credit securing the payment of the principal of, purchase price, and interest on the Series 2006 Bonds, when due (the "Liquidity and Credit Facility") pursuant to a Reimbursement Agreement, dated as of \_\_\_\_\_, 2007, among the Restricted Group and the Bank (the "Reimbursement Agreement"). Unless extended pursuant to its terms, the Liquidity and Credit Facility will expire on \_\_\_\_\_, \_\_\_\_\_, or earlier upon the occurrence of certain events as described herein under the caption "LIQUIDITY AND CREDIT FACILITY."

Payment of principal of and interest on the Series 2006 Bonds are also insured in accordance with the terms of a financial guaranty insurance policy issued simultaneously with the original issuance of the Series 2006 Bonds by Radian Asset Assurance Inc. (the "Bond Insurer")

**The Series 2006 Bonds are not a general debt, liability, or obligation of the Issuer, but are limited obligations of the Issuer, payable solely from (i) payments to be made by (a) the Bank under the Liquidity and Credit Facility or (b) the Restricted Group pursuant to the Financing Agreement, and (ii) all amounts in certain funds and accounts created under the Indenture (collectively, the "Pledged Funds"). The Series 2006 Bonds are not a debt, liability or obligation of the State of Florida or any political subdivision or municipal corporation thereof other than the Issuer. Neither the full faith and credit nor the taxing power of the Issuer, the State of Florida, or any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2006 Bonds, and none of the Issuer, the State of Florida or any political subdivision thereof shall be directly, indirectly, or contingently obligated to levy or to pledge any form of taxation whatsoever for the payment of the Series 2006 Bonds or to make any appropriation for their payment from any source except the Pledged Funds.**

There follow in this Remarketing Circular descriptions of the Series 2006 Bonds, the Issuer, the Restricted Group, the Bank, the Liquidity and Credit Facility, the Bond Insurer, the Bond Insurance Policy and certain other matters. The descriptions and information contained herein do not purport to be complete, comprehensive, or definitive, and all references herein to documents or reports are qualified in their entirety by reference to the complete text of such documents or reports. Copies of documents and reports referred to herein that are not included in their entirety herein may be obtained from the Remarketing Agent prior to delivery of the Series 2006 Bonds and thereafter from the Trustee upon payment of any required fee. Unless otherwise defined herein, terms used in capitalized form in this Remarketing Circular shall have the same meanings as in the Indenture. See APPENDIX C – "Definitions" for definitions of certain terms used in this Remarketing Circular.

## **THE ISSUER**

The Issuer is a municipal corporation of the State of Florida. Pursuant to the Act, the Issuer is authorized to issue industrial development revenue bonds and to loan the proceeds thereof to the Restricted Group for the purposes described herein.

The Issuer has not provided the information herein concerning the Restricted Group and is not responsible for the information provided by the Restricted Group. Except as required by the Act, the Issuer has made no investigation and makes no representation concerning the fiscal condition of the

Restricted Group, or the accuracy or sufficiency of any information herein concerning the Restricted Group.

CERTAIN OF THE INFORMATION HEREIN OTHER THAN THE INFORMATION UNDER THE CAPTIONS "THE ISSUER" AND "LITIGATION" IS BEYOND THE KNOWLEDGE OF THE ISSUER. WHILE THE ISSUER HAS NO REASON TO BELIEVE THAT SUCH INFORMATION IS INCOMPLETE OR INACCURATE, THE ISSUER HAS NOT INDEPENDENTLY INVESTIGATED OR CONFIRMED THE ACCURACY OR COMPLETENESS THEREOF AND HAS INCLUDED SUCH INFORMATION IN THIS REMARKETING CIRCULAR IN RELIANCE UPON THE REPRESENTATION AND WARRANTY OF THE RESTRICTED GROUP THAT SUCH INFORMATION DOES NOT CONTAIN ANY UNTRUE STATEMENT OF A MATERIAL FACT AND DOES NOT OMIT TO STATE ANY MATERIAL FACT NECESSARY IN ORDER TO MAKE THE STATEMENTS MADE HEREIN, IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY ARE MADE, NOT MISLEADING.

### **THE RESTRICTED GROUP**

Leesburg Regional Medical Center, Inc. (the "Medical Center") was incorporated as a Florida not-for-profit corporation on July 7, 1961. The Medical Center is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. The Medical Center owns health care facilities located on two distinct campuses referred to, respectively, as the Main Campus and the North Campus. The Medical Center's 309-bed total is comprised of a 294-bed acute care hospital located on the Main Campus and a 15-bed comprehensive adult medical rehabilitation unit located on the North Campus in addition to a 120-bed skilled nursing facility and a wellness/rehabilitation center, all of which are owned by the Medical Center.

LRMC Home Health Services, Inc. ("LRMC Home Health") was incorporated as a Florida not-for-profit corporation on February 1, 1988. LRMC Home Health is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. LRMC Home Health is a home health agency, which provides health and medical services and supplies on a visiting basis in a place of residence used as an individual's home.

The Villages Tri-County Medical Center, Inc. d/b/a The Villages Regional Hospital ("TVRH") was incorporated as a Florida not-for-profit corporation on August 7, 1998. TVRH is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. TVRH owns a 60-bed, acute care hospital located in The Villages, Florida. Concurrently with the original issuance of the Series 2006 Bonds, TVRH was added as a member of the Restricted Group.

The Medical Center, LRMC Home Health and TVRH are members of an affiliated group of corporations controlled by Central Florida Health Care Development Corporation. Further information concerning these affiliations and the history, management, organization and historical financial performance of the Restricted Group is contained in Appendices A and B, which should be read in their entirety.

As of the date of this Remarketing Circular, the Medical Center, LRMC Home Health and TVRH will be the sole Members of the Restricted Group. Upon compliance with certain conditions specified in the Financing Agreement, additional Members may be added to the Restricted Group and, except for the Medical Center, may be released from their obligations under the Financing Agreement. Under certain circumstances specified in the Financing Agreement, a Member may withdraw or be removed from the Restricted Group. All Members of the Restricted Group are jointly and severally liable with respect to the

Bonds. See APPENDIX D – "Summary of Certain Provisions of the Indenture and the Financing Agreement – Summary of Certain Provisions of the Financing Agreement – The Restricted Group" for further information.

## **THE PLAN OF FINANCE**

### **Purpose of the Series 2006 Bonds**

The proceeds received by the Issuer from the sale of the Series 2006 Bonds were loaned by the Issuer to the Restricted Group for the purpose of providing funds, together with other funds available for such purpose: (1) to fund the acquisition, construction and equipping of the Project which consists of a three-story, approximately 138-bed expansion to TVRH's existing 60-bed acute care hospital located in The Villages, Florida, including a cardiac catheterization unit, coronary care unit, interventional radiology unit, vascular angioplasty unit and areas dedicated to clinical research trials, (2) refund the Refunded Debt, and (3) pay costs and expenses related to the issuance of the Series 2006 Bonds.

The Project broke ground in December 2005 and has an estimated construction period of 24 months and completed in September, 2007, several months ahead of the originally anticipated completion date. See APPENDIX A – "THE RESTRICTED GROUP – The Project."

The Refunded Debt consisted of \$5,181,000 outstanding principal amount of Sumter County Industrial Development Authority Adjustable Rate Demand Revenue Bonds, Series 2001 (The Villages Tri-County Medical Center, Inc. Project) issued in the aggregate principal amount of \$8,231,000 to finance a portion of the existing TVRH facilities. Payments on the Refunded Debt were secured by a letter of credit (the "2001 Credit Facility") provided by SunTrust Bank (the "2001 Credit Provider"). A portion of the proceeds of the Series 2006 Bonds were used to reimburse the 2001 Credit Provider for a draw on the 2001 Credit Facility. The proceeds of such draw were deposited with the trustee for the Refunded Debt and used, together with other funds already on deposit with trustee, on March 2, 2006, the redemption date for the Refunded Debt, to pay such debt in full.

### **Hedge Transaction**

The Restricted Group entered into an interest rate swap agreement with Royal Bank of Canada (the "Counterparty") relating to a portion of the Series 2006 Bonds (the "Swap Agreement"). The Swap Agreement was effective simultaneously with the original issuance of the Series 2006 Bonds and will terminate on July 1, 2036 (the final maturity of the Series 2006 Bonds), unless sooner terminated in accordance with its terms. The notional amount of the Swap Agreement is \$30,000,000, subject to amortization. Pursuant to the terms of the Swap Agreement, the Restricted Group pays interest at a fixed interest rate on the notional amount, in exchange for the Counterparty's agreement to pay interest at a floating interest rate equal to 67% of 1-month LIBOR on the notional amount, with payments due on first day of each month from whichever party owes a payment. The Swap Agreement is subject to termination upon certain events which may result in a termination payment owed by the Restricted Group, and such termination payment may be substantial. The Swap Agreement may be terminated at the option of the Restricted Group at anytime without cause, but may not be terminated at the option of the Counterparty without cause, and the periodic scheduled payments due under the Swap Agreement and debt service on the Series 2006 Bonds is senior in right and priority to any termination payments due under the Swap Agreement. The Restricted Group retained Ryan Beck as a swap advisor in connection with the Swap Agreement.

The Royal Bank of Canada is the parent company of RBC Capital Markets, the remarketing agent for the Series 2006 Bonds.

## ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each respective year ending July 1, the amount required to be made available in such year for the payment of principal, interest (and mandatory redemption) after the issuance of the Series 2006 Bonds based on the actual debt service requirements for the Series 1996A Bonds, the Series 2002 Bonds and the Series 2003 Bonds, the scheduled mandatory sinking fund installments for the Series 2001 Bonds at an assumed interest rate of \_\_\_\_\_%, and the scheduled mandatory sinking fund installments for the Series 2006 Bonds at an assumed interest rate of \_\_\_\_\_%.

Year Ended July 1	Series 1996A	Series 2006				Principal	Interest	Series 2006 Subtotal	Total
		Series 2001	Series 2002	Series 2003					
2008	\$1,425,600	\$1,306,250	\$2,235,069	\$3,753,600					
2009		1,189,000	2,234,469	5,362,100					
2010		1,324,750	2,232,869	5,365,900					
2011		1,331,000	2,233,544	5,367,150					
2012		1,236,500	2,232,544	5,369,150					
2013		1,369,250	2,233,569	5,371,400					
2014		1,272,500	2,232,031	5,371,000					
2015		1,403,000	2,233,256	4,609,500					
2016		1,304,000	2,232,169	3,875,000					
2017		1,432,250	2,233,525	3,857,500					
2018		1,456,000	2,232,194	3,832,500					
2019		1,378,250	2,233,175		\$ 2,500,000				
2020		1,477,000	2,236,200		2,500,000				
2021		1,422,000	2,236,000		2,600,000				
2022		1,517,750	2,232,575		2,600,000				
2023		1,484,750	2,235,925		2,700,000				
2024		1,576,750	2,233,875		2,800,000				
2025		1,615,000	2,232,975		2,800,000				
2026		1,601,000	2,232,950		2,900,000				
2027		1,661,250	2,233,525		3,000,000				
2028		1,668,500	2,234,425		3,100,000				
2029		1,724,250	2,235,375		3,100,000				
2030		1,752,000	2,231,100		3,200,000				
2031		1,802,500	2,231,600		3,300,000				
2032			2,231,325		5,300,000				
2033					7,700,000				
2034					8,000,000				
2035					8,300,000				
2036					8,600,000				
	<u>\$1,425,600</u>	<u>\$35,305,500</u>	<u>\$55,836,264</u>	<u>\$52,134,800</u>	<u>\$75,000,000</u>				

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## THE SERIES 2006 BONDS

*This Remarketing Circular generally describes the terms of the Series 2006 Bonds only while the Series 2006 Bonds bear interest at the Weekly Interest Rate. Reference is hereby made to the Series 2006 Bonds and the provisions with respect thereto in the Indenture for the complete terms and provisions thereof.*

### General

The Series 2006 Bonds were originally issued bearing interest at the Weekly Interest Rate in Authorized Denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The remarketed Series 2006 Bonds will continue to bear interest at the Weekly Rate in the same Authorized Denominations until converted to another Rate as described below. The Series 2006 Bonds will mature on July 1, 2036, subject to earlier redemption as described under "– Redemption Prior to Maturity" below. The interest rate on the Series 2006 Bonds may be converted from the Weekly Interest Rate to an Auction Rate, or Fixed Rate through the maturity of the Series 2006 Bonds. See "– Interest – Conversion of Interest Rate" below.

The Series 2006 Bonds were originally issued and are being remarketed in book-entry only form, as described below under "– Book-Entry Only System" and the method and place of payment will be as provided in and by the book-entry only system. In the event that the use of the book-entry only system for the Series 2006 Bonds is discontinued, the method and place of payment will be as described in the Indenture. So long as the Series 2006 Bonds are in book-entry only form, Cede & Co., as nominee of DTC, will be the sole registered owner of the Series 2006 Bonds. Transfers of beneficial interests in the Series 2006 Bonds will be made as described below under "– Book-Entry Only System."

### Interest

**Payment of Interest.** The Series 2006 Bonds may bear interest at a Weekly Interest Rate, an Auction Rate or a Fixed Rate as elected by the Restricted Group on behalf of the Issuer. Interest on the Series 2006 Bonds bearing interest at a Weekly Interest Rate will accrue on the basis of the actual number of days elapsed and a year of 365 days (366 days in a leap year). On the date of remarketing, the Series 2006 Bonds will bear interest at a Weekly Interest Rate and will continue to do so unless the interest rate on the Series 2006 Bonds is changed to an Auction Rate or a Fixed Rate. Interest will be paid on the Series 2006 Bonds on the first Business Day of each calendar month and the day following the end of each Interest Rate Period (each an "Interest Payment Date"), and on any applicable redemption date and on the applicable Maturity Date. The Series 2006 Bond will bear interest from and including the first day of a Weekly Interest Rate Period and each Interest Payment Date thereafter during each such Weekly Interest Rate Period (each an "Interest Accrual Date") immediately preceding the date of authentication thereof or, if such date of authentication is an Interest Accrual Date to which interest on the Series 2006 Bonds has been paid in full or duly provided for, from such date of authentication or, if it is the first payment of interest on the Series 2006 Bonds, the date thereof. However, if, as shown by the records of the Trustee, interest on the Series 2006 Bonds is in default, Series 2006 Bonds issued in exchange for Series 2006 Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the Series 2006 Bonds so surrendered or, if no interest has been paid on such Series 2006 Bonds, from the date thereof.

Subject to the provisions of the Indenture relating to Bank Bonds or Auction Bonds, for any Weekly Interest Rate Period, interest on the Series 2006 Bonds will be payable on each Interest Payment

Date for the period commencing on the immediately preceding Interest Accrual Date and ending on and including the day immediately preceding such Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period).

During a Weekly Rate Period, the Series 2006 Bonds will bear interest at the Weekly Interest Rate determined by the Remarketing Agent by 5:00 p.m. on Wednesday of each week during the Weekly Interest Rate Period, or if such day is not a Business Day, then on the next Business Day. Each Weekly Interest Rate will apply to the period commencing on and including Thursday and ending on and including the next succeeding Wednesday, except that the last Weekly Interest Rate prior to a Conversion from the Weekly Interest Rate to the Fixed Rate will end on and include the last day immediately preceding the Conversion Date.

***Determination of the Weekly Interest Rate.*** The Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on an examination of obligations comparable, in the judgment of the Remarketing Agent, to the Series 2006 Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series 2006 Bonds, would enable the Remarketing Agent to sell all of the Series 2006 Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

If the Remarketing Agent fails to establish a Weekly Interest Rate for any week with respect to the Series 2006 Bonds bearing interest at such rate, then the Weekly Interest Rate for such week will be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, will be equal to 110% of the BMA Index, or if such BMA Index is no longer available, 70% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day such Weekly Interest Rate would otherwise be determined as provided herein for such Weekly Interest Rate Period.

***Conversion of Interest Rate.*** Subject to the provisions of the Indenture described below, from time to time, the Restricted Group on behalf of the Issuer, by written direction to the Issuer, the Trustee, the Tender Agent (if any), the Liquidity Facility Provider (which includes the Bank) (if any), the Remarketing Agent (if any) and the Broker Dealer (if any) may elect that the Series 2006 Bonds be converted, in whole, from the Weekly Interest Rate to the Auction Interest Rate or the Fixed Rate, or from the Auction Rate to the Weekly Interest Rate or the Fixed Rate (a "Conversion"). Such direction must be accompanied by the form of the Favorable Opinion of Bond Counsel required to be delivered upon Conversion of interest on the Series 2006 Bonds.

The Trustee will give notice by first-class mail of a Conversion to the Fixed Rate, Auction Rate or Weekly Rate, as applicable to the Holders of the Series 2006 Bonds not less than 30 days prior to the Conversion Date. Such notice will state (A) that the interest rate will be converted to the Fixed Rate, Auction Rate or Weekly Rate, as applicable unless (1) the Restricted Group rescinds its election to convert the interest rate as provided in the Indenture, (2) the conditions to such Conversion provided in the Indenture are not satisfied, or (3) all the Series 2006 Bonds are not remarketed at the Fixed Rate, Auction Rate or Weekly Rate, as applicable; (B) the proposed Conversion Date; (C) that the Series 2006 Bonds are subject to mandatory tender for purchase on such proposed Conversion Date and setting forth the Tender Price and the place of delivery for purchase of the Series 2006 Bonds; (D) such other information required for notices of mandatory tender described below under " – Redemption Prior to Maturity – Notice of Mandatory Tender for Purchase."

In connection with any Conversion of the Interest Rate Period for the Series 2006 Bonds, the Restricted Group has the right to deliver, on or prior to 10:00 a.m. on the second Business Day preceding the effective date of any such Conversion, a notice to the effect that the Restricted Group on behalf of the Issuer elects to rescind its election to make such Conversion. If the Restricted Group rescinds its election to make such Conversion, or the conditions to such Conversion are not satisfied, then the Series 2006 Bonds will continue to bear interest at a Weekly Interest Rate commencing on the date which would have been the effective date of the Conversion. If notice of a Conversion has been mailed to the Holders of the Series 2006 Bonds described above and the Restricted Group rescinds its election to make such Conversion, or if any other conditions to such Conversion set forth in the Indenture are not satisfied, the Series 2006 Bonds will be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion.

The determination for the Series 2006 Bonds of the Weekly Interest Rate by the Remarketing Agent will be conclusive and binding upon the Restricted Group, the Issuer, the Trustee, the Tender Agent, the Remarketing Agent, the Liquidity Facility Provider (including the Bank), the Bondholders, and the Bond Insurer.

### **Redemption Prior to Maturity**

***Optional Redemption.*** While the Series 2006 Bonds bear interest at a Weekly Interest Rate, if there is no continuing Event of Default under the terms of the Indenture, the Series 2006 Bonds are subject to redemption prior to stated maturity by the Issuer, at the written direction of the Restricted Group, in whole or in part, at any time, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

***Extraordinary Optional Redemption.*** The Series 2006 Bonds are subject to redemption prior to their stated dates of maturity, in whole on any date or in part in Authorized Denominations on any January 1 or July 1, in such manner as directed by the Restricted Group and by lot within a maturity if less than all, from the prepayment of Bond Payments payable by the Restricted Group under the Financing Agreement, at par plus accrued interest to the date fixed for redemption, but without premium, from proceeds received from the damage, destruction or condemnation of the Hospital Facilities required to be deposited into the Redemption Account, to the extent such funds are not used to rebuild or restore the Hospital Facilities pursuant to the Financing Agreement.

The Series 2006 Bonds are subject to redemption at the option of the Issuer (which option shall be exercised at the direction of the Restricted Group) in whole on any date or in part in Authorized Denominations on any January 1 or July 1, in such manner as directed by the Restricted Group and by lot within a maturity if less than all, at a redemption price of par plus accrued interest, but without premium, if, as a result of constitutional changes or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal), the Financing Agreement, the Series 2006 Bonds or the Indenture are determined to be void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties, or if, in the opinion of the Restricted Group (expressed in a resolution of the respective governing bodies of the Member of the Restricted Group) and confirmed by a Consultant, unreasonable burdens or excessive liabilities shall have been imposed on the Hospital Facilities, including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on June 1, 1988 or the Restricted Group is required or ordered, by legislative, judicial or administrative action to operate the Hospital Facilities in a manner inconsistent with the stated goals, purposes and policies of the Restricted Group, including medical treatment and surgical procedures.

**Redemption of Bank Bonds on Failed Remarketing.** Notwithstanding anything to the contrary in the Indenture, Bank Bonds are subject to mandatory redemption on such dates and in such principal amounts as may be determined pursuant to the Liquidity Facility (including the Reimbursement Agreement) at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption dates; provided, however, that so long as the Bond Insurance Policy is in effect and payment with respect thereto has not been wrongfully dishonored and no Insurer Default has occurred and is then continuing, the provisions of the Liquidity and Credit Facility by which such dates and principal amounts are determined may not be changed without the prior written consent of the Bond Insurer.

**Mandatory Sinking Fund Redemption.** The Series 2006 Bonds are subject to mandatory sinking fund redemption in part on July 1, in each year listed below, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date, in the principal amount set forth below next to such year:

<u>July 1 of the Year</u>	<u>Redemption Amount</u>
2019	\$2,500,000
2020	2,500,000
2021	2,600,000
2022	2,600,000
2023	2,700,000
2024	2,800,000
2025	2,800,000
2026	2,900,000
2027	3,000,000
2028	3,100,000
2029	3,100,000
2030	3,200,000
2031	3,300,000
2032	5,300,000
2033	7,700,000
2034	8,000,000
2035	8,300,000
2036*	8,600,000

\*Maturity

**Credit for Non-Mandatory Redemption.** The mandatory sinking fund requirements described above are subject to the provision that any partial redemption of Series 2006 Bonds as described under "– Optional Redemption," "– Extraordinary Optional Redemption" and "Redemption of Bank Bonds on Failed Remarketing" above will reduce the scheduled mandatory sinking fund redemption requirements described above. In the event of a partial redemption of Series 2006 Bonds as described under "– Optional Redemption" or "– Extraordinary Optional Redemption" above, the Trustee will allocate the principal amount of Series 2006 Bonds of a series redeemed against the next Series 2006 Bonds to be redeemed under the mandatory sinking fund redemption requirements or otherwise as directed by the Restricted Group Representative in writing at least 45 days prior to the date with respect to which any such credit is to be allocated if accompanied by a Favorable Opinion of Bond Counsel.

At its option, to be exercised on or before the 45th day next preceding any mandatory sinking fund redemption date for the Series 2006 Bonds, the Restricted Group may deliver to the Trustee for cancellation the Series 2006 Bonds of the appropriate maturity in any aggregate principal amount which have been purchased by the Restricted Group in the open market. Each Series 2006 Bond so delivered will be credited by the Trustee at 100% of the principal amount thereof against the mandatory sinking fund redemption requirement for the Series 2006 Bonds on such mandatory sinking fund redemption date; and any excess of such amount will be credited against future mandatory scheduled redemption requirements in chronological order. The Restricted Group, will, on or before the 45th day preceding each mandatory sinking fund redemption date, furnish the Trustee with a certificate, signed by a Restricted Group Representative, stating the extent to which the provisions of the first sentence of this paragraph are to be availed of with respect to such mandatory redemption requirements for such mandatory redemption date; unless such certificate is so timely furnished to the Trustee, the mandatory redemption requirements for such mandatory redemption date will not be reduced as described in this paragraph.

***Selection of Bonds; Notice of Redemption.*** So long as the Series 2006 Bonds are held in book-entry only form, the Trustee will give notice of redemption of the Series 2006 Bonds only to Cede & Co., as the registered owner of the Series 2006 Bonds, and the Trustee will not mail a redemption notice directly to the Beneficial Owners of the Series 2006 Bonds. DTC is obligated to select the Series 2006 Bonds for redemption and disseminate the notice of redemption to pursuant to its rules and procedures.

Notice of redemption will contain the information set forth in the Indenture, including, among other things, any conditions to such redemption. Any redemption may be conditioned upon the receipt of proceeds necessary for the redemption. Notice of redemption shall be given by mail at least 30 days but not more than 60 days prior to the date fixed for redemption; provided, however, that failure to give such notice to any Series 2006 Bondholder or any defect in such notice shall not affect the validity of the proceedings for the redemption of any other Series 2006 Bonds. The Indenture provides that Bank Bonds will be redeemed prior to any Series 2006 Bonds that are not Bank Bonds.

***Effect of Redemption.*** Notice having been given in the manner and under the conditions described above, the Series 2006 Bonds or portions thereof so called for redemption shall on the redemption date designated in such notice, be due and payable at the applicable redemption price. On the date designated for redemption, monies for the payment of the redemption price being held in separate accounts by the Trustee for the benefit of the owners of the Series 2006 Bonds called for redemption, interest on the Series 2006 Bonds or portions thereof called for redemption shall cease to accrue, and such Series 2006 Bonds or portions thereof shall cease to be entitled to any lien, benefit or security under the Indenture, and the owners thereof shall have no further rights under the Indenture except to receive payment of the redemption price and to receive a Series 2006 Bond or Bonds for any unredeemed portion of a Series 2006 Bond redeemed in part.

## **Tender and Purchase of Bonds**

***Optional Tender for Purchase During Weekly Interest Rate Period.*** When the book-entry only system is in effect, any Series 2006 Bond (other than Bank Bonds) bearing interest at a Weekly Interest Rate or portion thereof (provided that the principal amount of such Series 2006 Bond to be purchased and the principal amount to be retained shall each be an Authorized Denomination) will be purchased on the date specified in the notice referred to below at the Tender Price. The irrevocable written notice, executed by the Participant, must be delivered on any Business Day by the Participant for such Series 2006 Bond to the Tender Agent at its Principal Office for the delivery of such Series 2006 Bonds, to the Trustee at its Principal Office and to the Remarketing Agent. That notice must state the principal amount of such Series 2006 Bond (or interest therein), the portion thereof to be purchased and the date on which the same are to be purchased, which date must be a Business Day at least seven days after the date of delivery of such

notice to the Trustee. Upon confirmation by the Securities Depository to the Trustee that such Participant has an ownership interest in the Series 2006 Bonds at least equal to the principal amount specified in the notice, payment of the Tender Price of such Series 2006 Bond shall be made by 3:00 p.m., or as soon as practicably possible thereafter, upon the receipt by the Trustee of the Tender Price as set forth in the Indenture on the Business Day specified in the notice. Upon transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Series 2006 Bonds tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of the Tender Agent, at or prior to 10:00 a.m., on the date specified in such notice.

***Mandatory Tender for Purchase on Conversion Date.*** The Series 2006 Bonds are subject to mandatory tender for purchase on the Conversion Date (or on the day which would have been the Conversion Date had one of the events specified in the Indenture not occurred which resulted in the interest rate on such Series 2006 Bonds not being converted) at the Tender Price, payable in immediately available funds. For payment of the Tender Price on the Tender Date, a Series 2006 Bond must be delivered at or prior to 10:00 a.m. on the Tender Date. If delivered after that time, the Tender Price will be paid on the next Business Day. Payment of the Tender Price of such Series 2006 Bond will be made by 3:00 p.m., or as soon as practicably possible thereafter, upon the receipt by the Trustee of the Tender Price as set forth in the Indenture on the Business Day specified in the notice.

***Mandatory Tender for Purchase Prior to Termination, Reduction, Modification, Replacement or Expiration of Liquidity and Credit Facility, or Following Event of Default Under Reimbursement Agreement.*** (i) The Series 2006 Bonds shall be subject to mandatory tender for purchase at the Tender Price if the Series 2006 Bonds shall cease to be subject to purchase pursuant to the Liquidity and Credit Facility as a result of (A) the termination, replacement or expiration of the term, as extended, of the Liquidity and Credit Facility, including, but not limited to, termination at the option of the Restricted Group in accordance with the terms of the Liquidity and Credit Facility, or (B) the Liquidity and Credit Facility is reduced, replaced or modified with the effect that the purchase price of the Series 2006 Bonds is no longer payable from the Liquidity and Credit Facility (in each case, whether or not an Alternate Liquidity Facility has been obtained). Any purchase of the Series 2006 Bonds pursuant to this paragraph (i) shall occur on the fifth Business Day preceding such expiration, termination, reduction, modification or replacement. In the case of any replacement, the Liquidity and Credit Facility shall be drawn upon to pay the Tender Price, rather than the Alternate Liquidity Facility.

(ii) All Series 2006 Bonds shall be subject to mandatory tender for purchase at the Tender Price on the fifth day (or the next succeeding Business Day if such day is not a Business Day) following receipt by the Trustee of a notice from the Bank that the interest component of the Liquidity and Credit Facility will not be reinstated or that an "Event of Default" has occurred under the Reimbursement Agreement and directing the mandatory tender of the Series 2006 Bonds. No later than the third Business Day following receipt of such notice, the Trustee shall give notice by first class mail, postage prepaid, to the owners of the Series 2006 Bonds, the Issuer, the Restricted Group and the Remarketing Agent stating that an Event of Default has occurred under the Reimbursement Agreement and that the Series 2006 Bonds are subject to mandatory tender for purchase.

(iii) Payment of the Tender Price of any such Series 2006 Bonds shall be made in immediately available funds by 3:00 p.m. on the Tender Date upon delivery of such Series 2006 Bonds to the Tender Agent at its Principal Office for delivery of the Series 2006 Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Series 2006 Bondholder with signature of such Series 2006 Bondholder guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon on the Tender Date.

***Notice of Mandatory Tender for Purchase.*** Notice of any mandatory tender for purchase of Series 2006 Bonds as described above will be contained in any notice simultaneously given regarding a Conversion or with respect to the termination of or any event of default under or changes in the Liquidity and Credit Facility. Such notice will state (i) in the case of a mandatory tender for purchase as described under "– Mandatory Tender for Purchase on Conversion Date," the type of Interest Rate Period to commence on such mandatory purchase date *i.e.*, Auction Rate Period, Weekly Interest Rate Period or Fixed Interest Rate Period; (ii) in the case of a mandatory tender for purchase as described under "– Mandatory Tender for Purchase Prior to Termination, Reduction, Modification, Replacement or Expiration of Liquidity and Credit Facility, or Following Event of Default Under Reimbursement Agreement," clause (i), that the Liquidity and Credit Facility will expire, terminate, be reduced, be modified or be replaced and that the Series 2006 Bonds will no longer be payable from the Liquidity and Credit Facility and that any rating applicable to such Series 2006 Bonds may be reduced or withdrawn; or clause (ii), that an "Event of Default" under the Reimbursement Agreement has occurred; (iii) that the Tender Price of any Series 2006 Bond subject to mandatory tender for purchase will be payable only upon surrender of that Series 2006 Bond to the Tender Agent at its Principal Office for delivery of Series 2006 Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondholder or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (iv) that, provided moneys sufficient to effect such purchase have been provided through the remarketing of such Series 2006 Bonds by the Remarketing Agent, through the Liquidity and Credit Facility or funds provided by the Restricted Group, all Series 2006 Bonds subject to mandatory tender for purchase will be purchased on the mandatory Tender Date; and (v) that if any Holder of a Series 2006 Bond subject to mandatory tender for purchase does not surrender that Series 2006 Bond to the Tender Agent for purchase on the mandatory Tender Date, then that Series 2006 Bond will be deemed to be an Undelivered Series 2006 Bond, that no interest will accrue on that Series 2006 Bond on and after the mandatory Tender Date and that the Bondholder will have no rights under the Indenture other than to receive payment of the Tender Price.

***Irrevocable Notice Deemed to be Tender of Bond; Undelivered Series 2006 Bonds.*** (i) The giving of notice by a Bondholder as described under "– Optional Tender for Purchase During Weekly Interest Rate Period" will constitute the irrevocable tender for purchase of each Series 2006 Bond with respect to which such notice is given regardless of whether that Series 2006 Bond is delivered to the Tender Agent for purchase on the relevant Tender Date. The Tender Agent may refuse to accept delivery of any Series 2006 Bond for which a proper instrument of transfer has not been provided. However, such refusal will not affect the validity of the purchase of such Series 2006 Bond as described in the Indenture. If any Bondholder of a Series 2006 Bond who has given notice of tender of purchase as described under "– Optional Tender for Purchase During Weekly Interest Rate Period" above or any Bondholder subject to mandatory tender as described under "– Mandatory Tender for Purchase on Conversion Date" above or under "– Mandatory Tender for Purchase upon Termination, Replacement or Expiration of Liquidity and Credit Facility; Mandatory Standby Tender" fails to deliver that Series 2006 Bond to the Tender Agent at the place and on the Tender Date and at the time specified, or fails to deliver that Series 2006 Bond properly endorsed, that Series 2006 Bond will constitute an Undelivered Series 2006 Bond.

***Undelivered Series 2006 Bonds.*** If funds in the amount of the purchase price of the Undelivered Series 2006 Bond are available for payment to the Bondholder thereof on the Tender Date and at the time specified, then from and after the Tender Date and time of that required delivery (A) the Undelivered Series 2006 Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Indenture; (B) interest will no longer accrue on the Undelivered Series 2006 Bond; and (C) funds in the amount of the Tender Price of the Undelivered Series 2006 Bond will be held uninvested by the Trustee for the benefit of the Holder thereof (provided that the Holder will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the

Undelivered Series 2006 Bond to the Tender Agent at its Principal Office for delivery of Series 2006 Bonds.

The Tender Agent will segregate and hold uninvested the money for the Tender Price of any Untendered Series 2006 Bond in trust for the benefit of the former Holder of such Series 2006 Bond, provided that the Bondholder will have no rights to any investment proceeds derived from such funds, who, except as provided in the following sentences of this paragraph, will thereafter be restricted exclusively to such money for the satisfaction of any claim for the Tender Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Tender Price of any Series 2006 Bond which remains unclaimed for five years after the date of purchase will be paid to the Restricted Group. After the payment of such unclaimed money to the Restricted Group, the former Holder of such Series 2006 Bond may look only to the Restricted Group for the payment thereof. The Restricted Group will not be liable for any interest on unclaimed money and will not be regarded as a trustee of such money.

***Payment of Tender Price by Restricted Group.*** If all or a portion of the Series 2006 Bonds tendered for purchase cannot be remarketed and the Liquidity and Credit Facility Provider fails to purchase all or any part of the unremarketed portion of such tendered Series 2006 Bonds in accordance with the Liquidity and Credit Facility on a Tender Date or if the remarketing proceeds and amounts available under any Liquidity Facility are otherwise insufficient to pay the Tender Price, the Restricted Group may (with the consent of the Bond Insurer) at its option, but will not be obligated to, pay to the Tender Agent as soon as practicable on a Tender Date immediately available funds (together with any remarketing proceeds and any funds provided under the Liquidity and Credit Facility) sufficient to pay the Tender Price on the Series 2006 Bonds tendered for purchase. The Tender Agent will deposit the amount paid by the Restricted Group, if any, in the applicable Restricted Group Purchase Account of the 2006 Bond Purchase Fund pending application of the money to the payment of the Tender Price as set forth in the Indenture.

***Purchase of Series 2006 Bonds; Sources and Deposits of Tender Price.*** Series 2006 Bonds required to be purchased upon optional or mandatory tender as described above will be purchased from the Holders thereof on the Tender Date and at the Tender Price. Funds for the payment of the Tender Price will be received by the Tender Agent from the following sources and used in the order of priority indicated:

(i) proceeds of the sale of Series 2006 Bonds remarketed pursuant to the Indenture and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the applicable Remarketing Account of the 2006 Bond Purchase Fund;

(ii) money furnished by the Liquidity Facility Provider (including the Bank) to the Tender Agent for deposit into the applicable Liquidity Facility Purchase Account of the 2006 Bond Purchase Fund from Requests on the Liquidity and Credit Facility (provided that money from Requests on the Liquidity and Credit Facility will not be used to purchase Bank Bonds or Restricted Group Bonds.); and

(iii) money, if any, furnished by the Restricted Group at its option pursuant to the Indenture to the Tender Agent for deposit into the applicable Restricted Group Purchase Account of the 2006 Bond Purchase Fund for the purchase of Series 2006 Bonds by the Restricted Group.

Money held in the 2006 Bond Purchase Fund will be held uninvested by the Tender Agent.

## **Book-Entry Only System**

DTC will act as securities depository for the Series 2006 Bonds. The Series 2006 Bonds were originally issued and will be remarketed as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2006 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Bond Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2006 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2006 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2006 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2006 Bonds, except in the event that use of the book-entry system for the Series 2006 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2006 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Series 2006 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2006 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and related documents. For example, Beneficial Owners of Series 2006 Bonds may wish to ascertain that the nominee holding the Series 2006 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2006 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2006 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments and redemption proceeds on the Series 2006 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2006 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, nor the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner will give notice to elect to have its Series 2006 Bonds purchased or tendered, through its Participant, to the Tender Agent, and will effect delivery of such Series 2006 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2006 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 2006 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2006 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2006 Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2006 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2006 Bond certificates are required to be printed and delivered as described in the Indenture.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository) as provided in the Indenture. In that event, the Issuer will attempt to locate another qualified securities depository or, if such a replacement cannot be located, Series 2006 Bond certificates will be printed and delivered as described in the Indenture.

The information in this caption concerning DTC and the DTC book-entry system has been obtained from DTC, and none of the Issuer, the Restricted Group, or the Remarketing Agent take any responsibility for the accuracy thereof.

None of the Issuer, the Trustee, the Restricted Group or the Remarketing Agent will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners, (iii) the selection by DTC or by any Direct or Indirect Participant of any beneficial owner to receive payment in the event of a partial redemption of the Series 2006 Bonds, or (iv) any other action taken by DTC or its partnership nominee as owner of the Series 2006 Bonds.

## **SECURITY AND SOURCES OF PAYMENT**

### **Limited Obligations; Pledged Funds**

The Series 2006 Bonds are not a general debt, liability, or obligation of the Issuer, but are limited obligations of the Issuer, payable solely from (i) payments to be made by (A) the Bank under the Liquidity and Credit Facility or (B) the Restricted Group pursuant to the Financing Agreement (the "Bond Payments") and certain other funds and the interest thereon received by or pledged to the Issuer thereunder, and by certain moneys held by the Trustee under the Indenture, (ii) a pledge of the Pledged Revenues (as hereinafter defined) of the Restricted Group, (iii) certain insurance and condemnation proceeds and (iv) all proceeds and products of the foregoing (collectively, the "Pledged Funds"). The Series 2006 Bonds are not a debt, liability or obligation of the State of Florida or any political subdivision thereof other than the Issuer. Neither the full faith and credit nor the taxing power of the Issuer, the State of Florida, or any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2006 Bonds, and none of the Issuer, the State of Florida or any political subdivision thereof shall be directly, indirectly, or contingently obligated to levy or to pledge any form of taxation whatsoever for the payment of the Series 2006 Bonds or to make any appropriation for their payment from any source except the Pledged Funds.

The proceeds received by the Issuer from the sale of the Series 2006 Bonds were loaned by the Issuer to the Restricted Group pursuant to the Financing Agreement. The Financing Agreement provides that the Restricted Group will make the Bond Payments to the Trustee in such amounts and at such times so as to provide sufficient funds to pay the principal of, premium, if any, and interest on the Bonds when due.

To secure the payment of the Bond Payments and the performance by each Member of the Restricted Group of its other obligations under the Financing Agreement, each Member of the Restricted Group will grant to the Issuer a security interest in all Pledged Revenues (as defined herein). "Pledged Revenues" are defined as all revenues, accounts receivable, contract rights and general intangibles, and all proceeds of all of the foregoing whether cash or non-cash, including the proceeds of any borrowed money not restricted as to use by the terms of such borrowing, now existing or hereafter coming into being or now owned or hereafter acquired, of the Restricted Group, excluding, however, (i) revenues derived from the operation of Other Facilities described in the Financing Agreement; (ii) all rights to receive any gifts,

grants, bequests, devises, donations, contributions or pledges and earnings thereon, received or to be received and restricted as to use by the terms of such gifts, grants, bequests, devises, donation, contribution or pledge in any way which would prevent its application to the payment of debt service on the Bonds; and (iii) the Rebate Amount.

To further secure the payment of the Bond Payments, (1) the Medical Center has granted to the Issuer a mortgage on and security interest in substantially all of the Medical Center Campus pursuant to the Medical Center Mortgage, and (2) TVRH has granted to the Issuer a mortgage on and security interest in substantially all of its healthcare facilities pursuant to the TVRH Mortgage.

Pursuant to the Indenture and the Assignment, all of the Issuer's right, title and interest (except for certain rights to indemnification and payment of expenses) in the Financing Agreement, the Medical Center Mortgage and the TVRH Mortgage, including the Issuer's right to receive Bond Payments and the security interest granted in Pledged Revenues, are assigned and pledged to the Trustee for the benefit of the Bondholders.

### **Drawings Under the Liquidity and Credit Facility**

Pursuant to the Indenture there is created and established with the Trustee a separate trust account to be designated "2006 Letter of Credit Account" to be held solely for the benefit and security of the owners of the Series 2006 Bonds bearing interest at Weekly Interest Rates. Proceeds of drawings on the Liquidity and Credit Facility (other than proceeds of drawing to pay the Tender Price of the Series 2006 Bonds tendered for purchase and not remarketed) shall be deposited to the credit of the 2006 Letter of Credit Account and held separate and apart from any moneys not received from a drawing on the Liquidity and Credit Facility pending application to pay the principal of and interest on the Series 2006 Bonds bearing interest at Weekly Interest Rates. Moneys deposited to the credit of the 2006 Letter of Credit Account shall be withdrawn and used by the Trustee solely (i) to pay interest on the Series 2006 Bonds as it shall become due and payable (including accrued interest on Series 2006 Bonds purchased or redeemed prior to maturity), (ii) to pay principal of the Series 2006 Bonds at maturity and (iii) to pay the principal of upon redemption. Amounts drawn on the Liquidity and Credit Facility and deposited in the 2006 Letter of Credit Account shall be applied to pay the principal of and interest on Series 2006 Bonds with respect to which such amounts were drawn prior to the application of amounts on deposit in the Interest Account, Principal Account and Redemption Account for such purposes. Moneys deposited to the credit of the 2006 Letter of Credit Account shall be held uninvested.

The Trustee shall make draws on the Liquidity and Credit Facility as follows:

(a) Prior to 12:00 noon (New York City time) on the Business Day prior to each Interest Payment Date and each other date on which the Series 2006 Bonds bearing interest at Weekly Interest Rates are payable, the Trustee shall draw on the Liquidity and Credit Facility in accordance with its terms in an amount equal to the interest payable on such Series 2006 Bonds.

(b) Prior to 12:00 noon (New York City time) on the Business Day prior to each day on which Series 2006 Bonds bearing interest at Weekly Rates are to be redeemed, the Trustee shall draw on the Liquidity and Credit Facility in accordance with its terms an amount equal to the redemption price of such Series 2006 Bonds.

(c) Prior to 12:00 noon (New York City time) on the Business Day prior to the scheduled maturity date of any Series 2006 Bonds bearing interest at a Weekly Interest Rate, the Trustee shall draw on the Liquidity and Credit Facility in accordance with its terms an amount equal to the maturing principal amount of such Series 2006 Bonds.

(d) In the event of an acceleration of the Series 2006 Bonds bearing interest at a Weekly Interest Rate, the Trustee shall, prior to 12:00 noon (New York City time) on the date on which the Trustee gives notice of such acceleration, draw on the Liquidity and Credit Facility an amount equal to the principal amount of the Series 2006 Bonds bearing interest at Weekly Interest Rates so accelerated.

(e) Prior to 12:00 noon (New York City time) on each Tender Date, the Trustee, as Tender Agent, shall draw on the Liquidity and Credit Facility in accordance with its terms an amount sufficient to pay the balance of the Tender Price of the Series 2006 Bonds on such Tender Date. Proceeds of drawings pursuant to this paragraph shall be deposited to the credit of the Liquidity Facility Purchase Account in the 2006 Bond Purchase Fund and applied in the manner provided in the Indenture.

### **Reserve Fund**

The Indenture establishes a separate account within the Reserve Fund, the 2006 Reserve Subaccount, and requires that the amount on deposit therein be maintained at a value equal to the least of the Maximum Annual Debt Service Requirement with respect to the Series 2006 Bonds, 125% of the average annual Debt Service Requirement with respect to the Series 2006 Bonds or 10% of the principal amount of the Series 2006 Bonds. The 2006 Reserve Subaccount was funded at the required level, which at the time of issuance of the Series 2006 Bonds was \$5,781,254 (based on 125% of the estimated average annual Debt Service Requirement) upon the original issuance of the Series 2006 Bonds.

Money held in the 2006 Reserve Subaccount shall be used for the purpose of curing deficiencies in the Sinking Fund with respect to the Series 2006 Bonds and for no other purpose. Pursuant to the Indenture and the Financing Agreement, the Restricted Group has covenanted to make payments sufficient to cure any deficiencies in the various accounts in the Reserve Fund as set forth therein.

The Series 2006 Bonds are not secured by, and have no right to payment from, amounts on deposit in any account in the Reserve Fund other than the 2006 Reserve Subaccount.

### **Rate Covenant**

The Restricted Group has covenanted in the Financing Agreement that so long as any Bonds remain Outstanding, it will fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges for the use of its respective facilities and services such that the Historical Debt Service Coverage Ratio (see "APPENDIX C - Definitions") for each Fiscal Year will not be less than 1.15 to 1.00.

If the required Historical Debt Service Coverage Ratio is not met for any Fiscal Year, the Restricted Group has agreed to retain a Consultant to make recommendations as to how to increase the Historical Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. The Restricted Group has agreed that it will, to the extent feasible and allowable by law, follow the recommendation of the Consultant. So long as a Consultant shall be retained and the Restricted Group shall follow the recommendations of the Consultant, to the extent feasible and allowable by law, such provision of the Financing Agreement shall be deemed to have been satisfied, provided the Historical Debt Service Coverage Ratio for any Fiscal Year shall not be less than 1.00 to 1.00. Notwithstanding the provisions of the preceding paragraph, so long as the Series 2001 Bonds remain Outstanding, and so long as certain events have not occurred with respect to the 2001 Bond Insurer, unless waived by the 2001 Bond Insurer, a failure to meet the rate covenant described in the second preceding paragraph in any two consecutive Fiscal Years, or in any two out of three respective Fiscal Years, shall constitute an Event of Default under the Financing Agreement.

Except as described below, if there is filed with the Trustee a report of a Consultant and, if requested by the Trustee, an Opinion of Counsel as to any conclusions of law supporting such report, which states that (i) governmental restrictions have been adopted that have prevented the Restricted Group from meeting the required Historical Debt Service Coverage Ratio for any Fiscal Year, and (ii) the Restricted Group has generated the maximum amount of revenue which in the opinion of such Consultant could reasonably have been generated given such governmental restrictions during the period affected thereby, then the required Historical Debt Service Coverage Ratio shall be reduced to the Maximum Historical Debt Service Coverage Ratio for such period permitted by such governmental restrictions, but in no event less than 1.00 to 1.00. Notwithstanding the foregoing, so long as the Series 2006 Bonds remain Outstanding and the Bond Insurance Policy remains in effect and no Insurer Default has occurred and is continuing, unless otherwise consented to by the Bond Insurer in its sole discretion, the foregoing exception to the rate covenant shall not apply.

### **Additional Bonds; Permitted Parity Indebtedness**

Subject to the provisions and limitations set forth in the Indenture, in addition to the Series 1996A Bonds, the Series 2001 Bonds, the Series 2002 Bonds, the Series 2003 Bonds and the Series 2006 Bonds, so long as no Event of Default shall be continuing the Issuer may issue or cause to be issued Additional Bonds provided that the obligation of the Restricted Group with respect to such Additional Bonds constitutes Permitted Parity Indebtedness.

Subject to certain limitations set forth in the Financing Agreement and so long as the Restricted Group is not in default under the Financing Agreement, any Member of the Restricted Group may incur, assume or guarantee Permitted Parity Indebtedness.

In no event shall Additional Bonds be issued or Permitted Parity Indebtedness incurred if as a result thereof the interest on any Bonds then Outstanding would become includable in the gross income of the recipients thereof for federal income tax purposes. However, interest on such Additional Bonds or Permitted Parity Indebtedness need not be excludable from gross income for federal income tax purposes.

Prior to the issuance of Additional Bonds or Permitted Parity Indebtedness constituting Long-Term Indebtedness certain debt service coverage ratios must be met. Notwithstanding the foregoing, with the prior written consent of the Restricted Group Representative, any Member of the Restricted Group may incur Completion Indebtedness in an amount not to exceed 10% of the original amount of the Indebtedness with respect to which such Completion Indebtedness is issued, provided that the Trustee receives certain certificates concerning the reason for the insufficiency of the proceeds from the original Indebtedness to complete the project to be financed with the proceeds thereof and the sufficiency of the proceeds of such Completion Indebtedness to complete such project. Refunding Indebtedness may also be issued without meeting the debt service coverage ratios otherwise required to be met in order to issue Long-Term Indebtedness if the Debt Service Requirements of the Refunding Indebtedness will not in any year exceed the Debt Service Requirements of the Long-Term Indebtedness to be refunded. Any Member of the Restricted Group may guaranty the Indebtedness of any other Member without meeting the debt service coverage requirements set forth in the Financing Agreement. Any Member of the Restricted Group may also guaranty the Indebtedness of an Affiliate if the debt service coverage requirements for the issuance of Long-Term Indebtedness are met, based upon certain assumptions set forth in the definition of "Exposure on Guaranteed Debt" contained in the Indenture.

The Financing Agreement also contains provisions permitting the issuance of Interim Indebtedness, Demand Indebtedness, Balloon Indebtedness, Commitment Indebtedness, Short-Term Indebtedness, Qualified Derivative Agreements and other Indebtedness payable on a parity with the Bonds if certain conditions are met.

All such Additional Bonds and Permitted Parity Indebtedness shall be secured equally, without preference or priority, by the Bond Payments, the Pledged Revenues and by such additional security as may be provided for such Permitted Parity Indebtedness. The holders of any Permitted Parity Indebtedness, other than Additional Bonds, shall not, however, be entitled to share on a parity basis with the holders of the Bonds in the funds and accounts held under the Indenture.

Any default under any instrument or agreement providing for repayment of Permitted Parity Indebtedness secured on a parity with the Bonds as provided in the Financing Agreement shall be a default under the Financing Agreement, and there shall be included in any instrument or agreement providing for repayment of such Permitted Parity Indebtedness a provision that any default under the Financing Agreement shall be a default under such instrument or agreement. In addition, unless otherwise agreed to by the Trustee, the Trustee shall act as trustee under any instrument securing Permitted Parity Indebtedness, and any instrument or agreement providing for repayment of such Permitted Parity Indebtedness shall include a provision that, prior to exercising any remedies upon a default by a Member of the Restricted Group under such instrument or agreement, the Trustee (or the Holders of such Permitted Parity Indebtedness, if the Trustee otherwise consents) shall consider the interests of the Holders of Permitted Parity Indebtedness and the Bonds and shall proceed such that the interests of such Holder or Holders of Permitted Parity Indebtedness and of the Bonds shall be equally protected.

For a further discussion of the provisions for and limitations on the issuance of Additional Bonds and Permitted Parity Indebtedness, see APPENDIX D – "Summary of Certain Provisions of the Indenture and the Financing Agreement – Summary of Certain Provisions of the Indenture of Trust – Additional Bonds; Permitted Parity Indebtedness" and "– Summary of Certain Provisions of the Financing Agreement – Additional Covenants" therein.

#### **Additional Covenants with respect to Series 2006 Bonds**

The Restricted Group has covenanted in the Financing Agreement that so long as the Series 2006 Bonds remain outstanding, it will comply with additional covenants and restrictions set forth therein unless otherwise waived, modified or amended with the consent of the Bond Insurer. Likewise, the Restricted Group has entered into additional covenants with the Bank set forth in the Reimbursement Agreement that can be waived, modified or amended with the consent of the Bank. Accordingly, such covenants should not be relied on since they may be waived, modified or amended without consent of the Series 2006 Bondholders. The covenants contained in the Financing Agreement are set forth in APPENDIX D – "Summary of Certain Provisions of the Indenture and the Financing Agreement" attached hereto. See also "LIQUIDITY AND CREDIT FACILITY – The Reimbursement Agreement – *Certain Affirmative and Negative Covenants*" below.

#### **LIQUIDITY AND CREDIT FACILITY**

*The following provides a general description of the Bank and a summary of certain provisions of the Liquidity and Credit Facility and the Reimbursement Agreement. This summary does not purport to be comprehensive or definitive, and is subject to the information contained and referenced in APPENDIX G hereto and to all of the terms and provisions of the Liquidity and Credit Facility and the Reimbursement Agreement, to which reference is hereby made. Wherever defined terms of the Liquidity and Credit Facility and the Reimbursement Agreement are referred to, such defined terms are incorporated herein by reference as part of the statement made, and the statement is qualified in its entirety by such reference.*

## **The Bank**

The Bank of Nova Scotia ("Scotiabank" or the "Bank"), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America's premier financial institutions and Canada's most international bank. With 48,000 employees, Scotiabank and its affiliates serve over 10 million customers throughout the world.

Scotiabank provides a full range of personal, commercial, corporate and investment banking services through its network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and associated banks, trust companies and other financial firms.

Additional information regarding the Bank is set forth in APPENDIX G hereto.

## **Liquidity and Credit Facility Provisions**

The Letter of Credit being issued by the Bank simultaneous with the remarketing of the Series 2006 Bonds and referred to herein as the "Liquidity and Credit Facility" will be an irrevocable obligation of the Bank to pay the Trustee, upon request and in accordance with the terms thereof, an amount sufficient to pay (i) the principal of the Series 2006 Bonds when due (whether upon redemption, acceleration or maturity), (ii) the portion of the Tender Price of the Series 2006 Bonds equal to the principal amount of the Series 2006 Bonds tendered for purchase in accordance with the optional and mandatory tender provisions of the Indenture and (iii) interest on, or the interest portion of the Tender Price of, the Series 2006 Bonds equal to 34 days' interest (at a maximum rate of 12% per annum).

The Bank's obligation under the Liquidity and Credit Facility will be reduced to the extent of all drawings of principal and interest thereunder and to the extent of all drawings to pay the Tender Price of Series 2006 Bonds tendered for purchase and will terminate after a final drawing. With respect to a drawing by the Trustee to pay interest on the Series 2006 Bonds, the amount available to be drawn for interest shall be automatically reinstated for such interest amount on the tenth day after the date of the drawing for interest, provided the Trustee has not theretofore received a written notice from the Bank that an Event of Default under the Reimbursement Agreement has occurred.

The Liquidity and Credit Facility expires, and the Bank's obligations thereunder end, upon the earliest of (i) \_\_\_\_\_, \_\_\_\_\_, (ii) the surrender of the Liquidity and Credit Facility by the Trustee to the Bank for cancellation, (iii) the date on which the outstanding principal of and interest on the Series 2006 Bonds shall have been paid in full pursuant to the provisions of the Indenture or from the proceeds of a final Principal Drawing and a final Interest Drawing, (iv) five days after a Mode Change Date on which the Series 2006 Bonds commence bearing interest at other than the Weekly Interest Rate, or (v) fifteen (15) days following receipt by the Trustee of notice from the Bank of an Event of Default under the Reimbursement Agreement and directing the Trustee to effect a mandatory tender of the Series 2006 Bonds.

## **The Reimbursement Agreement**

*Liquidity and Credit Facility Drawings.* The Trustee is authorized to make drawings under the Liquidity and Credit Facility in accordance with the terms thereof. Pursuant to the Reimbursement Agreement the Restricted Group directs the Bank to make payments under the Liquidity and Credit Facility in the manner therein provided and irrevocably approves reductions and reinstatements of the Available Amount as provided in the Liquidity and Credit Facility.

*Reimbursement of Liquidity Drawings; Prepayment; Interest; Term Out.* (a) If certain conditions precedent contained in the Reimbursement Agreement are not satisfied at the time of payment by the Bank of any Liquidity Drawing, the Restricted Group promises to reimburse the Bank for the full amount of such Liquidity Drawing immediately upon payment by the Bank of each such drawing and on the date of each such payment. If the Restricted Group does not make such reimbursement on such date, such reimbursement obligation shall bear interest at the Default Rate.

(b) If certain conditions precedent contained in the Reimbursement Agreement are satisfied at the time of payment by the Bank of any Liquidity Drawing (the "Borrowing Date"), such Liquidity Drawing shall constitute an advance (a "Liquidity Advance") to the Restricted Group. The Restricted Group promises to pay to the Bank each Liquidity Advance on the earliest of (i) the date that is one hundred eighty (180) days from the date of such Liquidity Advance, (ii) the Termination Date, (iii) the date on which the related Bank Bonds are redeemed or cancelled pursuant to the Indenture, such payment to be in the principal amount of Series 2006 Bonds so redeemed or cancelled, (iv) the date on which any Series 2006 Bonds purchased with funds disbursed under the Liquidity and Credit Facility are remarketed pursuant to the Indenture, such payment to be in the principal amount of Series 2006 Bonds so remarketed and (v) the date on which the Liquidity and Credit Facility is replaced by an Alternate Liquidity Facility pursuant to the terms of the Indenture, such payment to be in the full outstanding principal amount of all unpaid Liquidity Advances due and owing to the Bank. The Restricted Group also promises to pay to the Bank interest on the unpaid principal amount of each Liquidity Advance from the Borrowing Date until it is paid in full as provided therein, at a rate per annum equal to the Bank Rate from time to time in effect. Any Liquidity Advance not paid when due shall bear interest at the Default Rate.

(c) Upon the Bank's receipt of any payment or prepayment of any Liquidity Advance, the aggregate amount of Liquidity Advances outstanding under the Liquidity and Credit Facility and the Reimbursement Agreement shall be reduced by the amount of such payment or prepayment and any prepayment shall be applied to the prepayment of Liquidity Advances in chronological order of their incurrence hereunder and within each Liquidity Advance in inverse order of the principal installments payable thereon.

(d) Upon the Bank's honoring any Liquidity Drawing, the Bank shall be deemed to have purchased the Bank Bonds in respect of which such Liquidity Drawing is made, and the Restricted Group Representative shall cause the Trustee to hold such Bank Bonds for the benefit of the Bank and register such Bank Bonds in the name of the Bank or its nominee, or to otherwise deliver such Bank Bonds as directed by the Bank pursuant to the Indenture. During such time as the Bank is the owner of any Series 2006 Bonds, the Bank shall have all the rights granted to a legal or beneficial owner of Series 2006 Bonds under the Indenture and the Financing Agreement and such additional rights as may be granted to the Bank. To the extent that the Bank actually receives payment in respect to principal of or interest on any Bank Bond held by the Bank, the Liquidity Advance made in connection with the purchase of such Bank Bond shall be deemed to have been reduced *pro tanto*, with the Bank crediting any payment on such Bank Bond received by it, first to the payment of any outstanding interest accrued on the related Liquidity Advance, and second to the payment of the principal of such Liquidity Advance. Following the occurrence of an Event of Default, any payments received by the Bank under the Reimbursement Agreement shall be applied by the Bank to the payment of the Reimbursement Obligations in such order as the Bank shall in its sole discretion determine.

(e) In the event that on the earlier of (i) the Stated Expiration Date and (ii) the 180th day following date of purchase of any Bank Bonds (the "Term Out Date"), such Bank Bonds then held by the Bank cannot be remarketed by the Remarketing Agent, whether at a Weekly Interest Rate or otherwise, the Bank agrees that the Bank will continue to hold for an additional period of up to five (5) years (such additional period, the "Term Out Period") from the Term Out Date any such Bank Bonds then held by it

(the "Term Out"); *provided* that the Trustee shall redeem (from moneys provided by the Restricted Group or the Bond Insurer for such purpose) such Bank Bonds by paying to the Bank the aggregate amount of principal and interest due on the Bank Bonds pursuant to the Reimbursement Agreement (net of any payments of interest accrued on such Bank Bonds prior to the date of purchase of such Bank Bonds by the Bank), in sixteen (16) equal principal amounts on a quarterly basis, on each third Interest Payment Date, commencing on the fifteenth (15<sup>th</sup>) Interest Payment Date after the Term Out Date so that all Bank Bonds are redeemed by the last day of the Term Out Period.

*Reimbursement of Acceleration Drawings, Interest Drawings, Redemption Drawings and Stated Maturity Drawings.* Each Interest Drawing, Redemption Drawing, Acceleration Drawing and Stated Maturity Drawing shall be used by the Trustee to purchase on behalf of the Bank from the Series 2006 Bondholders the right to the payment of the principal of or interest on the Series 2006 Bonds for which such Drawing was made. The Restricted Group acknowledges in the Reimbursement Agreement that all such purchased principal and interest payments on the Series 2006 Bonds shall continue to be outstanding and due and owing to the Bank until paid. The Restricted Group promises to reimburse the Bank for the full amount of all Interest Drawings, Redemption Drawings, Acceleration Drawings and Stated Maturity Drawings immediately upon payment by the Bank of each such drawing and on the date of each such payment. If the Restricted Group does not make such reimbursement on such date, such reimbursement obligation shall bear interest at the Default Rate.

*Joint and Several Absolute Obligations.* The Restricted Group acknowledges and agrees that the Bank Obligations are the joint and several liability of the Restricted Group and are absolute and unconditional and shall not in any manner be affected or impaired by any acts or omissions whatsoever by the Bank, and without limiting the generality of the foregoing, each Member of the Restricted Group's joint and several liability on the Bank Obligations shall not be impaired by any acceptance by the Bank of any other security for or guarantors upon the Bank Obligations or by any failure, neglect or omission on the Bank's part to resort to any one or all of the Members of the Restricted Group for payment of the Bank Obligations or to realize upon or protect any collateral security therefor. Each Member of the Restricted Group's joint and several liability on the Bank Obligations shall not in any manner be impaired or affected by the Person who receives or uses the proceeds of the Liquidity Advances evidenced by the Reimbursement Obligations or for what purposes such proceeds are used. Such joint and several liability of each Member of the Restricted Group shall also not be impaired or affected by (and the Bank, without notice to anyone, is hereby authorized to make from time to time) any sale, pledge, surrender, compromise, settlement, release, renewal, extension, indulgence, alteration, substitution, exchange, change in, modification or disposition of any collateral security for the Bank Obligations or of any guaranty thereof. In order to enforce payment of the Bank Obligations of the Members of the Restricted Group, foreclose or otherwise realize on any collateral security therefor, and to exercise the rights granted to the Bank under the Reimbursement Agreement and under applicable law, the Bank shall be under no obligation at any time to first resort to any collateral security, property, liens or any other rights or remedies whatsoever, and the Bank shall have the right to enforce the Bank Obligations of the Members of the Restricted Group irrespective of whether or not other proceedings or steps are pending seeking resort to or realization upon or from any of the foregoing.

### **Certain Affirmative and Negative Covenants**

The Restricted Group covenants in the Reimbursement Agreement, among other things, to maintain their legal existence as nonprofit corporations to submit to the Bank certain financial and other reports and information and notices of Events of Default under the Reimbursement Agreement, to observe certain financial covenants and to give the Bank notice of any litigation which may materially adversely affect their respective businesses.

The Restricted Group also covenants, among other things, not to, without the prior written consent of the Bank or as permitted by the Reimbursement Agreement, amend the Indenture or the Financing Agreement; permit the Trustee to call any Series 2006 Bonds for redemption (other than mandatory sinking fund redemption) without first obtaining the consent of the Bank and depositing sufficient funds therefor; or sell or dispose of certain assets, except as permitted in the Reimbursement Agreement.

These covenants are solely for the benefit of the Bank. The Bank may waive any such covenants or certain other provisions of the Reimbursement Agreement and may agree with the Restricted Group to amend or add other covenants or provisions without the consent of any other party. The Series 2006 Bondholders will have no right or obligations as a result of such covenants or provisions or any amendments or waivers thereof. Failure by the Restricted Group to comply with the covenants in the Reimbursement Agreement could result in a default under the Reimbursement Agreement and a mandatory tender of the Series 2006 Bonds.

***Events of Default.*** If any of the following events shall occur, each such event shall be an "*Event of Default*":

(a) any principal or interest due on the Series 2006 Bonds is not paid by the Issuer when due and such principal or interest is not paid by the Bond Insurer when, as, and in the amounts required to be paid pursuant to the terms of the Bond Insurance Policy; or

(b) (i) any material provision of the Bond Insurance Policy relating to the obligation of the Bond Insurer to make payments thereunder at any time for any reason ceases to be valid and binding on the Bond Insurer in accordance with the terms of the Bond Insurance Policy or is declared to be null and void, invalid or unenforceable by a court or other governmental agency of appropriate jurisdiction, or (ii) the validity or enforceability thereof is contested by a senior officer of the Bond Insurer in writing or by any court or other governmental agency of appropriate jurisdiction, or the Bond Insurer repudiates in writing its obligations under the Bond Insurance Policy; or

(c) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Bond Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated for a period of sixty (60) consecutive days or such court enters an order granting the relief sought in such proceeding or the Bond Insurer shall institute or take any corporate action for the purpose of instituting any such proceeding; or the Bond Insurer shall become insolvent or generally unable to pay its debts as they mature or claims under any of its insurance policies as such claims are made, shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Bond Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts or claims as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

(d) the Bond Insurer shall default in any payment or payments of amounts payable by it under any bond insurance policy or policies (other than the Bond Insurance Policy) issued in connection with a publicly offered issue of securities in the United States when due and such default shall continue for a period of one calendar month (it being understood by the Bank that default for purposes of this

paragraph shall not mean a situation whereby the Bond Insurer contests in good faith its liability under any such policy or policies in light of the claims made thereunder); or

(e) any representation or warranty made by the Restricted Group under or in connection with the Reimbursement Agreement or any of the Related Documents or in any certificate, document, instrument, opinion or financial or other statement contemplated by or made or delivered pursuant to or in connection with the Reimbursement Agreement or with any of the other Related Documents shall prove to be untrue in any material respect on the date as of which it was made or deemed made; or

(f) nonpayment of any amounts payable under the Reimbursement Agreement when due (together with interest thereon at a rate equal to the Default Rate) within ten (10) Business Days after the Issuer, the Tender Agent, the Remarketing Agent, the Bond Insurer and the Restricted Group Representative have received written notice from the Bank that the same were not paid when due; or

(g) any Member denies that it has any or further liability or obligation under the Reimbursement Agreement or any Related Document or a final and non-appealable order of a court or a final and non-appealable finding of a governmental agency having jurisdiction is entered to the effect that any payment provision of the Reimbursement Agreement or any Related Document is not valid and binding on the Member under applicable law; or

(h) the breach by any Member of certain other listed covenants contained in the Reimbursement Agreement; or

(i) the breach by any Member of any of the other terms or provisions of the Reimbursement Agreement or of any of Related Documents which is not remedied within thirty (30) days after written notice thereof shall have been received by such Member from the Bank; or

(j) any Related Document or any material term thereof shall terminate or cease to be of full force and effect, other than as a result of any redemption in full of the Series 2006 Bonds or provision for such redemption in full in accordance with the Indenture; or

(k) each Rating Agency shall have either (1) downgraded the Bond Insurer's claims paying ability rating below "Baa3" or "BBB-" or (2) withdrawn or suspended such rating, and such downgrading or withdrawal shall be continuing, or

(l) the Issuer or the Restricted Group shall have caused the substitution or cancellation of the Bond Insurance Policy without the prior written consent of the Bank; or

(m) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Series 2006 Bonds is includable in the gross income of the holder(s) or owner(s) of such Series 2006 Bonds and either (i) the Issuer, the Restricted Group or any Member, after being notified by the Internal Revenue Service, or any such holder or owner of Series 2006 Bonds, as applicable, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(n) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to any Member or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or

sequestrator (or other similar official) and such proceeding is not terminated for a period of sixty (60) consecutive days or such court enters an order granting the relief sought in such proceeding or any Member shall institute or take any corporate action for the purpose of instituting any such proceeding; or any Member shall become insolvent or generally unable to pay its debts as they mature, shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of any Member or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts or claims as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

(o) a moratorium shall have been declared or announced (whether or not in writing) by any Member with respect to any Material Debt of any such Member; or

(p) (i) there shall exist an accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, with respect to any Plan (other than a Multi-employer Plan) which results or could reasonably be expected to result in a Material Adverse Effect; (ii) there shall occur a Reportable Event with respect to any Plan (other than a Multi-employer Plan) which results or could reasonably be expected to result in a Material Adverse Effect; (iii) any liability to the PBGC shall be incurred by any Member with respect to any Plan (other than a Multi-employer Plan) which results or could reasonably be expected to result in a Material Adverse Effect; or (iv) any Member shall incur any withdrawal liability under Title IV of ERISA with respect to any Multi-employer Plan which results or could reasonably be expected to result in a Material Adverse Effect; or

(q) one or more non-interlocutory judgments, orders or decrees shall be entered against any Member involving in the aggregate (existing at any one time for such Member) a liability (not fully covered by independent third-party insurance) as to any single or related series of transactions, incidents or conditions, of \$1,000,000 or more, and the same shall remain unsatisfied following the entry of a final, nonappealable judgment for a period of sixty (60) days after the entry thereof; or

(r) any non-monetary judgment, order or decree shall be rendered against any Member which results, or could reasonably be expected to result, in a Material Adverse Effect, and there shall be any period of ten (10) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(s) (i) any Member (A) fails to make any payment in respect of any Material Debt when due (whether at scheduled maturity, by required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace or notice period, if any, specified in the document relating thereto on the date of such failure; or (B) shall default in the due performance or observance by it of any term, covenant or agreement contained in, or any other event shall occur or condition exist under, any agreement or instrument relating to any Material Debt, the effect of such default, event or condition is to cause, or to permit the holder or holders of such Material Debt or beneficiary or beneficiaries of such Material Debt (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, such Material Debt to be declared to be due and payable prior to its stated maturity, or to become payable or cash collateral in respect thereof to be demanded, or (ii) any Material Debt of any Member shall be declared to be due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof; or

(t) any of Moody's or S&P downgrades its rating with respect to the senior unsecured debt obligations of the Restricted Group to a rating below Baa3 or BBB-, respectively, or withdraws or suspends its rating thereon.

*Remedies.* Upon the occurrence of any Event of Default, the Bank, may exercise any one or more of the following rights and remedies in addition to any other remedies in the Reimbursement Agreement or by law provided:

- (a) Only if a Bond Insurer Event of Default has occurred,
  - (i) give Notice of Default of the occurrence of any Event of Default to the Bond Trustee, which Notice of Default shall state that it is a Notice of Default under Section 6.2(a)(i) of the Reimbursement Agreement and direct the Bond Trustee to cause a mandatory tender of the Bonds pursuant to Section 3.04(c) of the Supplemental Bond Indenture, thereby causing the Letter of Credit to expire fifteen (15) days thereafter; and thereupon, by written notice to the Restricted Group Representative require that the Restricted Group immediately prepay to the Bank in immediately available funds an amount equal to the Available Amount (such amounts to be held by the Bank as collateral security for the Bank Obligations), *provided, however*, that in the case of an Event of Default described in paragraph (n) above, such prepayment obligations shall automatically become immediately due and payable without any notice (unless the coming due of such obligations is waived by the Bank in writing) and or;
  - (ii) by written notice to the Restricted Group Representative, declare all Bank Obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Restricted Group, *provided* that upon the occurrence of an Event of Default under paragraph (n) above such acceleration of the Bank Obligations shall automatically occur (unless such automatic acceleration is waived by the Bank in writing); or
- (c) pursue any rights and remedies it may have under the Related Documents relating to the Series 2006 Bonds; or
- (d) pursue any other action available at law or in equity.

## **FINANCIAL GUARANTY INSURANCE**

### **Financial Guaranty Insurance Policy**

The Financial Guaranty Insurance Policy (the "Bond Insurance Policy") was issued by the Bond Insurer simultaneously with the issuance and delivery of the Series 2006 Bonds. The Bond Insurance Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the Series 2006 Bonds to the extent that the Trustee has not received sufficient funds from the Issuer for payment of the Series 2006 Bonds on the "due date." The Bond Insurer is obligated to make the required payment on the later of the due date or the first business day after which the Bond Insurer has received notice from The Bank of New York, as Insurance Trustee (the "Insurance Trustee"), that the Issuer has failed to pay amounts due on the Series 2006 Bonds. Under the Bond Insurance Policy, the "due date" of the Series 2006 Bonds, when referring to the payment of principal, means the stated maturity date thereof or the date on which payment of principal is due by reason of mandatory sinking fund payments and does not mean any earlier date on which payment is due by reason of any call for redemption, acceleration, or other advancement of maturity, other than in the discretion of the Bond Insurer. With respect to interest on the Series 2006 Bonds, the "due date" means the stated date for payment of interest. The Bond Insurance Policy guarantees reimbursement of any recovery of any such payment from a Bondholder or the Trustee pursuant to a final judgment by any court of competent

jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon the occurrence and continuance of an Event of Default, the Bond Insurer, may, in its discretion, direct the acceleration of the Series 2006 Bonds at a price equal to the principal amount thereof plus accrued interest, or the Bond Insurer may elect to continue to pay principal and interest on the originally scheduled due dates of the Series 2006 Bonds. For specific information on the coverage provided, reference should be made to the Bond Insurance Policy that has been reproduced in specimen form in APPENDIX F. The Bond Insurance Policy does not insure against nonpayment of principal or interest on the Series 2006 Bonds due to the insolvency, misconduct or negligence of the Trustee. The Bond Insurance Policy does not insure the payment of any redemption premium.

### **The Bond Insurer**

Radian Asset Assurance Inc. (the "Bond Insurer") is a monoline financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states, the District of Columbia, Guam and the United States Virgin Islands. As of September 30, 2007, the Bond Insurer had total consolidated shareholders' equity of approximately \$1,607,013,000 and total consolidated assets of approximately \$2,790,593,000, which amounts include the effects of a \$100 million capital infusion into the Bond Insurer made by the Bond Insurer's ultimate parent, Radian Group Inc. ("Radian") on September 7, 2007.

The financial information relating to the Bond Insurer presented in this Remarketing Circular was prepared internally by the Bond Insurer, based on accounting principles generally accepted in the United States of America ("GAAP"), and has not been audited by independent auditors. The address of the Bond Insurer's administrative office is 335 Madison Avenue, New York, New York 10017, and its telephone number is 212-983-5859.

The Bond Insurer has filed the information contained in (i) – (iv) below with entities designated as Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, and such financial information is available through such NRMSIRs:

- (i) The Bond Insurer's audited consolidated financial statements as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, prepared in accordance with GAAP, together with the accompanying report of the Bond Insurer's independent registered public accounting firm, which expresses an unqualified opinion (the "Radian Financial Statements");
- (ii) The Bond Insurer's quarterly unaudited consolidated balance sheet as of March 31, 2007 and unaudited consolidated statement of operations for the three-month period then ended, prepared in accordance with GAAP;
- (iii) The Bond Insurer's quarterly unaudited consolidated balance sheet as of June 30, 2007 and unaudited consolidated statement of operations for the six-month period then ended, prepared in accordance with GAAP; and
- (iv) The Bond Insurer's quarterly unaudited consolidated balance sheet as of September 30, 2007 and unaudited consolidated statement of operations for the nine-month period then ended, prepared in accordance with GAAP.

On September 26, 2007, the Bond Insurer's independent auditors, Deloitte & Touche LLP, declined to stand for reappointment as Radian's and its subsidiaries', including the Bond Insurer, independent auditors for the 2007 audit and its engagement will end shortly following the filing of Radian's Quarterly Report on Form 10-Q for the third quarter of 2007. On October 30, 2007, Radian engaged PricewaterhouseCoopers LLP as its and its subsidiaries', including the Bond Insurer's, independent registered public accounting firm for the year ending December 31, 2007.

Additional information regarding the Bond Insurer can be found in documents filed by Radian with the Securities and Exchange Commission ("SEC") referring to the Bond Insurer, the financial guaranty business or financial guaranty insurance including: (a) Annual Report on Form 10-K for the year ended December 31, 2006, under the headings: (i) "Forward Looking Statements – Safe Harbor Statement" (but only insofar as it relates to the financial guaranty business or financial guaranty insurance); (ii) Item 1. Business "I. General" (but only insofar as it relates to the financial guaranty business or financial guaranty insurance), "Financial Guaranty Business (General)," including subsections 1-4 thereunder, "II. Risk in Force/Net Par Outstanding – B. Financial Guaranty (Risk in Force/Net Par Outstanding)," "III. Defaults and Claims – B. Financial Guaranty (Defaults and Claims)," "IV. Loss Management — B. Financial Guaranty (Loss Management)," V. Risk Management – B. Financial Guaranty (Risk Management)," including subsections 1 and 2 thereunder, "VI. Customers – B. Financial Guaranty (Customers)," "VII. Sales and Marketing – Financial Guaranty (Sales and Marketing)," "VIII – Competition – Financial Guaranty (Competition)," "IX. Ratings" (but only insofar as it relates to the Bond Insurer), and "XI. Regulation" Parts A 2-6, C and D (but in each case only insofar as it relates to the Bond Insurer or the financial guaranty business); (iii) "Item 1A – Risk Factors" "– Risks Affecting Our Company" (but only insofar as it relates to the Bond Insurer, the financial guaranty business [or the proposed merger between Radian and MGIC (as defined below)] and "– Risks Particular to our Financial Guaranty Business"; (iv) "Item 6 – "Selected Ratios – Financial Guaranty" and "Other Data – Financial Guaranty," and (v) Item 7 – "Managements' Discussion and Analysis of Financial Condition and Results of Operations "Business Summary – Financial Guaranty," "Overview of Business Results" (but only insofar as it relates to the Bond Insurer), "Results of Operations – Financial Guaranty" and "Liquidity and Capital Resources" (but only to the extent it relates to the Bond Insurer), and "Critical Accounting Policies" (but only to the extent it relates to the Bond Insurer, the financial guaranty business or "Financial Guaranty"); (b) Quarterly Reports on Form 10-Q for the periods ended March 31, 2007 and June 30, 2007 (as amended), in Part I, Item 2 – Managements' Discussion and Analysis of Financial Condition and Results of Operations, under the following headings: "Business Summary – *Financial Guaranty*," "Overview, of Business Results" (but only to the extent it relates to the Bond Insurer), "Results of Operations – Financial Guaranty," "Liquidity and Capital Resources" (but only to the extent it relates to the Bond Insurer) and "Critical Accounting Policies" (but only to the extent it relates to "Financial Guaranty"); (c) the Reports on Form 8-K dated January 24, 2007, February 6, 2007, February 9, 2007, February 12, 2007, April 9, 2007, April 25, 2007, May 11, 2007, July 25, 2007, August 2, 2007, August 13, 2007, August 16, 2007, August 29, 2007, September 5, 2007, September 10, 2007, and October 2, 2007, October 30, 2007 and November 1, 2007; and (d) Report on Form 8-K/A filed March 16, 2007 (amending Report on Form 8-K filed February 6, 2007). This information shall be deemed to be incorporated herein by reference and to be a part of this Remarketing Circular,

Any documents, including any financial statements or financial information of the Bond Insurer and its subsidiaries that are included therein or attached as exhibit thereto, filed by Radian pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of Radian's most recent Quarterly Report on Form 10-Q (as listed in (b) above, including, without limitation, Radian's Quarterly Report on Form 10-Q for the period ended September 30, 2007 which is anticipated to be filed with the SEC shortly) or Annual Report on Form 10-K (as listed in (a) above), and prior to the termination of the offering of the Series 2006 Bonds offered hereby, that refer to the Bond Insurer or relate to the financial guaranty business or financial guaranty insurance shall be deemed to be referred to

above, incorporated by reference into this Remarketing Circular from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or otherwise contained in this Remarketing Circular, shall be deemed to be modified or superseded for purposes hereof to the extent that a statement contained herein or in any subsequently filed document which also is or deemed incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Remarketing Circular.

A complete copy of the Radian Financial Statements is available from the Bond Insurer upon written request.

The Bond Insurer is an indirect, wholly owned subsidiary of Radian, a publicly owned corporation with its shares listed on the New York Stock Exchange (symbol "RDN"). Radian is a global credit risk management company headquartered in Philadelphia with significant operations in both New York and London. Radian develops innovative financial solutions by applying its core mortgage credit risk expertise and structured finance capabilities to the credit enhancement needs of the capital markets worldwide, primarily through credit insurance products. The company also provides credit enhancement for public finance and other corporate and consumer assets on both a direct and reinsurance basis and holds strategic interests in credit-based consumer asset businesses. Additional information may be found at [www.radian.biz](http://www.radian.biz). NONE OF RADIAN, RADIAN'S OTHER SUBSIDIARIES OR ANY OF RADIAN'S INVESTORS IS OBLIGATED TO PAY THE DEBTS OF OR CLAIMS AGAINST THE BOND INSURER.

The Bond Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile. In addition, Radian and its insurance subsidiaries are subject to regulation by insurance laws of the various other jurisdictions in which they are licensed to do business. As a financial guaranty insurance corporation licensed to do business in the State of New York, the Bond Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of each financial guaranty Bond Insurer to financial guaranty insurance and related business lines, requires that each financial guaranty Bond Insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each financial guaranty Bond Insurer, and limits the size of individual transactions and the volume of transactions that may be underwritten by each financial guaranty Bond Insurer. Other provisions of the New York Insurance Law, applicable to non-life insurance companies such as the Bond Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liability for borrowings.

Neither the Bond Insurer nor any of its affiliates accepts any responsibility for the accuracy or completeness of, nor have they participated in the preparation of, this Remarketing Circular or any information or disclosure that is provided to potential purchasers of the Series 2006 Bonds, or omitted from such disclosure, other than with respect to the accuracy of information presented under the heading "BOND INSURANCE" and as set forth in APPENDIX F of this Remarketing Circular. The Bond Insurer's role is limited to providing the coverage set forth in the Bond Insurance Policy. In addition, the Bond Insurer makes no representation regarding the Series 2006 Bonds or the advisability of purchasing the Series 2006 Bonds.

On February 6, 2007, Radian and MGIC Investment Corporation (NYSE: MTG) ("MGIC") entered into an Agreement and Plan of Merger, pursuant to which Radian agreed, subject to the terms and conditions of the merger agreement, to merge with and into MGIC. On September 4, 2007, facing market conditions that had made combining the companies significantly more challenging, Radian and MGIC

entered into an agreement that terminated the Agreement and Plan of Merger, abandoned the merger contemplated by such agreement and released each other from related claims. Neither company made a payment to the other in connection with the termination.

The current ratings of the Bond Insurer are "AA" (outlook stable) by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and "Aa3" (outlook stable) from Moody's Investors Service, Inc. ("Moody's"). As discussed below, Radian has formally requested that Fitch Ratings Services ("Fitch") immediately withdraw its Bond Insurer financial strength ratings on the Bond Insurer. Notwithstanding this withdrawal request, Fitch continues to maintain an A+ (Ratings Watch Evolving) rating on the Bond Insurer.

On September 5, 2007, S&P published a report stating that, unlike the ratings for Radian and its mortgage insurance subsidiaries ("Radian MI") which are on CreditWatch with negative implications, the "AA" rating on the Bond Insurer is not on CreditWatch. This report also indicated that Radian's management has stated that it is willing to take whatever reasonably practicable steps would be necessary to protect the Bond Insurer from the weaker holding company and affiliates were Radian and Radian MI to be downgraded.

On September 5, 2007, Moody's affirmed the Bond Insurer's "Aa3" insurance financial strength rating and stable outlook. Moody's attributed this affirmation to the Bond Insurer's stable earnings, limited exposure to residential mortgage risk and the diversity of its direct financial guaranty and reinsurance portfolio. Moody's stated that it believes the Bond Insurer is adequately capitalized for the risk of its insured portfolio and that Radian's \$100 million capital infusion into the Bond Insurer will further bolster the Bond Insurer's capital position, enhancing its flexibility to continue to write new business.

On July 31, 2007, Fitch placed the "AA" Bond Insurer financial strength rating of the Bond Insurer, all obligations insured by the Bond Insurer and all of Radian's other insurance subsidiaries on Rating Watch Negative. On September 5, 2007, following the announcement of the termination of the pending merger between Radian and MGIC, Fitch downgraded the Bond Insurer financial strength rating of the Bond Insurer and the ratings for all obligations insured by the Bond Insurer to "A+" from "AA" and revised the Rating Watch on the Bond Insurer to "Evolving" from "Negative." Fitch stated that the Ratings Watch Evolving on the Bond Insurer indicates that the ratings of the Bond Insurer could be raised, lowered or affirmed within the very near-term. Absent additional financial or capital support from either internal or external means, Fitch indicated it is likely that the Bond Insurer's ratings will be lowered further, but if additional financial backing is forthcoming, Fitch will evaluate that level of support and will consider upgrading the Bond Insurer's ratings at that time.

On September 5, 2007, Radian formally requested that Fitch immediately withdraw all of its ratings for Radian and its subsidiaries, including the Bond Insurer financial strength ratings on the Bond Insurer. Consequently, Radian has ceased providing information to Fitch in support of its ratings of the Bond Insurer. On September 9, 2007, Fitch announced that it would not honor Radian's request at that time in light of the current high level of investor interest in both the mortgage insurance and financial guaranty industries, but that Fitch would instead monitor investor interest and make a decision with respect to Radian's request at a future date based on market feedback. Fitch also acknowledged that it would withdraw its ratings of Radian and its subsidiaries regardless of investor interest if it believed that it no longer had access to adequate public and non-public information to credibly maintain its ratings.

The ratings of S&P, Moody's and Fitch reflect only the views of the applicable rating agency, respectively, do not constitute a recommendation to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies. Any further explanation of any rating may be obtained only from the applicable rating agency. Any downward revision or withdrawal of any of the above ratings

may have an adverse effect on the market price of the Series 2006 Bonds. The Bond Insurer does not guarantee the market price or investment value of the Series 2006 Bonds nor does it guarantee that the ratings on the Series 2006 Bonds will not be revised or withdrawn.

## **BONDHOLDERS' RISKS**

### **General**

The Series 2006 Bonds are not a general debt, liability, or obligation of the Issuer, but are limited obligations of the Issuer, payable solely from (i) Bond Payments to be made by the Restricted Group pursuant to the Financing Agreement and certain other funds and the interest thereon received by or pledged to the Issuer thereunder, and by certain moneys held by the Trustee under the Indenture, (ii) a pledge of the Pledged Revenues of the Restricted Group, (iii) certain insurance and condemnation proceeds, and (iv) all proceeds and products of the foregoing. The Series 2006 Bonds are not a debt, liability or obligation of the State of Florida or any political subdivision thereof other than the Issuer. Neither the full faith and credit nor the taxing power of the Issuer, the State of Florida, or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds, and none of the Issuer, the State of Florida or any political subdivision thereof shall be directly, indirectly, or contingently obligated to levy or to pledge any form of taxation whatsoever for the payment of the Bonds or to make any appropriation for their payment from any source except the Pledged Funds and amounts derived from payments made under the Liquidity and Credit Facility and Bond Insurance Policy.

The ability of the Restricted Group to realize revenues in amounts sufficient to pay debt service on the Series 2006 Bonds when due is affected by and is subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that revenues will be realized by the Restricted Group in amounts sufficient to pay debt service on the Series 2006 Bonds when due. The risk factors discussed below should be considered in evaluating the likelihood of the timely payment of the principal of and interest on the Series 2006 Bonds and the desirability of an investment therein. THIS DISCUSSION OF RISK FACTORS IS NOT, AND IS NOT INTENDED TO BE, EXHAUSTIVE, AND SHOULD BE READ IN CONJUNCTION WITH ALL OTHER PARTS OF THIS REMARKETING CIRCULAR.

### **Dependence Upon Third-Party Payors**

The Restricted Group depends, to a significant degree, on payments made by various insuring organizations (including self-insured employers), and by the federal and State governments under Medicare, Medicaid and other programs. For a breakdown of the sources of payment for services provided by the Restricted Group, see APPENDIX A – "Sources of Patient Revenues for Restricted Group."

The Restricted Group is subject to regulatory actions by a number of governmental and private agencies, including those which administer the Medicare and Medicaid programs, the Joint Commission on Accreditation of Healthcare Organizations, other private agencies and federal, state and local agencies. These bodies may promulgate new regulatory provisions from time to time, and it is not possible to predict the effect of any such future promulgations on the Restricted Group.

Amounts received from governmental payors are generally less than the Restricted Group's established charges. These governmental payors are under severe budgetary constraints. These constraints have reduced the amount of revenues the Restricted Group has received from the governmental programs and may result in further reductions in the future. It is unlikely that the Restricted Group could ever attract

sufficient numbers of private-pay patients to become self-sufficient without reimbursement from government programs.

Future actions by the federal government with respect to Medicare and by the federal and state governments with respect to Medicaid, reducing the total amount of funds available for either or both of these programs or changing the reimbursement regulations or their interpretation, could adversely affect the amount of reimbursement available to the Restricted Group. Revision and expansion of effective regulations or the proposal of additional regulations may affect hospitals and other health care facilities and providers which seek payment under the Medicare and Medicaid programs. Loss of accreditation by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") could result in loss of Medicare and Medicaid reimbursement.

Furthermore, efforts by private insurers, employers and governmental agencies to reduce the utilization of hospital facilities could adversely affect the Restricted Group's revenues.

### **The Medicare Program and Related Federal Legislation and Regulation**

Medicare Reimbursement. Medicare is the commonly accepted name for the federal health insurance program for the elderly and disabled. Medicare is a federal program administered by the Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("HHS"), through fiscal intermediaries and carriers. Available to individuals age 65 or over, and certain other classes of individuals, the Medicare program provides, among other things, health care benefits that cover, within prescribed limits, the major costs of physician and hospital care for such individuals, subject to certain deductibles and co-payments. Payments under the Medicare program represented approximately 68% of the Restricted Group's patient revenue for the most recent fiscal year.

The federal government enacted the Social Security Amendments of 1983 (Pub. L. 98-21) and promulgated regulations limiting payments to hospitals under the Medicare programs, eliminating funding for health planning agencies and mandating that the Secretary of HHS (the "Secretary") develop a new, prospective methodology for establishing payments for hospitals and certain other facilities. HHS has since implemented the Prospective Payment System ("PPS") for inpatient hospital services. Under the inpatient PPS system, HHS determines prospectively a payment amount for each hospital Medicare discharge. With certain exceptions, such payments are not adjusted for a hospital's actual costs or a patient's length of stay. Discharges are classified into Diagnosis Related Groups ("DRGs") and the payments for various DRGs are derived from historical Medicare cost data. If a hospital treats a patient and incurs less than the applicable DRG-based payment, the hospital will generally be entitled to retain the difference. Conversely, with limited exception, if a hospital's cost for treating the patient exceeds the DRG-based payments, the hospital will not be entitled to any additional amount.

In theory, PPS payments are to be adjusted annually based on the hospital "market basket" index, or the cost of providing health care services; however, in practice, historically the government either has not increased payment rates annually or the increases to the DRG rates have been at rates which were less than the increase in the cost of delivering health care services. Moreover, there is no assurance that future updates to PPS payment rates will keep pace with the increases in the cost of providing hospital services.

Significant changes have been and may continue to be made in the Medicare program, which changes could have a material adverse on the financial condition of the Restricted Group. In addition, bills have been and may be introduced in the Congress of the United States which, if enacted, could adversely affect the operations of the Restricted Group by, for example, decreasing payment by third-

party payors such as Medicare or limiting the ability of the physicians on the medical staff of the Restricted Group to provide services or increase services provided to patients.

Medicare Audits and Withholds. Medicare participating hospitals are subject to audits and retroactive audit adjustments with respect to the Medicare program. Generally, the Restricted Group maintains some degree of reserves for anticipated or proposed audit adjustments which are likely to be contested. Nevertheless, such adjustments could exceed reserves and could be substantial. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholding could have a substantial adverse effect on the ability of the Restricted Group to make payments with respect to the Financing Agreement or on its overall financial condition. Management of the Restricted Group is not aware of any situation where a material amount of Medicare payment is being withheld.

Investigations of Billing Practices. The United States Department of Justice, the Federal Bureau of Investigation and the Office of the Inspector General of HHS have been conducting investigations and audits of the billing practices of many health care providers. Healthcare providers such as the Restricted Group may be required to undergo such audits by one or more of these agencies and may be required to make payments to resolve any such audits. It is possible that any such payments may be substantial and could have a material adverse effect on their operations or condition, financial or otherwise.

In addition, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") also added new provisions that outlaw certain types of manipulative Medicare billing practices. These include improperly coding (for billing purposes) services rendered in order to claim a higher level of reimbursement. Another new Section prohibits billing for the provision of services or items that were not medically necessary. Furthermore, HIPAA also created two new crimes that are based on the traditional crimes of fraud and theft but are applied specifically to health benefit programs. This new law increases the legal risk of provider billing and increases the risk that a Medicare provider will be the subject of a fraud investigation.

Referral Restrictions. In addition to the foregoing Medicare reimbursement limitations, other aspects of the Medicare program may affect the Restricted Group. In 1977, Congress adopted the Medicare and Medicaid Anti-Fraud and Abuse Amendments of 1977 (as amended, the "Anti-Fraud and Abuse Law"), which have been strengthened by subsequent amendments and the creation of the Office of Inspector General ("OIG") to enforce compliance with the statute. HIPAA and the BBA also contain provisions for enhanced enforcement, increases to the scope of the Anti-Fraud and Abuse Law, additional sanctions for violations of the laws and other measures designed to protect the integrity of federal health care programs. The laws provide for civil monetary and criminal penalties and exclusion from the Medicare/Medicaid programs for knowing and willful solicitation, receipt, offer or payment of remuneration directly or indirectly in return for or to induce the referral of Medicare or Medicaid business.

Because the language of the Anti Fraud and Abuse Law and similar applicable anti-fraud and abuse statutes is very broad, these statutes potentially apply to many ordinary business arrangements pursuant to which remuneration passes between health care providers, physicians, suppliers and others who are in a position to make referrals to each other. While the Restricted Group currently has arrangements of this general type, management believes that all such arrangements are being conducted in material compliance with the applicable law and they are not aware of any pending challenges or investigations with respect to any such arrangements other than as described in this Remarketing Circular. There can be no assurance that additional challenges or investigations will not occur in the future, or that existing arrangements will not require restructuring or elimination in order to comply with applicable

laws of this nature, particularly if the trend toward greater regulation of relationships between health care providers continues.

In addition, other types of common business activities of hospitals and other health care providers, such as establishing reserves for potential adjustments to payments from third-party payors, are being viewed as conduct subject to civil and criminal penalties. Arrangements with physicians are particularly suspect, with increased emphasis on activities often engaged in by hospitals, including the Restricted Group, such as joint ventures with physicians, physician recruitment and retention programs, physician referral services, hospital-physician service or management contracts, loans by hospitals to physicians, space or equipment rentals and service or vendor relationships. While the Restricted Group is not aware of any investigations pending or threatened against it other than as described in this Remarketing Circular, there is no assurance that additional investigations might not ensue, with the potential for sanctions that could have a material adverse affect on the operations or financial condition of the Restricted Group.

Stark Self-Referral and Payment Prohibitions. The federal physician self-referral and payment prohibitions (codified in 42 U.S.C. § 1395nn, Section 1877 of the Social Security Act) generally forbid, absent qualifying for one of the exceptions, a physician from making referrals for the furnishing of any "designated health services" for which payment may be made under the Medicare or Medicaid programs, to any entity with which the physician (or an immediate family member) has a "financial relationship" (the "Stark Law"). A "financial relationship" under the Stark Law includes any direct or indirect "compensation arrangement" with an entity for payment of any remuneration, and any direct or indirect "ownership or investment interest" in the entity.

Penalties for violating the Stark Law include denial of payment for any services rendered by an entity in violation of the prohibition, civil monetary penalties of up to \$15,000 for each offense, and exclusion from the Medicare and Medicaid programs. Additionally, if an individual enters into an arrangement or scheme that the person knows has a principal purpose of assuring referrals to an entity which, if the individual directly made referrals to such entity, would violate the Stark Law, the person is subject to a civil monetary penalty of up to \$100,000 for each such circumvention arrangement. Penalties may be assessed against either the referring physician or the hospital that receives a prohibited referral, or both.

The Stark Law self-referral and payment prohibitions include specific reporting requirements providing that each entity furnishing covered items or services must provide the Secretary of HHS with certain information concerning its ownership, investment, and compensation arrangements. The information must be provided in such form, manner and at such times as the Secretary specifies. Failure to adhere to these reporting requirements, once implemented, may subject the Restricted Group to significant civil money penalties.

Phase II of the final Stark Law regulations addressing the federal physician self-referral ban (the "Phase II Final Regulations") became effective as of July 24, 2004.

Although the Restricted Group believes it is in compliance with the Stark Law regulations, enforcement activities under the Phase II Final Regulations and/or the publication of other final Stark Law regulations may have significant impact on arrangements currently being conducted by health care providers, including the Restricted Group. In addition, any investigations against the Restricted Group, including those described in this Remarketing Circular, could potentially lead to questions of compliance with the Stark Law.

The Restricted Group has entered into a number of arrangements pursuant to which it either employs or contracts with primary care and specialty physicians. Although the Restricted Group believes that all such arrangements have been appropriately structured so as to avoid violating the Stark Law, these arrangements will need to be reexamined and analyzed upon the publication of additional final Stark Law regulations. There can be no assurance that existing arrangements of the Restricted Group will not require restructuring or elimination in order to comply with the Stark Law regulations. Moreover, given the breadth and complexity of the Phase II Final Regulations, the lack of previous regulatory guidance, and the scarcity of case law interpreting the Stark Law, there can be no assurance that the Restricted Group will not be found to have violated the Stark Law, and if so, whether any actions proposed would have a material adverse effect upon the operations and financial condition of the Restricted Group.

HIPAA. HIPAA also includes administrative simplification provisions that provide, among other things, for the privacy and security of health information and the communication of health information through standard electronic transactions.

Under the HIPAA regulations, providers are required to implement, among other things, policies and procedures to process claims and receive payment using the electronic transactions standards and to ensure that all health information protected by HIPAA is used and disclosed pursuant to HIPAA requirements. HIPAA may require significant changes in operations and hospitals need to make significant capital expenditures to comply with HIPAA's operational and technical requirements. The Restricted Group may incur significant expenses to ensure compliance with the HIPAA regulations.

Waiver Programs. Some hospitals are engaged in programs which waive certain Medicare coinsurance and deductible amounts. Such waiver programs may be considered to be in violation of certain rules and policies applicable to the Medicare program and may be subject to enforcement action. The Restricted Group may at times waive certain Medicare coinsurance and deductible amounts. If an agency or court were to conclude that such waivers violate the applicable law, there is a possibility that the Restricted Group Member involved could be assessed fines, which could be substantial, that certain Medicare payments might be withheld or, in a serious case, that the Restricted Group Member could be excluded from the Medicare program. While management of the Restricted Group is not aware of any challenge or investigation with respect to such matters, there can be no assurance that such challenge or investigation will not occur in the future.

### **Federal and State Health Care Criminal and Civil Law Enforcement**

Health care fraud has become a significant concern to health care payers and providers. Recent federal legislation has broadly expanded the scope of federal fraud and abuse laws, enforcement jurisdiction and funding. The Office of the Inspector General (the "OIG") has also received substantial new enforcement funding. U.S. Attorneys are actively prosecuting a number of cases, including criminal False Claims Act cases, against health care providers, including some against exempt organizations. A number of health care organizations have paid large settlements.

The governmental enforcement initiatives are increasingly supplemented by qui tam False Claim Act lawsuits brought by private citizens against health care organizations. These private plaintiffs share in any recovery.

In 2003, the Restricted Group reached a settlement with the United States Department of Justice (DOJ) regarding allegations for possible violations of The False Claims Act under which the Restricted Group did not admit liability or wrongdoing, but in which the Restricted Group paid \$1,476,104 to DOJ and entered into a Corporate Integrity Agreement.

The Restricted Group routinely receives inquiries from various government agencies, and, as described above, certain investigations have occurred in the past. The Restricted Group is often unaware whether it is the subject of an investigation or whether the requested information relates to an investigation of another person or entity. However, even if every investigation known to the Restricted Group were resolved in a manner adverse to the Restricted Group, none of these matters, either individually or in aggregate, would have a material and adverse effect upon the financial condition of the Restricted Group or its ability to comply with its obligations related to the Series 2006 Bonds.

### **State of Florida Regulation**

Health Care Cost Containment Act. The 1998 Florida Legislature eliminated the power of the Florida Agency for Health Care Administration (“AHCA”) to review hospital budgets for fiscal years ending in or after calendar year 1996. In addition, the penalty provisions regarding an excess of gross or net revenues per adjusted admission over the statutory maximum allowable rate of increase were repealed.

However, the Restricted Group is still required to submit various financial and patient information to the AHCA. AHCA gathers and disseminates such information through a consumer information network, a toll-free telephone service and other means to provide data on hospital charges to consumers. The Restricted Group has timely filed the required information with AHCA and is not subject to any fines or penalties associated with the late filing of such data.

Florida Medicaid Program. The Medicaid program is a medical assistance program administered by the State through AHCA for individuals and families with low income and limited resources. The State receives reimbursement for part of its cost from the federal government, provided the state-administered program and the Restricted Group meet federally imposed standards for reimbursement. The attempts to balance the federal budget described above have also resulted in uncertainty with respect to Medicaid spending. It is anticipated that federal Medicaid spending in the future will be significantly reduced. Such decreases in spending may have a material adverse effect on the financial condition of the Restricted Group.

Certificate of Need Program. Florida law provides for a certificate of need program which applies to the offering or development of certain new institutional health services. The certificate of need program in Florida is administered by ACHA. Florida’s certificate of need program requires, among other things, ACHA’s review of proposed capital expenditures by or on behalf of a hospital in excess of threshold amounts, the review of proposed additions or terminations of health services by or on behalf of the hospitals under certain conditions and the proposed acquisition of major medical equipment in excess of specified expenditure minimums. If the Restricted Group were to proceed with a future capital expenditure program which required a certificate of need but for which a certificate of need had not been obtained, the Restricted Group would be subject to the penalties of Florida’s certificate of need program, including loss of license. No assurance can be given as to the Restricted Group’s ability to obtain certificate of need approval of future projects necessary for the maintenance of competitive rates and charges or quality and scope of care.

### **Uncompensated Care**

Although the Restricted Group attempts to assure payment or reimbursement for most of the care it renders, it has and will continue to provide uncompensated care to the medically indigent. Federal law requires hospitals to provide certain medical treatment to individuals who come to hospitals, regardless of the ability of the individuals to pay. Uncompensated care has been increasing and may continue to

increase. Increased unemployment or other adverse economic conditions could further increase the proportion of patients who are unable to pay fully for the cost of their care.

Historically, uncompensated care has been funded partly by cost-shifting to those who can pay for care, but changes in private and public reimbursement mechanisms have made cost-shifting increasingly difficult. Numerous proposals have been made for state and federal legislation to address the problems of uncompensated care and medical indigence, but there is no assurance that any such program will be enacted.

### **Limitations on Enforcement**

The enforcement of the Indenture, the Financing Agreement and the security interest in Pledged Revenues granted to the Trustee may be limited by a number of factors, including: (i) provisions prohibiting the direct payment of amounts due to health care providers for Medicaid and Medicare programs to persons other than such providers; (ii) certain judicial decisions which cast doubt upon the right of the Trustee, in the event of the bankruptcy of a Member of the Restricted Group, to collect and retain accounts receivable, Medicare, Medicaid and other governmental programs; (iii) state and federal laws giving super-priority to certain kinds of statutory liens, such as tax liens; (iv) rights arising in favor of the United States of America or any agency thereof; (v) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction; (vi) federal bankruptcy laws which may affect the enforceability of the Financing Agreement, the Indenture or assignments of revenues by the Members of the Restricted Group before or after any effectual institution of bankruptcy proceedings by or against the Members of the Restricted Group; (vii) rights of third parties in Pledged Revenues converted to cash and not in the possession of the Trustee; and (viii) claims that might arise if appropriate continuation statements are not filed in accordance with the Uniform Commercial Code, as from time to time in effect. Pursuant to the Financing Agreement, the Restricted Group is required to file continuation statements and other documents necessary to protect and preserve the security interests in Pledged Revenues and Mortgaged Property granted to secure the Bond Payments. Failure to file such statements could subject the Trustee's rights in such collateral to the claims of intervening creditors.

The remedies available to the Trustee and the Bondholders upon an Event of Default under the Indenture and the Financing Agreement are in many respects dependent upon judicial action which is subject to discretion and delay. The enforceability of the Indenture, the Mortgage and the Financing Agreement may also be limited by laws relating to bankruptcy, insolvency, reorganization or moratorium, and by similar laws affecting creditors' rights. The various legal opinions to be delivered concurrently with the delivery of the Series 2006 Bonds will be qualified as to enforceability by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors.

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

The accounts of the current and future Members, if any, of the Restricted Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Indenture (including tests relating to the incurrence of Permitted Parity Indebtedness and issuance of Additional Bonds) are met, notwithstanding uncertainties as to the enforceability of certain obligations of the Members of the Restricted Group contained in the Financing Agreement. Such uncertainties bear on the availability of the assets of the Members of the Restricted Group for payment of debt service on the Series 2006 Bonds, including the Series 2006 Bonds (i) if the purposes for which the Series 2006 Bonds were issued are not consistent with the charitable purposes of the Member of the Restricted Group from which such payment is requested, (ii) if such payments are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment, (iii) if such payments would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member of the Restricted Group, or (iv) if such payments are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the assets of any future Member of the Restricted Group fall within such categories cannot now be determined and could be substantial. As a condition precedent to entry by a future Member into the Restricted Group there must be delivered to the Trustee an Opinion of Counsel to the effect that such Member of the Restricted Group is bound by the terms of the Financing Agreement, including the requirement that it make Bond Payments.

A Member might not be required to make a payment or use its assets to make a payment in order to provide for the payment of Indebtedness, or portions thereof, the proceeds of which Indebtedness were not lent or otherwise disbursed to such Member, to the extent that such payment or use would render the Member insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such Member under applicable law. There is no clear precedent in the law as to whether such payments or use of assets by a Member in order to pay Indebtedness, or portions thereof, the proceeds of which Indebtedness were not lent or otherwise disbursed to such Member, to the extent that such payment or use would render the Member insolvent, may be voided by a trustee in bankruptcy in the event of a bankruptcy of such Member, or by third party creditors in an action brought pursuant to Florida fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under Florida fraudulent conveyance statutes, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair or valuable consideration or reasonably equivalent value in exchange for the guaranty or grossly inadequate consideration is received for the guaranty and (2) the guaranty renders the guarantor insolvent or is made while the guarantor is insolvent, as defined in the United States Bankruptcy Code or Florida fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Restricted Group to make a payment on Indebtedness for which it was not the direct beneficiary, a court might not enforce such obligation to pay in the event it is determined that the Member against which payment is sought is analogous to the guarantor of the debt of the Member who directly benefited from the borrowing and that sufficient consideration for such Member's guaranty was not received or that the incurrence of such obligation has rendered or will render such Member insolvent.

#### **Other Matters Affecting the Security for or the Value of the Series 2006 Bonds**

Other than the security interest granted to the Trustee in the Pledged Revenues and the mortgage and security interest in the Mortgaged Property, the properties of the Restricted Group are not pledged as security for the Bonds, and consequently in the event of a default under the Indenture, the Bondholders would have the status of general unsecured creditors with respect thereto. In addition, such properties are not comprised of general purpose buildings and generally would not be suitable for industrial or

commercial use. Consequently, it could be difficult to find a buyer or lessee for the properties of the Restricted Group if it were necessary to proceed against the properties of the Restricted Group, whether pursuant to a judgment, if any, against any Member of the Restricted Group, or otherwise. Thus, upon any default, the Trustee may not realize the amount of the outstanding Series 2006 Bonds from the sale or lease of the properties of the Restricted Group or from any other source.

Certain amendments to the Indenture may be made with the consent of the holders of not less than a majority of the principal amount of Outstanding Bonds and certain amendments may be made without the consent of Bondholders.

Pursuant to the terms of the Indenture, the Members of the Restricted Group may incur Permitted Parity Indebtedness which is entitled to the benefits of security which does not extend to any other Indebtedness (including, without limitation, the Series 2006 Bonds). Such security may include Liens on the Property (including health care facilities) of the Members of the Restricted Group, letters or lines of credit or insurance and may also include Liens on cash or securities deposited or held in any depreciation reserve, debt service or interest reserve, debt service or similar fund. See APPENDIX D – "Summary of Certain Provisions of the Indenture and the Financing Agreement – Summary of Certain Provisions of the Indenture of Trust – Additional Bonds; Permitted Parity Indebtedness."

## **Antitrust**

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payer contracting, physician relations, joint ventures, merger, acquisition and affiliation activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is still evolving, and enforcement activity appears to be increasing. Recent court decisions have also established private causes of action against hospitals that use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damages.

In connection with the original issuance of the Series 2006 Bonds, the Restricted Group caused CBIZ Valuation Group, LLC to prepare a report on the valuation of TVRH for purposes of making the required filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. At this time, the Restricted Group is not aware of any antitrust violations as a result of adding TVRH to the Restricted Group and providing for common boards of trustees.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. At various times, the Restricted Group may be subject to an investigation by a governmental agency charged with enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party.

The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, merger, acquisition and affiliation activity and use of a hospital's local market power for entry into related health care businesses. From time to time, the Restricted Group is or may be involved in all of these types of activities, and the Restricted Group cannot predict in general when or to what extent liability, if any, may arise. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case.

## **Malpractice and General Liability Insurance**

In recent years, the number of malpractice and general liability suits and the dollar amount of damage recoveries have increased nationwide, resulting in substantial increases in insurance premiums. Actions alleging wrongful conduct and seeking punitive damages are often filed against hospitals. Insurance does not provide coverage for judgments for punitive damages. Although there are various medical malpractice claims, both threatened and pending, against the Restricted Group, the Restricted Group believes that its existing funding levels and coverage limits adequately cover any such liability exposures and the final disposition of any such claims will not have a material adverse effect upon the financial condition of the Restricted Group, in the aggregate. Should judgments or settlements exceed insurance coverage or self-insurance reserves, it could have a material adverse effect on the financial condition of the Restricted Group. Moreover, the Restricted Group is unable to predict the cost or availability of any such insurance in the future.

## **Possible Changes in Tax Status**

The possible modification or repeal of certain existing federal income or state tax laws, or other loss by the Restricted Group of the present advantages of certain provisions of the federal income tax or state tax laws, could materially and adversely affect the tax status of the Members of the Restricted Group, and thereby the revenues of the Restricted Group. The Members of the Restricted Group have obtained letters from the Internal Revenue Service determining that they are organizations described in Section 501(c)(3) of the Code. As 501(c)(3) organizations, the Members of the Restricted Group are subject to a number of requirements affecting their operations. The failure of a Member of the Restricted Group to remain qualified as a 501(c)(3) organization would affect the funds available to the Restricted Group for payment under the Financing Agreement. The tax-exempt status of the Series 2006 Bonds also is based on the continued compliance by the Issuer and the Restricted Group with certain covenants contained in the Indenture and the Financing Agreement. These covenants relate generally to, among other things, ownership, use and operation of the facilities financed with Bond proceeds, arbitrage limitations, rebate of certain excess investment earnings to the federal government, and restrictions on the amount of issuance costs financed with the proceeds of the Series 2006 Bonds. Failure to comply with any of these covenants may result in the treatment of interest on the Series 2006 Bonds as taxable retroactive to the date of issuance. See "TAX MATTERS" herein. The Indenture does not provide for the payment of any additional interest or penalty in the event of the taxability of the interest on the Series 2006 Bonds.

## **Title to Property of the Restricted Group**

Prior to March 22, 1999, the land on which is located a substantial portion of the Medical Center Campus, consisting of all of the main hospital buildings and certain administrative buildings, was leased by the Medical Center from the Issuer. On March 22, 1999, the Issuer conveyed title to the leased property to the Medical Center. The deed of conveyance contains a provision, known as a "reverter," which requires that the property conveyed to the Medical Center be used as a hospital and for uses ancillary to a hospital. If at any time the primary use of the property ceases to be used for hospital purposes, title to the property and all permanent improvements thereon revert back to the Issuer. In the event that the Restricted Group were to default under the Financing Agreement and the Trustee was to foreclose the lien of its mortgage upon the Medical Center Campus, the Trustee or any successor owner of the Medical Center Campus would be required to continue to operate the property as a hospital or the property would revert back to the Issuer.

## **Damage or Destruction**

Although the Restricted Group is required under the Financing Agreement to maintain insurance on its property, there can be no assurance that the Restricted Group will not suffer uninsured losses in the future due to the occurrence of events not covered by such insurance or the unanticipated lapse of insurance coverage, or that the amount of any such loss will not exceed the coverage of such insurance policies.

## **Environmental Issues**

Any owner or operator of real estate may be adversely affected by legislative, regulatory, administrative and enforcement action involving environmental controls. For example, if any of the property of the Restricted Group is determined to be contaminated by hazardous materials, the Restricted Group may be liable for significant clean-up costs even if not responsible for the contamination. A Phase I Environmental Site Assessment of the TVRH Campus was prepared in connection with the Series 2006 Bonds and indicated that no conditions were present that warranted further assessment. A Phase I Environmental Site Assessment of the Medical Center Campus was also prepared in connection with the original issuance of the Series 2006 Bonds (the "Medical Center Phase I Report"). The Medical Center Phase I Report stated that there are recognized environmental conditions in connection with the property. These conditions relate to prior use of a portion of the Medical Center Campus. The Medical Center Phase I Report stated that if the Restricted Group desires a higher confidence level to determine if the on-site and off-site concerns identified have an adverse impact on the subject property, then further investigation could be conducted. The Restricted Group plans to continue its investigation to the extent feasible. The Restricted Group has certified that to the best of its knowledge, none of its properties contains any hazardous materials in violation of applicable law, and that the best of its knowledge it is in compliance in all material respects with all applicable environmental laws. Nevertheless, a violation of any such law could result in a material and adverse financial impact upon the Restricted Group. The Financing Agreement contains a covenant that the Restricted Group will comply with all environmental laws applicable to the ownership or use of its real property and shall keep all such real property free and clear of any liens imposed pursuant to such environmental laws.

## **Additional Parity Debt**

The Financing Agreement, under certain conditions, permits the Restricted Group to incur additional indebtedness which may be equally and ratably secured with the Series 2006 Bonds. See "SECURITY AND SOURCES OF PAYMENT – Additional Bonds; Permitted Parity Indebtedness" herein for further information. Any such additional indebtedness would be entitled to share ratably with the owners of the Series 2006 Bonds in the funds and accounts held under the Indenture and other amounts pledged as a source of repayment of the Series 2006 Bonds, and also in any monies realized from the exercise of remedies in the event of default by the Restricted Group. There can be no assurance that, despite compliance with the conditions contained in the Financing Agreement for the issuance of additional debt, the Restricted Group will be able to make necessary payments to repay all of its indebtedness.

## **Other Risk Factors**

The following factors, among others, may also affect the operations or financial performance of the Restricted Group:

- (a) The inability of, or the cost to, the Restricted Group to continue to insure or otherwise protect itself against casualties or malpractice and general liability claims;

- (b) Medical and other scientific advances resulting in decreased usage of hospital facilities or services, including those of the Restricted Group;
- (c) Employee strikes and other adverse labor situations resulting in a substantial reduction in revenues without corresponding decreases in costs;
- (d) Changes in law or revenue rulings governing the not-for-profit or tax-exempt status of charitable corporations, such that not-for-profit corporations such as the Members of the Restricted Group, as a condition of maintaining their tax-exempt status, are required to provide increased indigent care at reduced rates or without charges or discontinue services previously provided;
- (e) Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970's;
- (f) Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care;
- (g) Limitations on the availability of nursing and technical personnel;
- (h) Loss of accreditation from the JCAHO or other accrediting agencies;
- (i) Increased competition from other providers located in the Restricted Group's service areas;
- (j) Economic and social trends resulting in shifts in population away from the service areas of the Restricted Group;
- (k) The occurrence of a hurricane or other natural disaster, which could damage the Mortgaged Property, interrupt utility service to the facilities, or otherwise impair operations and the generation of revenues;
- (l) More extensive utilization of outpatient care at facilities unrelated to the Restricted Group's facilities;
- (m) Increased availability of outpatient services at physicians' offices;
- (n) Regulatory actions which might limit the ability of the Restricted Group to undertake capital improvements to their facilities or to develop new institutional health services; and
- (o) Increased costs associated with compliance with federal and state laws governing the handling, storage, transportation and disposal of waste products, including radioactive waste, infectious waste and other hazardous waste, including liability which may be incurred without regard to fault in the case of a release or threatened release of these types of waste.

## **TAX MATTERS**

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements which must be met subsequent to the issuance and delivery of the Series 2006 Bonds in order that interest on the Series 2006 Bonds be and remain excluded from gross income for purposes of Federal income taxation. Non-compliance may cause interest on the Series 2006 Bonds to be included in Federal gross income retroactive to the date of issuance of the Series 2006 Bonds, regardless of the date on which such

non-compliance occurs or is ascertained. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Series 2006 Bonds and the other amounts are to be invested and require that certain investment earnings on the foregoing must be rebated on a periodic basis to the Treasury Department of the United States. The Issuer and the Restricted Group have covenanted to comply with such requirements in order to maintain the exclusion from Federal gross income of the interest on the Series 2006 Bonds.

In connection with the original issuance and delivery of the Series 2006 Bonds on January 26, 2006, Bond Counsel rendered its opinion (the "Original Bond Counsel Opinion") to the effect that, assuming compliance with the aforementioned covenants, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2006 Bonds is excluded from gross income for purposes of Federal income taxation and that interest on the Series 2006 Bonds is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals or corporations; however, interest on the Series 2006 Bonds may be subject to the alternative minimum tax when any Bond is held by a corporation. The alternative minimum taxable income of a corporation must be increased by seventy five percent (75%) of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (before this adjustment and the alternative tax net operating loss deduction). "Adjusted Current Earnings" will include interest on the Series 2006 Bonds. No opinion was expressed by Bond Counsel in the Original Bond Counsel Opinion as to whether a conversion of the interest rate or the Series 2006 Bonds to an Auction Rate or a Fixed Rate will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds. The Indenture requires an opinion of nationally recognized bond counsel with respect to such matters before such a conversion may occur.

Reference is made to the copy of the Original Bond Counsel Opinion attached hereto as APPENDIX E for the complete text thereof. Except to the limited extent expressly stated in the Supplemental Opinion of Bond Counsel referred to below, subsequent to the original issuance of the Series 2006 Bonds on January 26, 2006, Bond Counsel has not made any investigation or review with respect to and expresses no opinion as to the current or continuing exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds. In connection with the substitution of the Liquidity and Credit Agreement for the Original Standby Bond Purchase Agreement, Bond Counsel will render its opinion (the "Supplemental Opinion of Bond Counsel") to the effect that such substitution will not, in and of itself, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds. Reference is made to APPENDIX E for the proposed text of the Supplemental Opinion of Bond Counsel. Except as described above, Bond Counsel has expressed and will express, no opinion regarding the Federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of Series 2006 Bonds. Prospective purchasers of Series 2006 Bonds should be aware that the ownership of Series 2006 Bonds may result in collateral Federal income tax consequences, including (a) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry Series 2006 Bonds, (b) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including interest on the Series 2006 Bonds, (c) the inclusion of interest on the Series 2006 Bonds in earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (d) the inclusion of interest on the Series 2006 Bonds in passive income subject to Federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, and (e) the inclusion of interest on the Series 2006 Bonds in "modified adjusted gross income" by recipients of certain Social Security and Railroad Retirement benefits for purposes of determining whether such benefits are included in gross income for Federal income tax purposes.

**PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE SERIES 2006 BONDS AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL**

**TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE BONDHOLDERS. PROSPECTIVE BONDHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.**

During recent years legislative proposals have been introduced in Congress, and in some cases enacted, that altered certain Federal tax consequences resulting from the ownership of obligations that are similar to the Series 2006 Bonds. In some cases these proposals have contained provisions that altered these consequences on a retroactive basis. Such alteration of Federal tax consequences may have affected the market value of obligations similar to the Series 2006 Bonds. From time to time, legislative proposals are pending which could have an effect on both the Federal tax consequences resulting from ownership of Bonds and their market value. No assurance can be given that legislative proposals will not be introduced or enacted that would or might apply to, or have an adverse effect upon, the Series 2006 Bonds.

**LITIGATION**

On the date of remarketing of the Series 2006 Bonds, counsel to the Restricted Group will render an opinion that, except as described in this Remarketing Circular, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending, or to the best of his knowledge after due inquiry threatened, against or affecting the Restricted Group, wherein an unfavorable decision, ruling or finding would materially adversely affect the Restricted Group, its financial condition or its ability to comply with its Obligations under the Financing Agreement, the Reimbursement Agreement or the Mortgage or the validity or enforceability of the Series 2006 Bonds, the Indenture, the Financing Agreement, the Reimbursement Agreement or the Mortgage.

On the date of remarketing of the Series 2006 Bonds, counsel to the Issuer will render an opinion that there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending, or to the best of their knowledge, after due inquiry of the Issuer, threatened against or affecting the Issuer, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Series 2006 Bonds, the Indenture or the Financing Agreement.

**LEGAL MATTERS**

In connection with the original issuance and delivery of the Series 2006 Bonds, Bryant Miller Olive P.A. rendered the Original Opinion of Bond Counsel, dated as of the date of original issuance and delivery of the Series 2006 Bonds, a copy of which is attached hereto as APPENDIX E. In connection with the substitution of the Liquidity and Credit Facility for the Original Standby Bond Purchase Agreement, Bond Counsel will render the Supplemental Opinion of Bond Counsel, a proposed form of which is attached hereto as APPENDIX E. Except with respect to the effect of the substitution of the Liquidity and Credit Facility as expressly stated in the Supplemental Opinion of Bond Counsel, Bond Counsel has not updated or supplemented the Original Bond Counsel Opinion and expresses no opinion as to the current or continuing exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds. The actual Supplemental Opinion of Bond Counsel to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Remarketing Circular or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion subsequent to its date.

Bond Counsel has not been engaged to, nor has it undertaken to, review (1) the accuracy, completeness or sufficiency of the Official Statement delivered in connection with the original issuance of

the Series 2006 Bonds or this Remarketing Circular or any other offering material relating to the Series 2006 Bonds; provided, however, that Bond Counsel will render an opinion to the Remarketing Agent (upon which only it may rely) relating to the accuracy of certain statements contained herein under the heading "TAX MATTERS" and certain statements which summarize provisions of the Indenture, the Mortgage, the Financing Agreement and the Series 2006 Bonds, and (2) the compliance with any federal or state law with regard to the sale or distribution of the Series 2006 Bonds. Certain legal matters will be passed upon for the Issuer by its counsel, McLin & Burnsed P.A., Leesburg, Florida, for the Restricted Group by its counsel Cauthen & Feldmen, P.A., Tavares, Florida, for the Remarketing Agent by its counsel, Nabors, Giblin & Nickerson, P.A., Tampa, Florida and for the Bank by its counsel Kirkpatrick & Lockhart Preston Gates Ellis LLP, New York, New York.

Bond Counsel, and Counsel to the Restricted Group, Issuer and the Remarketing Agent will receive fees for services rendered in connection with the remarketing of the Series 2006 Bonds, which fees are contingent upon the remarketing of the Series 2006 Bonds.

### **RATINGS**

Standard and Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") expect to assign their municipal bond ratings of " \_\_\_\_\_ " and " \_\_\_\_\_," respectively, to the Series 2006 Bonds with the understanding that the Bank will issue the Liquidity and Credit Facility simultaneously with the remarketing of the Series 2006 Bonds. Such ratings reflect only the view of such rating agency and further explanation of the significance of such ratings may be obtained from S&P at 55 Water Street, 38<sup>th</sup> Floor, New York, New York 10041-0003, (212) 438-2025 and from Moody's at 99 Church Street, New York, New York 10007-2796, (212) 553-0300. The ratings are not a recommendation to buy, sell or hold the Series 2006 Bonds and there is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of S&P or Moody's, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2006 Bonds. Neither the Remarketing Agent nor the Issuer has undertaken responsibility to bring to the attention of the holders of the Series 2006 Bonds any proposed revision or withdrawal of the ratings of the Series 2006 Bonds, or to oppose any proposed revision or withdrawal.

### **REMARKETING**

The Series 2006 Bonds are being remarketed by RBC Capital Markets pursuant to a Remarketing Agreement (the "Remarketing Agreement") among the Issuer, the Restricted Group and the Remarketing Agent. RBC Capital Markets, New York, New York, is the name under which RBC Dain Rauscher, Inc. performs underwriting and remarketing services. Pursuant to the Remarketing Agreement, RBC Capital Markets will remarket the Series 2006 Bonds for a remarketing fee of \$\_\_\_\_\_. The obligation of RBC Capital Markets to accept delivery of the Series 2006 Bonds is subject to the various conditions contained in the Remarketing Agreement. RBC Capital Markets will be obligated to remarket all of the Series 2006 Bonds if any Series 2006 Bonds are remarketed. The Series 2006 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2006 Bonds into investment trusts) at prices lower than the public offering prices, and such public offering prices may be changed, from time to time, by RBC Capital Markets without any requirements of prior notice.

## **REMARKETING AGENT**

Under a Remarketing Agreement (the "Remarketing Agreement"), by and between RBC Capital Markets and the Restricted Group, RBC Capital Markets is appointed as the initial remarketing agent (the "Remarketing Agent") for the Series 2006 Bonds. Under the Indenture, the Remarketing Agent may be removed by the Restricted Group at any time on 15 days' prior written notice by an instrument signed by the Restricted Group and the Bond Insurer and approved by the Liquidity and Credit Facility Provider. The Remarketing Agent may resign at any time by giving notice to the Issuer, the Restricted Group, the Trustee, the Tender Agent, the Bond Insurer and the Liquidity and Credit Facility Provider, such resignation to take effect on the 30<sup>th</sup> day after receipt by the Restricted Group of the notice of resignation. No resignation or removal of the Remarketing Agent will become effective prior to the date that a successor remarketing agent has been appointed by the Restricted Group and the Bond Insurer.

## **CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements of Leesburg Regional Medical Center, Inc. and subsidiaries as of June 30, 2007 and 2006 and for the years then ended, included in APPENDIX B to this Remarketing Circular, have been audited by Ernst & Young LLP, independent certified public accountants, as stated in their report appearing in APPENDIX B to this Remarketing Circular. Ernst & Young LLP has not performed any procedures in connection with the remarketing of the Series 2006 Bonds.

The consolidated financial statements include the Medical Center, LRMC Home Health, TVRH and Leesburg Regional Medical Center Charitable Foundation, Inc., a not-for-profit Florida corporation (the "Foundation"). The Foundation is not a Member of the Restricted Group and therefore any investment decision on the Series 2006 Bonds should be made without regard to such entity. As described in the section entitled "Financial Information" in APPENDIX A, the Foundation comprises less than [0.14]% of the total revenues for the year ended June 30, 2005 and [0.35]% of the total assets at June 30, 2007 indicated on the consolidated financial statements.

## **FLORIDA DISCLOSURE**

Section 517.051, Florida Statutes provides for an exemption from registration of certain governmental securities and require that, if an issuer or guarantor of governmental securities has been in default at any time after December 31, 1975 as to principal or interest on any obligation issued or guaranteed by it, securities of such issuer or guarantor may not be offered or sold in Florida in reliance upon said exemption except by means of an offering circular containing full and fair disclosure as prescribed by rules of the Florida Department of Banking and Finance (the "DBF"). Pursuant to the rules of the DBF, the prescribed disclosure is not required if the information is not an appropriate disclosure in that the information would not be considered material by a reasonable investor.

The Issuer has represented that it has not been in default in the payment of principal or interest after December 31, 1975, with respect to any obligation, except for conduit obligations described below, issued or guaranteed by the Issuer.

The Issuer has issued obligations in which the Issuer has acted merely as a conduit for payment and which do not constitute a general debt, liability or obligation of the Issuer, but are instead secured by payments to be made from certain users of bond-financed property.

The Issuer believes that any default with respect to any such conduit obligation issued by the Issuer (other than for a Member of the Restricted Group) would not be considered material by reasonable investors in the Series 2006 Bonds, and the Issuer consequently has not taken affirmative steps to contact the trustees of conduit bond issues to determine the existence of prior defaults. Nevertheless, to the best knowledge of the Issuer, the Issuer has no actual knowledge of any default in the payment of principal or interest after December 31, 1975 with respect to any conduit obligation issued or guaranteed by the Issuer.

The Restricted Group has represented that it has not been in default in the payment of principal or interest after December 31, 1975, with respect to any obligation issued or guaranteed by a Member of the Restricted Group.

### **CONTINUING DISCLOSURE**

Simultaneously with the original issuance of the Series 2006 Bonds, the Restricted Group and the Trustee entered into a Continuing Disclosure Agreement in the form attached hereto as APPENDIX H pursuant to which the Restricted Group covenanted for the benefit of the Bondholders and beneficial owners of the Series 2006 Bonds to provide audited financial statements of the Restricted Group and certain other financial information and operating data relating to the Restricted Group on an annual basis. The Restricted Group also provides copies of its quarterly unaudited, internally prepared financial statements promptly upon their becoming available, and a copy of the annual audited financial statements of the Restricted Group, when approved, to any holder or beneficial owner of at least \$1,000,000 in principal amount of the Series 2006 Bonds who shall have requested the same in writing filed with the Restricted Group. The Restricted Group is also obligated pursuant to the Continuing Disclosure Agreement to provide notice of the occurrence of certain specified material events to each Nationally Recognized Municipal Securities Information Repository or the Municipal Securities Rulemaking Board and any State Information Depository subsequently established in the State of Florida. Such information will be filed with each Nationally Recognized Municipal Securities Information Repository and any State Information Depository subsequently established in the State of Florida. See APPENDIX H -- "Form of Continuing Disclosure Agreement" for a description of the financial information and operating data required to be provided and other terms of the Continuing Disclosure Agreement.

The Restricted Group has represented that it has complied in all material respects with all prior undertakings made by it pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

### **MISCELLANEOUS**

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument. So far as any statements made in this Remarketing Circular involve matters of opinion or are estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

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**CERTIFICATE CONCERNING REMARKETING CIRCULAR**

The Restricted Group has reviewed the information contained herein and has approved the content and use of this Remarketing Circular.

This Remarketing Circular has been duly authorized, executed and delivered by the Issuer.

**CITY OF LEESBURG, FLORIDA**

**APPROVED:**

By:     /s/ Bob Lovell      
Mayor

**LEESBURG REGIONAL MEDICAL  
CENTER, INC.**

By:     /s/ Louis H. Bremer, Jr.      
President and Chief Executive Officer

**LRMC HOME HEALTH SERVICES, INC.**

By:     /s/ Louis H. Bremer, Jr.      
President and Chief Executive Officer

**THE VILLAGES TRI-COUNTY MEDICAL  
CENTER, INC. d/b/a  
The Villages Regional Hospital**

By:     /s/ Tim Menton      
President and Chief Executive Officer

**APPENDIX A**  
**The Restricted Group**

**APPENDIX B**  
**Consolidated Financial Statements**

**APPENDIX C**  
**Definitions**

**APPENDIX D**  
**Summary of Certain Provisions of the Indenture and Financing Agreement**

**APPENDIX E**  
**Copy of Original Approving Opinion of Bond Counsel**  
**and Form of Supplemental Opinion of Bond Counsel**

**APPENDIX F**  
**Specimen Financial Guaranty Insurance Policy**

**APPENDIX G**  
**Information related to the Bank**



The Bank of Nova Scotia ("Scotiabank" or the "Bank"), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America's premier financial institutions and Canada's most international bank. With 48,000 employees, Scotiabank and its affiliates serve over 10 million customers throughout the world.

Scotiabank provides a full range of personal, commercial, corporate and investment banking services through its network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and associated banks, trust companies and other financial firms.

For the fiscal year ended October 31, 2006, Scotiabank recorded total assets of CDN\$379.0 billion (US\$337.6 billion) and total deposits of CDN\$263.9 billion (US\$235.1 billion). Net income for the fiscal year ended October 31, 2006 equaled CDN\$3.579 billion (US\$3.188 billion), compared to CDN\$3.209 billion (US\$2.717 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 31, 2006 (1.0000 United States dollar equals 1.1227 Canadian dollars).

For the quarter ended July 31, 2007, Scotiabank recorded total assets of CDN\$408.1 billion (US\$382.5 billion) and total deposits of CDN\$287.0 billion (US\$269.0 billion). Net income for the quarter ended July 31, 2007 equaled CDN\$1.0 billion (US\$937 million), compared to CDN\$936 million (US\$877 million) for the same period the prior year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of Tuesday, July 31, 2007 (1.0000 United States dollar equals 1.0668 Canadian dollars).

Scotiabank will provide to anyone, upon written request, a copy of its most recent annual report, as well as a copy of its most recent quarterly financial report. Requests should be directed to: The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26<sup>th</sup> Floor, New York, NY, 10006. Attention: Public Finance Department.

The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery of this disclosure information by the Bank shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this disclosure information is correct as of any time subsequent to its date.

**APPENDIX H**  
**Form of Continuing Disclosure Agreement**