

XAVIER BECERRA  
Attorney General of California  
JAMES M. TOMA  
Supervising Deputy Attorney General  
ALICIA BERRY  
Deputy Attorney General  
State Bar No. 228367  
300 South Spring Street, Suite 1702  
Los Angeles, CA 90013  
Telephone: (213) 269-6550  
Fax: (213) 897-7605  
E-mail: Alicia.Berry@doj.ca.gov  
*Attorneys for*  
*Charitable Trusts*

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA

**In re:**

**VERITY HEALTH SYSTEMS OF  
CALIFORNIA, INC.,**

Debtor.

**v.**

CASE NO. 18-bk-20151-ER

Chapter: 11

**ATTORNEY GENERAL'S  
LIMITED OBJECTION TO  
DEBTORS' EMERGENCY  
MOTIONS FOR INTERIM AND  
FINAL ORDERS (A)  
AUTHORIZING THE DEBTORS  
TO OBTAIN POST PETITION  
FINANCING, (B) AUTHORIZING  
DEBTORS TO USE CASH  
COLLATERAL, (C) GRANTING  
ADEQUATE PROTECTION TO  
PREPETITION SECURED  
CREDITORS PURSUANT TO 11  
USC §§ 105, 363, 364, 1107, AND  
1110; MEMORANDUM OF  
POINTS AND AUTHORITIES IN  
SUPPORT THEREOF**

Hearing: October 3, 2018  
Time: 10:00 a.m.  
Courtroom: 1568  
Judge: Ernest M. Robles



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1 Xavier Becerra, Attorney General of the State of California, (California  
2 Attorney General) submits this Limited Objection to Debtors' Emergency Motions  
3 for Interim and Final Orders on the grounds that the relief sought may seek to use  
4 restricted charitable funds as cash collateral and may be used by the Debtors as a  
5 shield for compliance with applicable non-bankruptcy laws which protect the public  
6 health, safety, and welfare of the people of California.<sup>1</sup>

7 Xavier Becerra is the duly elected Attorney General of the State of California  
8 and is the chief law officer of the State. Cal. Const., art. V, § 13. The California  
9 Attorney General has broad constitutional, common law and statutory powers under  
10 the state constitution to protect the public. California Constitution, art. V, §13;  
11 *D'Amico v. Board of Medical Examiners* (1974)11 Cal.3d 1, 14-15. The California  
12 Attorney General is charged with the supervision and regulation of nonprofit  
13 corporations and other charitable trusts in this state. Cal. Govt. Code, § 12598.

14 As part of the California Attorney General's supervisory and regulatory  
15 authority, any nonprofit corporation that is subject to the Nonprofit Public Benefit  
16 Corporation Law (Cal. Corp. Code, § 5110 et seq.) and operates or controls a health  
17 facility is required to provide written notice to, and to obtain the written consent of,  
18 the California Attorney General prior to entering into any agreement or transaction  
19 to sell a material amount of its assets to a for-profit corporation. Cal. Corp. Code, §  
20 5914. The California Attorney General can consent, conditionally consent, or deny  
21 the proposed transaction or agreement. Cal. Corp. Code, §§ 5915, 5917.

22 In enacting Corporations Code section 5914, the California Legislature made  
23 findings and declarations:

24 (c) *Charitable, nonprofit health facilities have a substantial and*  
25 *beneficial effect on the provision of health care to the people of*  
26 *California*, providing as part of their charitable mission uncompensated  
care to uninsured low-income families, and under-compensated care to  
the poor, elderly, and disabled. (d) *Transfers of the assets of nonprofit,*

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27 <sup>1</sup> By filing this Limited Objection, the State of California does not waive its  
28 immunity under the Eleventh Amendment of the United States Constitution.

1 *charitable health facilities to the for-profit sector, such as by sale, joint*  
2 *venture, or other sharing of assets, directly affect the charitable use of*  
3 *those assets and may affect the availability of community health care*  
4 *services. Cal. Corp. Code, Ch. 9, Note, §1, Stats 1996 ch 1105, emphasis*  
5 *added.*

6 Here, the California Attorney General protected the health, safety, and welfare  
7 of the communities served by the six health facilities owned and controlled by the  
8 Debtors by issuing conditions requiring essential health care services to be provided  
9 by the facilities including emergency services, minimum levels of charity care (free  
10 or discounted care), minimum levels of community benefits, participation in the  
11 Medi-Cal and Medicare programs, and seismic safety. Debtors accepted all of the  
12 conditions imposed by the Attorney General's Decision issued on December 3,  
13 2015, and Debtors took possession and control over the health facilities.

14 The Attorney General's conditions make clear that they are legally binding on  
15 Daughters, Verity, the various hospital corporations, and any other subsidiary,  
16 parent, member, affiliate, successor, successor in interest, assignee, or person or  
17 entity serving in a similar capacity of any of the above-listed entities including, but  
18 not limited to, any entity succeeding thereto as a result of consolidation, affiliation,  
19 merger, or acquisition of all or substantially all of the real property or operating  
20 assets of any of the hospitals, or the real property on which any of the hospitals is  
21 located, any and all current and future owners, lessees, licensees, or operators of  
22 any of the hospitals, and any and all current and future lessees and owners of the  
23 real property on which the hospitals are located. (Condition I of the Attorney  
24 General's December 3, 2015 Decision, attached as Exhibit A.) Despite Debtors  
25 bankruptcy filing, the California Attorney General retains broad authority to protect  
26 the public by enforcing these conditions.

27 Because the emergency relief sought by Debtors may seek to use restricted  
28 charitable funds as cash collateral and may be used by the Debtors as a shield for  
compliance with applicable non-bankruptcy laws which protect the public health,  
safety, and welfare of the people of California, this Court's orders on these motions

1 should require the Debtors to comply with the conditions and state charitable trust  
2 law.

### 3 **STATEMENT OF RELEVANT FACTS**

#### 4 **I. GENERAL BACKGROUND**

5 1. In early 2014, the Daughters Board of Directors engaged an investment  
6 banking firm with experience in healthcare mergers and acquisitions to conduct a  
7 comprehensive offering of the health facilities that included five hospitals and a  
8 skilled nursing facility. Daughters' Board of Directors specified the following  
9 guiding principles for the proposed change of control: (a) protect the pensions of  
10 current employees, retired employees, and their beneficiaries; (b) repay major  
11 business partners, such as bondholders and vendors; (c) honor and assume the  
12 collective bargaining agreements held by the hospital corporations; and (d) obtain  
13 commitments to capital investments in the health facilities, and commitments to the  
14 continued provision of acute care services and indigent care, as well as to the  
15 continued participation in the Medi-Cal and Medicare programs, for the  
16 communities served by the health facilities. Seventy-two parties expressed interest  
17 and Daughters received 29 initial bids. By September 2014, Daughters had  
18 narrowed the field to four offers and chose Prime. However, Prime terminated the  
19 transaction agreement with Daughters before closing. Daughters hired the same  
20 investment banking firm and restarted the process. In April 2015, 14 bids were  
21 received. The Daughters Board of Directors narrowed the field to four offers and  
22 ultimately negotiated a System Restructuring and Support Agreement with  
23 BlueMountain.

24 2. In July 2015, Daughters entered into the System Restructuring and Support  
25 Agreement with BlueMountain. Included within the System Restructuring and  
26 Support Agreement were several supplemental agreements, including the Health  
27 System Management Agreement with Integrity.

28 3. On July 31, 2015, Daughters submitted written notice of the transaction to the

1 California Attorney General for review and approval. During the Attorney  
2 General's review of the transaction, a healthcare expert was retained to evaluate the  
3 potential impact of the transaction on the availability and accessibility of healthcare  
4 services to each of the communities served by the hospitals involved. The expert  
5 prepared five health care impact statements. These health care impact statements  
6 included interviews with medical staff, management, and employees, board  
7 members, and community representatives. These health care impact statements  
8 contained the expert's analysis of financial, utilization, and health care services,  
9 demographic characteristics, payer mix, hospital utilization records and trends,  
10 health status indicators, and hospital market share information in formulating an  
11 opinion regarding the potential impact of the transaction on the community. On  
12 December 3, 2015, the California Attorney General issued a decision to consent  
13 with conditions ("Decision") to the change in governance and control of Daughters  
14 of Charity Health System (now known as Verity Health Systems of California, Inc.)  
15 pursuant to the terms of the System Restructuring and Support Agreement entered  
16 into by and between Daughters of Charity Ministry Services Corporation,  
17 Daughters of Charity Health System (collectively "Daughters"), Certain Funds  
18 Managed by BlueMountain Capital Management, LLC, a Delaware limited liability  
19 company ("BlueMountain"), and Integrity Healthcare, LLC, a Delaware limited  
20 liability company ("Integrity"). The Decision contained five sets of conditions, one  
21 for each of the hospitals. (The first 15 pages of each of the conditions is attached as  
22 Exhibit A.)

23 4. The December 3, 2015 Decision incorporated the recommendations of the  
24 healthcare expert. Several conditions were already contained within the System  
25 Restructuring and Support Agreement, but were further formalized in the Attorney  
26 General's Decision (i.e., charity care for five years using similar existing charity  
27 care policies, the hospital would continue to operate as general acute care hospitals  
28 with emergency services, continuation of participation in the Medi-Cal and



1 Medicare programs, continuation of staff privileges.) Moreover, the vast majority  
2 of the California Attorney General's conditions relate to the health, safety, and  
3 welfare of the people of California: continued operation as licensed general acute  
4 care hospitals, continued provision of 24-hour emergency and trauma medical  
5 services, continued provision of certain essential health care services including  
6 reproductive health services, continued participation in the Medi-Cal and Medicare  
7 programs for low income, disabled and elderly patients, continued provision of  
8 charity care and community benefits, and the continuation of governmental  
9 contracts that provide access to care for indigent patients.

10 5. As part of the transaction, Daughters was renamed Verity Health System of  
11 California, Inc. ("Verity").

12 6. On August 21, 2018, Verity notified the California Attorney General of its  
13 intent to terminate its Health System Management Agreement with Integrity and  
14 requested authorization to directly retain and employ the same Integrity executives  
15 to manage the hospitals.

16 7. Condition II of the Attorney General's Decision requires the approval of the  
17 Attorney General and 60 days' notice of the rescission of any of the agreements  
18 within the transaction. The proposed termination of the Health System  
19 Management Agreement is currently under review by the California Attorney  
20 General.

21 8. On August 31, 2018, Verity and its nonprofit subsidiaries (collectively, the  
22 "Debtors") each filed a voluntary petition for relief under chapter 11 of the  
23 Bankruptcy Code.

24 9. Also on August 31, 2018, Debtors filed an Emergency Motion of Debtors for  
25 Interim and Final Orders (A) Authorizing the Debtors to Obtain Post Petition  
26 Financing (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting  
27 Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. 105,  
28 363, 364, 1107 and 1108 ("Motion to Authorize Post Petition Financing").

1 10. Verity is a California nonprofit public benefit corporation, as are its affiliate  
2 hospitals and their supporting foundations, whose bankruptcy petitions are jointly  
3 administered. These nonprofit public benefit corporations hold charitable gifts and  
4 assets that are restricted for specific purposes, such as funding the cardiac  
5 catheterization lab capital, wound care services, surgical services, and other  
6 programs. (Declaration of Richard Adcock in Support of Emergency First Day  
7 Motions [Dkt No. 8], ¶¶ 33, 35, 38, 41, and 44.)

8 11. On September 13, 2018, representatives from the California Attorney  
9 General's Office contacted Debtors' counsel to discuss a stipulation with respect to  
10 the restricted assets, and in the discussion Debtors' counsel agreed with the concept  
11 of a stipulation. A letter was sent to Debtors' counsel on September 14, 2018  
12 proposing the following language: "Debtors and the Attorney General agree that  
13 nothing in this order shall create or validate liens on or allow the use of any  
14 temporarily or permanently restricted assets held by Debtors for any purpose other  
15 than their restricted purpose. Further, Debtors and the Attorney General agree that  
16 the temporarily or permanently restricted assets held by Debtors are not property of  
17 the bankruptcy estate." However, as of the date of this opposition, Debtors'  
18 counsel has only indicated their preliminary disagreement with a carve out for  
19 temporarily restricted funds, but has yet to respond formally to the proposed  
20 stipulation; as such, no stipulation has been reached. On September 19, 2018, the  
21 Attorney General requested that Debtors provide a list of all restricted charitable  
22 funds held by Verity and each of its affiliates, the current amounts of each fund, and  
23 any documents concerning the restrictions for each fund (i.e., correspondence with  
24 donor, probate pleadings, wills or trusts, and board minutes).

25 12. At this time, the Attorney General does not have any other information, aside  
26 from the Adcock declaration, that may assist in the review of the temporarily and  
27 permanently restricted charitable funds.

28 13. Pursuant to the Court's Order Extending Time for Debtors to File Schedules of

1 Assets and Liabilities, Statements of Financial Affairs and Other Required  
2 Documents [Dkt No. 157] dated September 11, 2018, Debtors have until October  
3 14, 2018 to file a schedule of assets and liabilities and other financial statements.  
4 Thus, the absence of the Debtors' schedules at this juncture, particularly those  
5 related to restricted funds, hinders the Attorney General's evaluation of the relief  
6 requested in the motions.

7 14. The California Attorney General filed an Initial Limited Objection to Debtor's  
8 Emergency First Day Motions. The Attorney General opposed Debtors' motions to  
9 the extent Debtors did not specify that restricted assets would not be used as cash  
10 collateral for any post-petition financing. The Attorney General requested that the  
11 Court include the following carve out language regarding restricted assets:

12       Nothing in this order shall create or validate liens on or allow the use  
13       of any assets that are not assets of, or subject to being encumbered by,  
14       the debtors under applicable law. These assets may include, but are not  
15       limited to, restricted charitable funds.

16 The Attorney General also requested that the Court include language in its order to  
17 ensure that the conditions issued by the Attorney General in its December 3, 2015  
18 Decisions remain in effect, to wit:

19       Nothing in this order shall in any way diminish the obligation of any  
20       entity, including the debtors, to comply with applicable state law and  
21       conditions including, but not limited to, charitable trust laws and the  
22       conditions set forth in the California Attorney General's Decision  
23       dated December 3, 2015. Further, nothing in this order or the budget  
24       shall prevent the debtor from complying with any such obligations or  
25       conditions.<sup>2</sup>

26 15. At the hearing on the First Day Motions, including the Motion to Authorize to  
27 Post Petition Financing, the Court declined to adopt the language requested by the  
28 Attorney General, without prejudice.

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<sup>2</sup> Further, the order should clarify that any set-off or recoupment rights are not affected by the order.

## ARGUMENT

### II. DEBTORS HOLD ASSETS RESTRICTED FOR CHARITABLE PURPOSES

Debtors' cash collateral and debtor-in-possession financing motion (Dkt. No. 31) seek entry of final orders including provisions that inappropriately provide for liens on the charitable trust assets that are not subject to liens or other encumbrances.

Verity is a California nonprofit public benefit corporation, as are its affiliate hospitals and their supporting foundations, whose bankruptcy petitions are jointly administered. These nonprofit public benefit corporations hold charitable gifts and assets that are restricted for specific purposes, such as funding the cardiac catheterization lab capital, wound care services, surgical services, and other programs. (Declaration of Richard Adcock in Support of Emergency First Day Motions [Dkt No. 8], ¶¶ 33, 35, 38, 41, and 44.) According to the Adcock declaration, the restricted assets held by the Debtors total just under \$10 million.<sup>3</sup>

The Uniform Supervision of Trustees for Charitable Purposes Act defines "Trustee" as "any corporation or unincorporated association which has accepted property to be used for a *particular charitable purpose* as distinguished from the general purposes of the corporation or unincorporated association." (Gov. Code, § 12582, subd. (b).) Business and Professions Code section 17510.8, further imposes a charitable trust on funds collected for charitable purposes and a fiduciary duty on the part of any person soliciting on behalf of a charity to use charitable contributions for the declared charitable purposes for which they are sought.<sup>4</sup> (see also *Holt v. College of Osteopathic Physicians and Surgeons* (1964) 61 Cal.2d 750,

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<sup>3</sup> The Attorney General has not had an opportunity to review the underlying gift restrictions. As such, temporarily restricted assets and permanently restricted assets are both included in the calculation.

<sup>4</sup> Bus. & Prof. Code, § 17510.8 states in pertinent part: "The acceptance of charitable contributions by a charity or any person soliciting on behalf of a charity establishes a charitable trust and a duty on the part of the charity and the person soliciting on behalf of the charity to use those charitable contributions for the declared charitable purposes for which they are sought."

1 754.[“although the public in general may benefit from any number of charitable  
2 purposes, charitable contributions must be used only for the purposes for which  
3 they were received in trust.”]

4 Restrictions related to the use of funds can be based on donor-restrictions, or  
5 can be based upon the specific language used by charitable entities in solicitation  
6 campaigns. For instance, if a hospital foundation holds a fundraiser to support the  
7 oncology department– then donations received in support of the fundraiser are  
8 restricted for that specific purpose. These restricted gifts and assets are not to be  
9 used for any other purposes than their restricted purpose and should not be available  
10 to the DIP lender or to creditors unless specifically authorized in the restriction.

11 While the Attorney General has sought a stipulation with Debtors’ counsel  
12 that these temporarily and permanently restricted funds are not the property of the  
13 bankruptcy estate, no agreement has been reached. The Attorney General has also  
14 requested documentation pertaining to the restricted funds. Because the Attorney  
15 General has not had an opportunity to review any of the restrictions and Debtors  
16 have not moved for the reduction or elimination of any of the restrictions, the  
17 Attorney General reserves the right to identify additional restricted assets once  
18 Debtors have filed their Statements of Assets and Liabilities, and other financial  
19 documents have been provided for review.

20 **A. California Law Determines the Property of the Bankruptcy**  
21 **Estate**

22 California law determines whether restricted donations or property held in  
23 trust are property of the bankruptcy estate. *In re Save Our Springs (S.O.S.)*  
24 *Alliance, Inc.* citing *Barnhill v. Johnson*, 503 U.S. 393, 398 (1991); *Butner v. U.S.*,  
25 440 U.S. 48, 54 (1979) [“Congress has generally left the determination of property  
26 rights in the assets of a bankrupt’s estate to state law”]; *Gaughan v. Edward Dittlof*  
27 *Revocable Trust (In Re Costas)*, 555 F.3d. 790, 793 (9th Cir. 2009) [unless some  
28

1 federal interest requires a different result, the determination of property rights in the  
2 bankruptcy assets is left to state law].

3 Similarly, an Oregon bankruptcy court held the principal portion of an  
4 endowed fund was not part of the bankruptcy estate, finding that the debtor held  
5 legal but not equitable title to the funds under Title 11 U.S.C. section 541(d). *In Re*  
6 *Roman Catholic Archbishop of Portland in Oregon*, 345 B.R. 686, 705 (Bkrtcy. Or.  
7 2006.). However, the same Oregon bankruptcy court also held the charity's income  
8 portion of the endowed fund is part of the bankruptcy estate. The court held that  
9 "[T]he bankruptcy estate takes whatever interests a debtor has in property as of the  
10 petition date, subject to the same limitations and restrictions on the use of the  
11 property that existed prepetition. (*Id.*)

12 These restricted funds held by Debtor and its affiliate hospitals and  
13 foundations are held in a charitable trust, must be used for the restricted purposes,  
14 are not subject to liens or other encumbrances, are not available to cover operating  
15 expenses or other activities of the nonprofit corporation, and are not available for  
16 distribution to the general creditors, nor are they available to serve as cash  
17 collateral.

18 As such, the Attorney General requests the following language be included in  
19 the court's order to address the limitations under applicable non bankruptcy law  
20 regarding restricted assets:

21 Nothing in this order shall create or validate liens on or allow the use  
22 of any temporarily or permanently restricted assets held by Debtors for  
23 any purpose other than their restricted purpose. These temporarily and  
permanently restricted assets are not property of the bankruptcy estate.

24 **B. Federal Law is Consistent with California Law Regarding  
Restricted Charitable Assets**

25 Restricted donations to nonprofit corporations have been held not to be  
26 property of the bankruptcy estate and therefore were not available for distribution to  
27 the general creditors. *In re Save Our Springs (S.O.S.) Alliance, Inc.*, 388 B.R. 202,  
28 247-249 (Bkrtcy. W.D. Tex. 2008); *In re Parkview Hospital*, 211 B.R. 619, 634

(Bankr. N.D. Ohio 1997) [when a fund is held out as being “restricted,” and only the income generated from the principal could be utilized, this shows that the intent was mandatory]. These rulings are consistent with the Bankruptcy Code, which provides:

Notwithstanding any other provision of this title, property that is held by a debtor that is a corporation described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code may be transferred to an entity that is not such a corporation, but only under the same conditions as would apply if the debtor had not filed a case under this title. 11 U.S.C. § 541(f) (2016).

Here, the federal law is consistent with California law. Thus, the analysis of the Supreme Court in *Butner v. U.S.* is controlling. *Butner v. U.S.*, 440 U.S. 48, 54 (1979).

### **III. CARVE-OUT FOR COMPLIANCE WITH THE CALIFORNIA ATTORNEY GENERAL’S CONDITIONS**

Debtor’s cash collateral and debtor-in-possession financing motion (Dkt. No. 31) seeks entry of final orders that may also prevent the Debtors from complying with the California Attorney General’s conditions and enforcement of charitable trust law. Debtors are required by statute to operate its property, as a debtor-in-possession, in compliance with applicable state law.

Federal law is absolutely clear on this point. 28 U.S.C. § 959(b) provides, in pertinent part, that:

“a trustee . . . (or) a debtor in possession shall manage and operate the property in his possession . . . according to the requirements of the valid laws of the State in which such property is situated. . . .”

As such, the California Attorney General asks that any cash collateral and debtor-in-possession financing orders include a carve out compliance with the California Attorney General’s conditions and proposes the following language:

Nothing in this order shall in any way diminish the obligation of any entity, including the debtors, to comply with applicable state law and conditions including, but not limited to, charitable trust laws and the conditions set forth in the California Attorney General’s Decision

1 dated December 3, 2015. Further, nothing in this order or the budget  
2 shall prevent the debtors from complying with any such obligations or  
conditions.<sup>5</sup>

3 Dated: September 19, 2018

Respectfully submitted,

4 XAVIER BECERRA  
Attorney General of California  
5 JAMES M. TOMA  
Supervising Deputy Attorney General

6  
7 /s/ Alicia Berry  
8 ALICIA BERRY  
Deputy Attorney General  
9 *Attorneys for Charitable Trusts*

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<sup>5</sup> Further, the order should clarify that any set-off or recoupment rights are  
not affected by the order.



**Conditions to Change in Control and Governance of St. Francis Medical Center<sup>1</sup> and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC<sup>2</sup>, and Integrity Healthcare, LLC**

**I.**

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San

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<sup>1</sup> Throughout this document, the term “St. Francis Medical Center” shall mean the general acute care hospital located at 3630 East Imperial Highway, Lynwood, CA 90262, and any other clinics, laboratories, units, services, or beds included on the license issued to St. Francis Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

<sup>2</sup> The term “Certain Funds Managed by BlueMountain Capital Management, LLC” shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Monteners Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Francis Medical Center, or the real property on which St. Francis Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Francis Medical Center, and any and all current and future lessees and owners of the real property on which St. Francis Medical Center is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Francis Medical Center, or the real property on which St. Francis Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Francis Medical Center, and any and all current and future lessees and owners of the real property on which St. Francis Medical Center is located.

## II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

- a. Transitional Consulting Services Agreement dated July 17, 2015;
- b. Health System Management Agreement with Integrity Healthcare, LLC;
- c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
- d. Operating Asset Purchase Option Agreement;
- e. Operating Asset Purchase Agreement;

- f. Real Estate Purchase Option Agreement;
- g. Real Estate Purchase Agreement;
- f. Information Technology Lease Agreement; and
- g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

### **III.**

For fifteen years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center, and all future owners, managers, lessees, licensees, or operators of St. Francis Medical Center shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

- (a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of St. Francis Medical Center;
- (b) Transfer control, responsibility, management, or governance of St. Francis Medical Center. The substitution or addition of a new corporate member or members of St. Francis Medical Center or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of St. Francis Medical Center, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of St. Francis Medical Center or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of St. Francis Medical Center or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

#### IV.

For ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide 24-hour emergency and trauma medical services at no less than current<sup>3</sup> licensure and designation with the same types and/or levels of services, including the following:

- a. 46 emergency treatment stations at a minimum;
- b. Designation as a Level II Trauma Center and operating a Level II Trauma Center that complies with all requirements under California laws and regulations and Los Angeles County Emergency Medical Services Agency Prehospital Care Policies and Procedures;
- c. Designation as a 5150 Receiving Facility, as defined by the Welfare and Institutions Code, section 5150, for behavioral health patients under involuntary evaluation, and operating such a receiving facility that complies with all requirements under Welfare and Institutions Code, section 5150 and other California laws and regulations;
- d. Psychiatric evaluation team;
- e. Designation as an Emergency Department Approved for Pediatrics;
- f. Designation as a Paramedic Base Station, with the same number of assigned paramedic units that currently exists; and
- g. The annual maximum number of hours on diversion is 200 hours.

St. Francis Medical Center must give one-year advance written notice to the Los Angeles County Emergency Medical Services Agency and the California Department of Public Health if St. Francis Medical Center seeks to reduce trauma or trauma-related care services or stop operating the Level II Trauma Center after ten years from the closing date of the System Restructuring and Support Agreement.

#### V.

For at least ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall maintain on-call coverage contracts and/or comparable coverage arrangements with physicians at fair market value that are necessary to ensure trauma coverage, including the following specialty services:

- a. General surgery;
- b. Trauma surgery;
- c. Neuro-trauma surgery;
- d. Obstetrical/gynecological surgery;
- e. Orthopedic surgery;
- f. Trauma orthopedic surgery;

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<sup>3</sup> The term “current” or “currently” throughout this document means as of January 1, 2014.

- g. Vascular surgery;
- h. Cardiothoracic surgery;
- i. Plastic surgery;
- j. Ophthalmology;
- k. Otolaryngology;
- l. Anesthesia; and
- m. Urology.

## VI.

For at least ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall maintain, provide, and expand the following services at current licensure, types, and/or levels of services:

- a. Cardiac services, including at a minimum, three cardiac catheterization labs and the designation as a STEMI Receiving Center;
- b. Critical care services, including a minimum of 36 intensive care unit beds or 24 intensive care unit beds and 12 System Restructuring and Support observation beds;
- c. Advanced certification as a Primary Stroke Center;
- d. Neonatal intensive care services, including a minimum of 29 neonatal intensive care beds, and at minimum, maintaining a Level II Neonatal Intensive Care Unit;
- e. Women's health services, including women's imaging services;
- f. Cancer services, including radiation oncology;
- g. Pediatric services, including a minimum of 14 pediatric beds;
- h. Orthopedic and rehabilitation services;
- i. Wound care and hyperbaric medicine services;
- j. Reproductive health services and expand such services to include those prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops;
- k. Inpatient psychiatric services, including a minimum of 40 inpatient acute psychiatric beds; and
- l. Obstetric services, including a minimum of 50 obstetrics beds.

St. Francis Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

## VII.

For five years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall either: (1) operate the 1206(d) clinics (listed below) with the same number of physicians and mid-level provider full-time equivalents in the same or similar alignment structures (e.g., 1206(l) Medical Foundation), or (2) sell the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents in the and require the purchaser(s) to maintain such services for 5 years from the closing date of the

System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VIII, or (3) ensure that a third party is operating the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents and require the third party to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VIII. For any of these options, each clinic can be moved to a different location within a three-mile radius of each clinic's current location, and St. Francis Medical Center can utilize an alternative structure (e.g., Federally Qualified Health Center, physician office practice) in providing such services. The following 1206 (d) clinics are subject to this condition:

- a. Lynwood Clinic – Family Practice and Pediatrics, located at 3628 E. Imperial Highway, #303 in Lynwood;
- b. Downey Clinic – Family Practice and Pediatrics, located at 7840 Imperial Highway, Unit B, in Downey; and
- c. Orthopedics Clinic, located at 3628 E. Imperial Highway, #300, in Lynwood.

#### **VIII.**

For ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall:

- a) Be certified to participate in the Medi-Cal program;
- b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at St. Francis Medical Center to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:
  - i) Local Initiative: LA Care Health Plan or its successor; and
  - ii) Commercial Plan: Health Net Community Solutions, Inc. or its successor.

If St. Francis Medical Center questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

- c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at St. Francis Medical Center to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## IX.

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall provide an annual amount of Charity Care (as defined below) at St. Francis Medical Center equal to or greater than \$16,646,323 (the Minimum Charity Care Amount). For purposes hereof, the term “charity care” shall mean the amount of charity care costs (not charges) incurred by St. Francis Medical Center in connection with the operation and provision of services at St. Francis Medical Center. The definition and methodology for calculating “charity care” and the methodology for calculating “costs” shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.<sup>4</sup> St. Francis Medical Center shall use and maintain a charity care policy that is no less favorable than St. Francis Medical Center’s current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at St. Francis Medical Center shall be decided by the St. Francis Medical Center Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.

St. Francis Medical Center’s obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of St. Francis Medical Center’s fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at St. Francis Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Francis Medical Center shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic

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<sup>4</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, “the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.”

compliance as required in Condition XVI. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at St. Francis Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Francis Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in St. Francis Medical Center's service area (30 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once St. Francis Medical Center submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

## **X.**

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall provide an annual amount of Community Benefit Services at St. Francis Medical Center equal to or greater than \$1,362,680 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For eleven fiscal years, the following community benefit programs and services shall continue to be offered:

- a. Health Benefits Resource Center;
- b. Welcome Baby Program;
- c. Healthy Community Initiatives;
- d. St. Francis Career College's access for onsite training;
- e. Paramedic Training and Education; and
- f. Patient Transportation support.

The planning of, and any subsequent changes to, the community benefit services provided at St. Francis Medical Center shall be decided upon by the St. Francis Medical Center's Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.



St. Francis Medical Center's obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of St. Francis Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at St. Francis Medical Center for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Francis Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in St. Francis Medical Center's service area (30 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

## **XI.**

For at least ten years from the closing date of the System Restructuring and Support Agreement unless otherwise indicated, St. Francis Medical Center shall maintain its contracts and any amendments and exhibits thereto with the County of Los Angeles for services, including the following:

- a. Radiation Therapy Services Agreement;
- b. Impacted Hospital Program Agreement until terminated by Los Angeles County in June 2016;
- c. Department of Mental Health Legal Entity Agreement;
- d. Mental Health Services Agreement Contract Allowable Rate-Fee for Service Medi-Cal Acute Psychiatric Inpatient Services;
- e. EDAP Confirmation Agreement;
- f. Designation Agreement (72-Hours Evaluation and Intensive Treatment Facility);
- g. Paramedic Base Hospital Services Agreement;
- h. Trauma Center Services Agreement;
- i. Trauma Center Services Augmentation Agreement until terminated by Los Angeles County in December 2015;
- j. Nursing Affiliation Agreement; and
- k. Hospital Preparedness Program Agreement.

For at least ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall provide to the Los Angeles County Department of Health Services and Los Angeles County of Department of Mental Health information and documents

related to staffing assessments, clinical guidelines, services provided, and technology needs for St. Francis Medical Center. The goal is to ensure that St. Francis Medical Center's decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

## **XII.**

For ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall have a Local Governing Board of Directors. St. Francis Medical Center's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at St. Francis Medical Center. The members of the Local Governing Board shall include physicians from St. Francis Medical Center's medical staff, St. Francis Medical Center's Chief of Staff, one member designated by the Los Angeles County Board of Supervisors, and community representatives from St. Francis Medical Center's primary service area (30 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

## **XIII.**

Verity Health System of California, Inc. shall reserve or expend the \$180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

## **XIV.**

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

(f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

**XV.**

St. Francis Medical Center shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the St. Francis Medical Center's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

**XVI.**

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at St. Francis Medical Center through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

**XVII.**

Within sixty days of the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Los Angeles County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

St. Francis Medical Center's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the “Corporation” in the Conflict of Interest Policy shall be amended to “Corporation, or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC” and a portion of its “Financial Interest” definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in any of the following:
  - i. The Corporation; or
  - ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  - iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  - iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  - v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.’s Board of Directors or St. Francis Medical Center’s Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees’ meetings, it is required to obtain an fair

market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

### **XVIII.**

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the “Ethical and Religious Directives for Catholic Health Care Services” as determined by the United States Conference of Catholic Bishops, available at St. Francis Medical Center, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at St. Francis Medical Center. Both of these must be explicitly set forth in St. Francis Medical Center’s written policies, adhered to, and strictly enforced.

### **XIX.**

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, St. Francis Medical Center Foundation shall provide to the Attorney General’s Office an accounting of all charitable assets. Within 5 days of the Attorney General’s approval, St. Francis Medical Center Foundation shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

- a) The funds from St. Francis Medical Center Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation’s St. Francis Medical Center Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of St. Francis Medical Center’s service area (30 ZIP codes), as described on page 65 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated October 2, 2015. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.
- b) If there are funds from St. Francis Medical Center Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community Foundation’s Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

**XX.**

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of St. Francis Medical Center and the Chief Executive Officer at St. Francis Medical Center shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the St. Francis Medical Center's Board of Directors and the Local Governing Board.

**XXI.**

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

**XXII.**

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Conditions to Change in Control and Governance of St. Vincent Medical Center<sup>1</sup> and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC<sup>2</sup>, and Integrity Healthcare, LLC**

**I.**

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San

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<sup>1</sup> Throughout this document, the term “St. Vincent Medical Center” shall mean the general acute care hospital located at 2131 West Third Street, Los Angeles, CA 90057, and any other clinics, laboratories, units, services, or beds included on the license issued to St. Vincent Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

<sup>2</sup> The term “Certain Funds Managed by BlueMountain Capital Management, LLC” shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Monteners Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Vincent Medical Center, or the real property on which St. Vincent Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Vincent Medical Center, and any and all current and future lessees and owners of the real property on which St. Vincent Medical Center is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Vincent Medical Center, or the real property on which St. Vincent Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Vincent Medical Center, and any and all current and future lessees and owners of the real property on which St. Vincent Medical Center is located.

## II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

- a. Transitional Consulting Services Agreement dated July 17, 2015;
- b. Health System Management Agreement with Integrity Healthcare, LLC;
- c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
- d. Operating Asset Purchase Option Agreement;
- e. Operating Asset Purchase Agreement;



- f. Real Estate Purchase Option Agreement;
- g. Real Estate Purchase Agreement;
- f. Information Technology Lease Agreement; and
- g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

### **III.**

For fifteen years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center, and all future owners, managers, lessees, licensees, or operators of St. Vincent Medical Center shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

- (a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of St. Vincent Medical Center;
- (b) Transfer control, responsibility, management, or governance of St. Vincent Medical Center. The substitution or addition of a new corporate member or members of St. Vincent Medical Center or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of St. Vincent Medical Center, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of St. Vincent Medical Center or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of St. Vincent Medical Center or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

#### IV.

For five years from the closing date of the System Restructuring and Support Agreement unless otherwise stated, St. Vincent Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services at current<sup>3</sup> licensure, types, and/or levels of services:

- a. Twenty-four hour emergency medical services, including a minimum of 8 emergency beds/stations and 6 Fast Track treatment stations, and the requirements set by the County of Los Angeles Emergency Medical Services for 911 Receiving Hospitals;
- b. Acute rehabilitation services, including a minimum of 19 licensed acute rehabilitation beds;
- c. Intensive care/critical care services, including a minimum of 30 licensed intensive care beds;
- d. Cardiac services, including cardiac surgery and a minimum of 4 cardiac catheterization labs;
- e. Cancer services, including radiation therapy;
- f. Gastroenterology services;
- g. Imaging and laboratory services;
- h. Nephrology services, including end stage renal disease program, acute inpatient dialysis unit, and hemodialysis treatments;
- i. Neurology and neurotology services, including neurosurgery;
- j. Orthopedics, joint replacement, and spine care services;
- k. Transplant services, including kidney and multi-organ transplant procedures for kidney/pancreas double transplants; and
- l. Outpatient dialysis services within 5 miles of St. Vincent Medical Center by either (1) operating St. Vincent Dialysis Center, or (2) transferring St. Vincent Dialysis Center to a separate entity and requiring that entity to operate it for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII, or (3) ensuring that a third party is operating an outpatient dialysis center(s) at current levels for 5 years from the closing date of the System Restructuring and Support Agreement and that such center(s) participate in the Medi-Cal and Medicare programs as required in Condition VII.

St. Vincent Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

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<sup>3</sup> The term “current” or “currently” throughout this document means as of January 1, 2015.

**V.**

If St. Vincent Medical Center provides obstetrical services within five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall also provide reproductive health services including such services prohibited by the “Ethical and Religious Directives for Catholic Health Care Services” as determined by the United States Conference of Catholic Bishops.

**VI.**

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall either: (1) operate the 1206(d) clinics (listed below) with the same number of physicians and mid-level provider full-time equivalents in the same or similar alignment structures (e.g., 1206(l) Medical Foundation), or (2) sell the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents in the and require the purchaser(s) to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII, or (3) ensure that a third party is operating the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents and require the third party to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII. For any of these options, each clinic can be moved to a different location within a two-mile radius of each clinic’s current location, and St. Vincent Medical Center can utilize an alternative structure (e.g., Federally Qualified Health Center, physician office practice) in providing such services. The following 1206 (d) clinics are subject to this condition:

- a. Joint Replacement Institute, located at 2200 West 3<sup>rd</sup> Street in Los Angeles;
- b. Multi-Organ Transplant Center, located at 2200 West 3<sup>rd</sup> Street in Los Angeles;
- c. Spine Institute, located at 2200 West 3<sup>rd</sup> Street in Los Angeles;
- d. Cancer Treatment Center, located at 201 S. Alvarado Street in Los Angeles; and
- e. Cardiac Care Institute, located at 201 S. Alvarado Street in Los Angeles.

**VII.**

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall:

- a) Be certified to participate in the Medi-Cal program;
- b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at St. Vincent Medical Center to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services, without any loss,

interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:

- i) Local Initiative Plan: LA Care Health Plan or its successor; and
- ii) Commercial Plan: Health Net Community Solutions, Inc. or its successor.

If St. Vincent Medical Center questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at St. Vincent Medical Center to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

### **VIII.**

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide an annual amount of Charity Care (as defined below) at St. Vincent Medical Center equal to or greater than \$407,513 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by St. Vincent Medical Center in connection with the operation and provision of services at St. Vincent Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.<sup>4</sup> St. Vincent Medical Center shall use and maintain a charity care policy that is no less favorable than St. Vincent Medical Center's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at St. Vincent Medical Center shall be decided by the St. Vincent Medical Center Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

St. Vincent Medical Center's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of St. Vincent Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any,

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<sup>4</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XV. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in St. Vincent Medical Center’s primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered “unforeseen” for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once St. Vincent Medical Center submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General’s Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General’s Office.

## IX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide an annual amount of Community Benefit Services at St. Vincent Medical Center equal to or greater than \$1,018,762 (the “Minimum Community Benefit Services Amount”) exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

- a) Health Benefits Resource Center or similar services; and
- b) Asian Pacific Liver Center.

The planning of, and any subsequent changes to, the community benefit services provided at St. Vincent Medical Center shall be decided upon by the St. Vincent Medical Center’s Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

St. Vincent Medical Center’s obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of St. Vincent Medical Center’s fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in St. Vincent Medical Center’s primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

## X.

For at least five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall maintain its contracts and any amendments and exhibits thereto with the County of Los Angeles for services, including the following:

- a. Hospital Preparedness Program Agreement;
- b. Radiation Therapy Services Agreement; and
- c. Physician Post Graduate Training Agreement.

For at least five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide to the Los Angeles County Department of Health Services and Los Angeles County Department of Mental Health information and documents related to staffing assessments, clinical guidelines, services provided, and technology needs for St. Vincent Medical Center. The goal is to ensure that St. Vincent Medical Center's decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

## **XI.**

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall have a Local Governing Board of Directors. St. Vincent Medical Center's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the Definitive Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at St. Vincent Medical Center. The members of the Local Governing Board shall include physicians from St. Vincent Medical Center's medical staff, St. Vincent Medical Center's Chief of Staff, one member designated by the Los Angeles County Board of Supervisors, and community representatives from St. Vincent Medical Center's primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated December 24, 2014, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

## **XII.**

Verity Health System of California, Inc. shall reserve or expend the \$180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

## **XIII.**

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

(f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

**XIV.**

St. Vincent Medical Center shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the St. Vincent Medical Center's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

**XV.**

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at St. Vincent Medical Center through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

Verity Health System of California, Inc. shall commit the necessary capital investment required to refurbish St. Vincent Medical Center's elevators in order to meet the City of Los Angeles' Elevator Code.

**XVI.**

Within sixty days of the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Los Angeles County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.



St. Vincent Medical Center's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in any of the following:
  - i. The Corporation; or
  - ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  - iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  - iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  - v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System

Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or St. Vincent Medical Center's Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

#### **XVII.**

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at St. Vincent Medical Center, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at St. Vincent Medical Center. Both of these must be explicitly set forth in St. Vincent Medical Center's written policies, adhered to, and strictly enforced.

#### **XVIII.**

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, St. Vincent Foundation and St. Vincent Medical Center shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, St. Vincent Foundation and St. Vincent Medical Center shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from St. Vincent Medical Center and St. Vincent Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's St. Vincent Medical Center Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of St. Vincent Medical Center's primary service area (17 ZIP codes) and secondary service area (17 ZIP Codes), as described on page 62 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated December 24, 2014. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from St. Vincent Medical Center or St. Vincent Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community

Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

**XIX.**

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of St. Vincent Medical Center and the Chief Executive Officer at St. Vincent Medical Center shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the St. Vincent Medical Center Board of Directors and the Local Governing Board.

**XX.**

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II, shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

**XXI.**

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II, are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Conditions to Change in Control and Governance of St. Vincent Medical Center<sup>1</sup> and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC<sup>2</sup>, and Integrity Healthcare, LLC**

**I.**

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San

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<sup>1</sup> Throughout this document, the term “St. Vincent Medical Center” shall mean the general acute care hospital located at 2131 West Third Street, Los Angeles, CA 90057, and any other clinics, laboratories, units, services, or beds included on the license issued to St. Vincent Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

<sup>2</sup> The term “Certain Funds Managed by BlueMountain Capital Management, LLC” shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Monteners Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Vincent Medical Center, or the real property on which St. Vincent Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Vincent Medical Center, and any and all current and future lessees and owners of the real property on which St. Vincent Medical Center is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, “OpCo” a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and “PropCo” a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Vincent Medical Center, or the real property on which St. Vincent Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Vincent Medical Center, and any and all current and future lessees and owners of the real property on which St. Vincent Medical Center is located.

## II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

- a. Transitional Consulting Services Agreement dated July 17, 2015;
- b. Health System Management Agreement with Integrity Healthcare, LLC;
- c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
- d. Operating Asset Purchase Option Agreement;
- e. Operating Asset Purchase Agreement;

- f. Real Estate Purchase Option Agreement;
- g. Real Estate Purchase Agreement;
- f. Information Technology Lease Agreement; and
- g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

### **III.**

For fifteen years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center, and all future owners, managers, lessees, licensees, or operators of St. Vincent Medical Center shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

- (a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of St. Vincent Medical Center;
- (b) Transfer control, responsibility, management, or governance of St. Vincent Medical Center. The substitution or addition of a new corporate member or members of St. Vincent Medical Center or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of St. Vincent Medical Center, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of St. Vincent Medical Center or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of St. Vincent Medical Center or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

#### IV.

For five years from the closing date of the System Restructuring and Support Agreement unless otherwise stated, St. Vincent Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services at current<sup>3</sup> licensure, types, and/or levels of services:

- a. Twenty-four hour emergency medical services, including a minimum of 8 emergency beds/stations and 6 Fast Track treatment stations, and the requirements set by the County of Los Angeles Emergency Medical Services for 911 Receiving Hospitals;
- b. Acute rehabilitation services, including a minimum of 19 licensed acute rehabilitation beds;
- c. Intensive care/critical care services, including a minimum of 30 licensed intensive care beds;
- d. Cardiac services, including cardiac surgery and a minimum of 4 cardiac catheterization labs;
- e. Cancer services, including radiation therapy;
- f. Gastroenterology services;
- g. Imaging and laboratory services;
- h. Nephrology services, including end stage renal disease program, acute inpatient dialysis unit, and hemodialysis treatments;
- i. Neurology and neurotology services, including neurosurgery;
- j. Orthopedics, joint replacement, and spine care services;
- k. Transplant services, including kidney and multi-organ transplant procedures for kidney/pancreas double transplants; and
- l. Outpatient dialysis services within 5 miles of St. Vincent Medical Center by either (1) operating St. Vincent Dialysis Center, or (2) transferring St. Vincent Dialysis Center to a separate entity and requiring that entity to operate it for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII, or (3) ensuring that a third party is operating an outpatient dialysis center(s) at current levels for 5 years from the closing date of the System Restructuring and Support Agreement and that such center(s) participate in the Medi-Cal and Medicare programs as required in Condition VII.

St. Vincent Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

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<sup>3</sup> The term “current” or “currently” throughout this document means as of January 1, 2015.

**V.**

If St. Vincent Medical Center provides obstetrical services within five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall also provide reproductive health services including such services prohibited by the “Ethical and Religious Directives for Catholic Health Care Services” as determined by the United States Conference of Catholic Bishops.

**VI.**

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall either: (1) operate the 1206(d) clinics (listed below) with the same number of physicians and mid-level provider full-time equivalents in the same or similar alignment structures (e.g., 1206(l) Medical Foundation), or (2) sell the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents in the and require the purchaser(s) to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII, or (3) ensure that a third party is operating the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents and require the third party to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII. For any of these options, each clinic can be moved to a different location within a two-mile radius of each clinic’s current location, and St. Vincent Medical Center can utilize an alternative structure (e.g., Federally Qualified Health Center, physician office practice) in providing such services. The following 1206 (d) clinics are subject to this condition:

- a. Joint Replacement Institute, located at 2200 West 3<sup>rd</sup> Street in Los Angeles;
- b. Multi-Organ Transplant Center, located at 2200 West 3<sup>rd</sup> Street in Los Angeles;
- c. Spine Institute, located at 2200 West 3<sup>rd</sup> Street in Los Angeles;
- d. Cancer Treatment Center, located at 201 S. Alvarado Street in Los Angeles; and
- e. Cardiac Care Institute, located at 201 S. Alvarado Street in Los Angeles.

**VII.**

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall:

- a) Be certified to participate in the Medi-Cal program;
- b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at St. Vincent Medical Center to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services, without any loss,



interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:

- i) Local Initiative Plan: LA Care Health Plan or its successor; and
- ii) Commercial Plan: Health Net Community Solutions, Inc. or its successor.

If St. Vincent Medical Center questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at St. Vincent Medical Center to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

### **VIII.**

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide an annual amount of Charity Care (as defined below) at St. Vincent Medical Center equal to or greater than \$407,513 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by St. Vincent Medical Center in connection with the operation and provision of services at St. Vincent Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.<sup>4</sup> St. Vincent Medical Center shall use and maintain a charity care policy that is no less favorable than St. Vincent Medical Center's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at St. Vincent Medical Center shall be decided by the St. Vincent Medical Center Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

St. Vincent Medical Center's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of St. Vincent Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any,

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<sup>4</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XV. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in St. Vincent Medical Center’s primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered “unforeseen” for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once St. Vincent Medical Center submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General’s Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General’s Office.

## IX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide an annual amount of Community Benefit Services at St. Vincent Medical Center equal to or greater than \$1,018,762 (the “Minimum Community Benefit Services Amount”) exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

- a) Health Benefits Resource Center or similar services; and
- b) Asian Pacific Liver Center.

The planning of, and any subsequent changes to, the community benefit services provided at St. Vincent Medical Center shall be decided upon by the St. Vincent Medical Center’s Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

St. Vincent Medical Center’s obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of St. Vincent Medical Center’s fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in St. Vincent Medical Center’s primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

## X.

For at least five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall maintain its contracts and any amendments and exhibits thereto with the County of Los Angeles for services, including the following:

- a. Hospital Preparedness Program Agreement;
- b. Radiation Therapy Services Agreement; and
- c. Physician Post Graduate Training Agreement.

For at least five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide to the Los Angeles County Department of Health Services and Los Angeles County Department of Mental Health information and documents related to staffing assessments, clinical guidelines, services provided, and technology needs for St. Vincent Medical Center. The goal is to ensure that St. Vincent Medical Center's decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

## **XI.**

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall have a Local Governing Board of Directors. St. Vincent Medical Center's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the Definitive Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at St. Vincent Medical Center. The members of the Local Governing Board shall include physicians from St. Vincent Medical Center's medical staff, St. Vincent Medical Center's Chief of Staff, one member designated by the Los Angeles County Board of Supervisors, and community representatives from St. Vincent Medical Center's primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated December 24, 2014, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

## **XII.**

Verity Health System of California, Inc. shall reserve or expend the \$180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

## **XIII.**

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

(f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

**XIV.**

St. Vincent Medical Center shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the St. Vincent Medical Center's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

**XV.**

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at St. Vincent Medical Center through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

Verity Health System of California, Inc. shall commit the necessary capital investment required to refurbish St. Vincent Medical Center's elevators in order to meet the City of Los Angeles' Elevator Code.

**XVI.**

Within sixty days of the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Los Angeles County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

St. Vincent Medical Center's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in any of the following:
  - i. The Corporation; or
  - ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  - iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  - iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  - v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System

Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or St. Vincent Medical Center's Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

#### **XVII.**

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at St. Vincent Medical Center, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at St. Vincent Medical Center. Both of these must be explicitly set forth in St. Vincent Medical Center's written policies, adhered to, and strictly enforced.

#### **XVIII.**

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, St. Vincent Foundation and St. Vincent Medical Center shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, St. Vincent Foundation and St. Vincent Medical Center shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from St. Vincent Medical Center and St. Vincent Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's St. Vincent Medical Center Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of St. Vincent Medical Center's primary service area (17 ZIP codes) and secondary service area (17 ZIP Codes), as described on page 62 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated December 24, 2014. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from St. Vincent Medical Center or St. Vincent Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community

Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

**XIX.**

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of St. Vincent Medical Center and the Chief Executive Officer at St. Vincent Medical Center shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the St. Vincent Medical Center Board of Directors and the Local Governing Board.

**XX.**

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II, shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

**XXI.**

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II, are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.



**Conditions to Change in Control and Governance of Seton Medical Center<sup>1</sup> and Seton Coastside<sup>2</sup> and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC<sup>3</sup>, and Integrity Healthcare, LLC**

**I.**

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit

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<sup>1</sup> Throughout this document, the term "Seton Medical Center" shall mean the general acute care hospital located at 1900 Sullivan Ave., Daly City, CA 94015, and any other clinics, laboratories, units, services, or beds included on the license issued to Seton Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

<sup>2</sup> Throughout this document, the term "Seton Coastside" shall mean the skilled nursing facility with 5 general acute care beds located at 600 Marine Boulevard, Moss Beach, CA 94038-9641, and any other clinics, laboratories, units, services, or beds included on the license issued to Seton Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

<sup>3</sup> The term "Certain Funds Managed by BlueMountain Capital Management, LLC" shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Monteners Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Seton Medical Center and Seton Coastside, or the real property on which Seton Medical Center and Seton Coastside are located, any and all current and future owners, lessees, licensees, or operators of Seton Medical Center and Seton Coastside, and any and all current and future lessees and owners of the real property on which Seton Medical Center and Seton Coastside are located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, “OpCo” a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and “PropCo” a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Seton Medical Center and Seton Coastside, or the real property on which Seton Medical Center and Seton Coastside is located, any and all current and future owners, lessees, licensees, or operators of Seton Medical Center and Seton Coastside, and any and all current and future lessees and owners of the real property on which Seton Medical Center and Seton Coastside is located.

## II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support

Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

- a. Transitional Consulting Services Agreement dated July 17, 2015;
- b. Health System Management Agreement with Integrity Healthcare, LLC;
- c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
- d. Operating Asset Purchase Option Agreement;
- e. Operating Asset Purchase Agreement;
- f. Real Estate Purchase Option Agreement;
- g. Real Estate Purchase Agreement;
- f. Information Technology Lease Agreement; and
- g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

### III.

For fifteen years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside and all future owners, managers, lessees, licensees, or operators of Seton Medical Center and Seton Coastside shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

- (a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of Seton Medical Center or Seton Coastside;
- (b) Transfer control, responsibility, management, or governance of Seton Medical Center or Seton Coastside. The substitution or addition of a new corporate member or members of Seton Medical Center, Seton Coastside, or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of Seton Medical Center or Seton Coastside, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing bodies of Seton Medical Center, Seton Coastside, or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing bodies of Seton Medical Center, Seton Coastside, or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

#### IV.

For ten years from the closing date of the Definitive Agreement, Seton Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain, provide, and expand the following healthcare services at current<sup>4</sup> licensure and designation with the same types and/or levels of services:

- a. 24-hour emergency medical services, including a minimum of 18 emergency treatment stations;
- b. Cardiac services, including the 2 cardiac catheterization labs, including the designation as a STEMI Receiving Center;
- c. Intensive care and coronary care services, including a minimum of 20 intensive care and coronary care beds;
- d. Advanced certification as a Primary Stroke Center;
- e. Women's health services, Seton Breast Health Center, and women's imaging and mammography services; and
- f. Sub-acute services, including a minimum of 44 sub-acute beds and Medi-Cal Certification and Joint Commission Accreditation as a sub-acute unit.

Seton Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

#### V.

If Seton Medical Center provides obstetrical services within ten years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center shall also provide reproductive health services including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.

#### VI.

For at least five years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center shall maintain and provide the following services at current licensure, types, and/or levels of services:

- a. Gastroenterology services, including enteroscopy, endoscopy, and colonoscopy services;
- b. Cancer services, including inpatient oncology unit, interventional radiology, radiation therapy, and infusion services;
- c. Orthopedics and rehabilitation services, including joint replacement and spine care services;
- d. Diabetes services, including Northern California Diabetes Institute;

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<sup>4</sup> The term "current" or "currently" throughout this document means as of January 1, 2014.

- e. Wound care services, including Seton Center for Advanced Wound Care; and
- f. Nephrology services, including inpatient and outpatient dialysis services.

Seton Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

## **VII.**

For at least ten years from the closing date of the Definitive Agreement, Seton Coastsides shall maintain and provide the following services at current licensure, types, and/or levels of services at Seton Coastsides:

- a. 24-hour “standby” emergency services, with a minimum of 7 treatment stations; and
- b. Skilled nursing services, including a minimum of 116 licensed skilled nursing beds.

## **VIII.**

For ten years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastsides shall:

- a) Be certified to participate in the Medi-Cal program;
- b) Maintain and have a Medi-Cal Managed Care contract with San Mateo Health Commission dba Health Plan of San Mateo or its successor to provide the same types and levels of emergency and non-emergency services at Seton Medical Center and Seton Coastsides to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause.

If Seton Medical Center or Seton Coastsides questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General’s Office with at least 120 days’ notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

- c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Seton Medical Center and Seton Coastsides to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## IX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center, Seton Coastsides shall provide an annual amount of Charity Care (as defined below) at Seton Medical Center and Seton Coastsides equal to or greater than \$1,721,301 (the Minimum Charity Care Amount). For purposes hereof, the term “charity care” shall mean the amount of charity care costs (not charges) incurred by Seton Medical Center and Seton Coastsides in connection with the operation and provision of services at Seton Medical Center and Seton Coastsides. The definition and methodology for calculating “charity care” and the methodology for calculating “costs” shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.<sup>5</sup> Seton Medical Center and Seton Coastsides shall use and maintain a charity care policy that is no less favorable than Seton Medical Center’s and Seton Coastsides’s current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Seton Medical Center and Seton Coastsides shall be decided by the Seton Medical Center and Seton Coastsides Board(s) of Directors after consultation with the Local Governing Board(s) of Directors as set forth in Condition XIII.

Seton Medical Center’s and Seton Coastsides’s obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of Seton Medical Center’s and Seton Coastsides’s fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at Seton Medical Center and Seton Coastsides for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Seton Medical Center and Seton Coastsides shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency

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<sup>5</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, “the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.”

payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XVII. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at Seton Medical Center and Seton Coastsides for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Seton Medical Center and Seton Coastsides shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in Seton Medical Center's and Seton Coastsides's service area (14 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once Seton Medical Center and Seton Coastsides submit their Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, they may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

## X.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastsides shall provide an annual amount of Community Benefit Services at Seton Medical Center and Seton Coastsides equal to or greater than \$794,324 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

- a. Health Benefits Resource Center; and
- b. RotaCare Clinic.

The planning of, and any subsequent changes to, the community benefit services provided at Seton Medical Center and Seton Coastsides shall be decided upon by the Seton Medical Center's and Seton Coastsides's Board(s) of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XIII.

Seton Medical Center's and Seton Coastsides obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of Seton Medical Center's and Seton Coastsides fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at Seton Medical Center and Seton Coastsides for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Seton Medical Center and Seton Coastsides shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in Seton Medical Center's and Seton Coastsides service area (14 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

## **XI.**

For at least five years from the closing date of the System Restructuring and Support Agreement unless otherwise indicated, Seton Medical Center and Seton Coastsides shall maintain its contracts and any amendments and exhibits thereto with the County of San Mateo for services, including the following:

- a) Data Usage Agreements between San Mateo County and Seton Medical Center;
- b) Patient Transfer Agreement between San Mateo County Medical Center and Seton Medical Center;
- c) Agreement dated July 2013 (effective October 1, 2013) whereby the County of San Mateo agrees to provide financial support for Seton Medical Center in exchange for Seton Medical Center's agreement to maintain its role as a safety net provider in San Mateo County, unless otherwise terminated earlier by the County of San Mateo;
- d) San Mateo ACE Program Hospital Agreement; and
- e) Agreements with Local Hospitals and Healthcare Facilities Participating in the National Bioterrorism Hospital Preparedness Program Grant.



## **XII.**

Verity Medical Foundation shall continue to fulfill the terms of the following agreements and addendums thereto:

- a. Medi-Cal Medical Services Agreement Between San Mateo Health Commission and Referral Provider dated May 2014;
- b. Care Advantage Medical Services Agreement Between San Mateo Health Commission and Primary Care Physician dated July 2014;
- c. Medi-Cal Medical Services Agreement Between San Mateo Health Commission and Primary Care Physician dated July 2014;
- d. Healthworx Medical Services Agreement Between San Mateo Community Health Authority and Primary Care Physician dated July 2014;
- e. Healthworx Medical Services Agreement between San Mateo Community Health Authority and Referral Provider dated June 2014; and
- f. Care Advantage Medical Services Agreement Between San Mateo Health Commission and Referral Provider dated August 2014.

## **XIII.**

For ten years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside shall have a Local Governing Board(s) of Directors. Seton Medical Center's and Seton Coastside's Board(s) of Directors shall consult with the Local Governing Board(s) of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at Seton Medical Center and Seton Coastside. The members of the Local Governing Board(s) shall include physicians from Seton Medical Center's and Seton Coastside's medical staff, Seton Medical Center's and Seton Coastside's Chief(s) of Staff, one member designated by the San Mateo County Board of Supervisors, and community representatives from Seton Medical Center's and Seton Coastside's service area (14 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board(s)'s approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

**XIV.**

Verity Health System of California, Inc. shall reserve or expend the \$180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

**XV.**

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

(f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

**XVI.**

Seton Medical Center and Seton Coastsides shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the Seton Medical Center's and Seton Coastsides' medical staff, and such persons shall remain in good standing for the remainder of their tenure.

**XVII.**

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Seton Medical Center and Seton Coastsides through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070) including, but not limited to, a) construction of, completion of, and obtaining a Certificate of Occupancy by July 1, 2019 for a new Patient Tower at Seton Medical Center, with at least 104 beds for general acute care, perinatal care, and intensive care services, with at least 12 critical care beds and 8 perinatal beds, or b) retrofitting of and obtaining a Construction Final by July 1, 2019 for Seton Medical Center's current Patient Tower.

For building a new Patient Tower, Verity Health System of California, Inc. shall submit Construction Documents to OSHPD by September 30, 2016, shall obtain a building permit from OSHPD by September 30, 2017, and shall obtain a Certificate of Occupancy from OSHPD by July 1, 2019.

For retrofitting Seton Medical Center's current Patient Tower, Verity Health System of California, Inc. shall submit Construction Documents to OSHPD by September 30, 2016, shall obtain a building permit for retrofitting Seton Medical Center's current Patient Tower from

OSHPD by September 30, 2017, and shall obtain a Construction Final from OSHPD by July 1, 2019.

### **XVIII.**

Within sixty days of the closing date of the System Restructuring and Support Agreement, Seton Medical Center's and Seton Coastside's Board(s) of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Boards of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of San Mateo County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

Seton Medical Center's and Seton Coastside's Board(s) of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or

- Compensation arrangement with; or
- Other economic interest in any of the following:
  - i. The Corporation; or
  - ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  - iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  - iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  - v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or Seton Medical Center's and Seton Coastside's Board(s) of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

## **XIX.**

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at Seton Medical Center and Seton Coastside, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at Seton Medical Center and Seton Coastside. Both of these must be explicitly set forth in Seton Medical Center's and Seton Coastside's written policies, adhered to, and strictly enforced.

**XX.**

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, Seton Medical Center Foundation shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, Seton Medical Center Foundation shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from Seton Medical Center Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's Seton Medical Center Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of Seton Medical Center's and Seton Coastside's service area (14 ZIP codes), as described on page 65 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated October 2, 2015. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from Seton Medical Center Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

**XXI.**

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman(s) of the Board(s) of Directors of Seton Medical Center and Seton Coastside and the Chief Executive Officer(s) at Seton Medical Center and Seton Coastside shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the Seton Medical Center's and Seton Coastside's Board(s) of Directors and the Local Governing Board(s).

**XXII.**

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

**XXIII.**

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

**Conditions to Change in Control and Governance of Saint Louise Regional Hospital<sup>1</sup> and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC<sup>2</sup>, and Integrity Healthcare, LLC**

**I.**

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul

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<sup>1</sup> Throughout this document, the term "Saint Louise Regional Hospital" shall mean the general acute care hospital located at 9400 No Name Uno, Gilroy, CA 95020, and any other clinics, laboratories, units, services, or beds included on the license issued to Saint Louise Regional Hospital by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

<sup>2</sup> The term "Certain Funds Managed by BlueMountain Capital Management, LLC" shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Monteners Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Saint Louise Regional Hospital, or the real property on which Saint Louise Regional Hospital is located, any and all current and future owners, lessees, licensees, or operators of Saint Louise Regional Hospital, and any and all current and future lessees and owners of the real property on which Saint Louise Regional Hospital is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, “OpCo” a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and “PropCo” a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Saint Louise Regional Hospital, or the real property on which Saint Louise Regional Hospital is located, any and all current and future owners, lessees, licensees, or operators of Saint Louise Regional Hospital, and any and all current and future lessees and owners of the real property on which Saint Louise Regional Hospital is located.

## II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

- a. Transitional Consulting Services Agreement dated July 17, 2015;
- b. Health System Management Agreement with Integrity Healthcare, LLC;
- c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
- d. Operating Asset Purchase Option Agreement;



- e. Operating Asset Purchase Agreement;
- f. Real Estate Purchase Option Agreement;
- g. Real Estate Purchase Agreement;
- f. Information Technology Lease Agreement; and
- g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

### **III.**

For fifteen years from the closing date of the System Restructuring and Support Agreement, Saint Louis Regional Hospital, and all future owners, managers, lessees, licensees, or operators of Saint Louis Regional Hospital shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

- (a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of Saint Louis Regional Hospital;
- (b) Transfer control, responsibility, management, or governance of Saint Louis Regional Hospital. The substitution or addition of a new corporate member or members of Saint Louis Regional Hospital or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of Saint Louis Regional Hospital, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of Saint Louis Regional Hospital or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Saint Louis Regional Hospital or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

### **IV.**

For at least ten years from the closing date of the System Restructuring and Support Agreement, Saint Louis Regional Hospital shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain, provide, and expand the following 24-hour emergency medical services:

- a. 8 emergency treatment stations at a minimum; and
- b. Completion of the emergency expansion project that renovates the waiting area, triage spaces, registration, and adding four reclining chairs.

**V.**

For ten years from the closing date of the System Restructuring and Support Agreement unless otherwise stated, Saint Louise Regional Hospital shall maintain, provide, and expand the following health care services at current<sup>3</sup> licensure, types, and/or levels of services:

- a. Intensive Care Services, including a minimum of 4 intensive care beds;
- b. Coronary Care Services, including a minimum of 4 coronary care beds;
- c. Obstetric Services, including a minimum of 10 beds;
- d. Stroke services including telemedicine program for stroke patients and designation as a Primary Stroke Center;
- e. Women's services including pregnancy and delivery services, maternal fetal medicine, mammography, stereotactic breast biopsy, and bone density screening; and
- f. Reproductive health services and expand such services to include those prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.

Saint Louise Regional Hospital shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

**VI.**

For at least five years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall maintain and provide the following services at current licensure, types, and/or levels of services:

- a. Cancer services including medical and surgical;
- b. DePaul Urgent Care Center open and available to patients 7 days a week;
- c. Wound Care and Hyperbaric Medicine Services, including debridement, compression therapy, growth factor therapy, blood flow measurement, and hyperbaric oxygen therapy;
- d. Pulmonary Rehabilitation Program; and
- e. Asthma and diabetes education.

Saint Louise Regional Hospital shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

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<sup>3</sup> The term "current" or "currently" throughout this document means as of January 1, 2015.

## **VII.**

For at least ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value.

## **VIII.**

For ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall:

- a) Be certified to participate in the Medi-Cal program;
- b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at Saint Louise Regional Hospital to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:
  - i.) Local Initiative: Santa Clara Family Health Plan or its successor;
  - ii.) Local Initiative: Santa Clara Valley Health Plan or its successor; and
  - iii.) Commercial Plan: Anthem Blue Cross of California or its successor.

If Saint Louise Regional Hospital questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

- c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Saint Louise Regional Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

## **IX.**

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall provide an annual amount of Charity Care (as defined below) at Saint Louise Regional Hospital equal to or greater than \$1,863,857 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Saint Louise Regional Hospital in connection with the operation and provision of services at Saint Louise Regional Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be

the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.<sup>4</sup> Saint Louise Regional Hospital shall use and maintain a charity care policy that is no less favorable than Saint Louise Regional Hospital's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Saint Louise Regional Hospital shall be decided by the Saint Louise Regional Hospital Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.

Saint Louise Regional Hospital's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of Saint Louise Regional Hospital's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at Saint Louise Regional Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Saint Louise Regional Hospital shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XVI. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at Saint Louise Regional Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Saint Louise Regional Hospital shall pay an amount equal to the deficiency to one or more tax-exempt entities that

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<sup>4</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

provide direct health care services to residents in Saint Louise Regional Hospital's service area (7 ZIP codes), as defined on page 60 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once Saint Louise Regional Hospital submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

## **X.**

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall provide an annual amount of Community Benefit Services at Saint Louise Regional Hospital equal to or greater than \$873,145 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

- a. Health Benefits Resource Center;
- b. RotaCare Lab Tests;
- c. Nursing Professional Education; and
- d. Health Professional Education.

The planning of, and any subsequent changes to, the community benefit services provided at Saint Louise Regional Hospital shall be decided upon by the Saint Louise Regional Hospital's Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.

Saint Louise Regional Hospital's obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of Saint Louise Regional Hospital's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan

Statistical Area Base Period: 1982-84=100” (as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at Saint Louise Regional Hospital for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Saint Louise Regional Hospital shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in Saint Louise Regional Hospital’s service area (7 ZIP codes), as defined on page 60 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

## **XI.**

For at least ten years from the closing date of the System Restructuring and Support Agreement unless otherwise indicated, Saint Louise Regional Hospital shall maintain its contracts and any amendments and exhibits thereto with the County of Santa Clara for services, including the following:

- a. Hospital Designation Agreement By and Between the County of Santa Clara and Saint Louise Regional Hospital;
- b. Transfer Agreement Between County of Santa Clara and Saint Louise Regional Hospital For Neonatal and Pediatric Intensive Care Services;
- c. Agreement Between the County of Santa Clara and Saint Louise Regional Hospital For the Grant of Bioterrorism Hospital Preparedness Program;
- d. Agreement Between the County of Santa Clara and Saint Louise Regional Hospital For Use of Automated Vital Statistics System; and
- e. County of Santa Clara Hospital Mutual Aid System Memorandum of Understanding.

Saint Louise Regional Hospital shall request that the above-listed contracts be amended to remove any requirement to comply with and any reference to the “Ethical and Religious Directives for Catholic Health Care Services” as determined by the United States Conference of Catholic Bishops, if applicable.

For at least ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall provide to the Santa Clara County Public Health Department and Santa Clara County Mental Health Department information and documents related to staffing assessments, clinical guidelines, services provided, and technology needs for Saint Louise Regional Hospital. The goal is to ensure that Saint Louise Regional Hospital’s decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

## **XII.**

For ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall have a Local Governing Board of Directors. Saint Louise Regional Hospital's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at Saint Louise Regional Hospital. The members of the Local Governing Board shall include physicians from Saint Louise Regional Hospital's medical staff, Saint Louise Regional Hospital's Chief of Staff, one member designated by the Santa Clara County Board of Supervisors, and community representatives from Saint Louise Regional Hospital's primary service area (7 ZIP codes), as defined on page 60 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

## **XIII.**

Verity Health System of California, Inc. shall reserve or expend the \$180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

## **XIV.**

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

(f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

## **XV.**

Saint Louise Regional Hospital shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the Saint Louise Regional Hospital's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

**XVI.**

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Saint Louise Regional Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

**XVII.**

Within sixty days of the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Santa Clara County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

Saint Louise Regional Hospital's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Bylaws Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:



4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in any of the following:
  - i. The Corporation; or
  - ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  - iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  - iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  - v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or Saint Louise Regional Hospital's Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

## XVIII.

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at Saint Louise Regional Hospital, its medical office buildings, or at any of its facilities. There

shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at Saint Louise Regional Hospital. Both of these must be explicitly set forth in Saint Louise Regional Hospital's written policies, adhered to, and strictly enforced.

### **XIX.**

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, Saint Louise Regional Hospital Foundation shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, Saint Louise Regional Hospital Foundation shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from Saint Louise Regional Hospital Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's Saint Louise Regional Hospital Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of Saint Louise Regional Hospital's service area (7 ZIP codes), as described on page 60 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated October 2, 2015. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from Saint Louise Regional Hospital Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

### **XX.**

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of Saint Louise Regional Hospital and the Chief Executive Officer at Saint Louise Regional Hospital shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the Saint Louise Regional Hospital's Board of Directors and the Local Governing Board.

**XXI.**

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

**XXII.**

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.