Docket #0254 Date Filed: 9/21/2018

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Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,

Debtors and Debtors In Possession.

☒ Affects All Debtors
☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered With:
Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
Case No. 2:18-bk-20167-ER
Case No. 2:18-bk-20168-ER
Case No. 2:18-bk-20169-ER
Case No. 2:18-bk-20171-ER
Case No. 2:18-bk-20172-ER
Case No. 2:18-bk-20173-ER
Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Chapter 11 Cases

Hon. Ernest M. Robles

DEBTORS' NOTICE OF MOTION AND MOTION TO REJECT HEALTH SYSTEM MANAGEMENT AGREEMENT WITH INTEGRITY HEALTHCARE, LLC; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF RICHARD G. ADCOCK

Hearing:
Date: October 17, 2018
Time: 10:00 am Pacific
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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TO THE HONORABLE ERNEST M. ROBLES UNITED STATES BANKRUPTCY JUDGE, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS, THE CALIFORNIA ATTORNEY GENERAL, THE OFFICE OF THE UNITED STATES TRUSTEE, AND INTEGRITY HEALTHCARE, LLC:

PLEASE TAKE NOTICE that at the above referenced date, time and location, Verity Health System of California, Inc., a California nonprofit benefit corporation, and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, "VHS" or the "Debtors"), will move the Court for entry of an Order, pursuant to 11 U.S.C. § 365(a), authorizing VHS to reject the Health System Management Agreement (the "Management Agreement"), by and between VHS and Integrity Healthcare, LLC, a Delaware limited liability company, entered into as of December 14, 2015, pursuant to which Integrity provides management services to VHS. A true and correct copy of the Management Agreement is attached to the Motion as **Exhibit "A**." The Debtors have determined, in their business judgment, to reject the Management Agreement based on changed circumstances and their decision to implement a more cost effective management strategy in these cases. The rejection is retroactive to the petition date, August 31, 2018, because Integrity has not provided any services under the Management Agreement to the Debtors since the Petition Date.

PLEASE TAKE FURTHER NOTICE that this Motion is based on this Notice of Motion and Motion, the accompanying Memorandum Of Points And Authorities, the Declaration Of Richard G. Adcock In Support of First-Day Motions, filed August 31, 2018 (the "First-Day Declaration") [Docket No. 8], the attached Declaration Of Richard G. Adcock (the "Adcock Declaration"), supporting statements, arguments and representations of a counsel who will appear at the hearing on the Motion, the record in this case, and any other evidence properly brought before the Court in all other matters of which this Court may properly take judicial notice.

PLEASE TAKE FURTHER NOTICE that any party opposing or responding to the Motion must file and serve the response ("Response") on the moving party and the United States Trustee not later than 14 days before the date designated for the hearing. A Response must be a complete written statement of all reasons in opposition thereto or in support, declarations and

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copies of all evidence on which the responding party intends to rely, and any responding memorandum of points and authorities.

PLEASE TAKE FURTHER NOTICE that, pursuant to LBR 9013-1(h), the failure to file and serve a timely objection to the Motion may be deemed by the Court to be consent to the relief requested herein.

Dated: September 20, 2018

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By /s/ Samuel R. Maizel
SAMUEL R. MAIZEL

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MEMORANDUM OF POINTS AND AUTHORITIES

I.

INTRODUCTION

The Debtors, by and through their undersigned counsel, hereby file this Memorandum Of Points And Authorities in support of their motion (the "Motion") to reject the Management Agreement (as defined below) with Integrity Healthcare, LLC ("Integrity"), pursuant to 11 U.S.C. § 365(a). The Debtors have determined, in their business judgment, to reject the Management Agreement (as defined below) based on changed circumstances and their decision to implement a more cost effective management strategy in these cases. The Motion should be granted because the Debtors have found a far less expensive means by which to manage VHS, and, thus, rejection of the Management Agreement is in the best interest of the Debtors' bankruptcy estates ("Bankruptcy Estates"). Moreover, the Debtors seek that the rejection be retroactive to the petition date, because Integrity has not provided any services to the Debtors since the Petition Date.

II.

JURISDICTION

This Court has jurisdiction over this Motion under 28 U.S.C. § 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b) and may be heard and determined by the Bankruptcy Court. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicate for this Motion is 11 U.S.C. § 365(a).

III.

FACTS

A. General Background.

1. On August 31, 2018 ("Petition Date"), Verity Health System of California, Inc. and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, "VHS" or the "Debtors"), each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the

"Bankruptcy Code").[1] Since the commencement of their cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

2. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that operate six acute care hospitals: O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, and Seton Medical Center Coastside (collectively, the "Hospitals") and other facilities in the state of California.

3. VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operate as a nonprofit health care system, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, eleven medical office buildings, and a host of medical specialties, including tertiary and quaternary care. First-Day Decl., at 4, ¶ 12. On the Petition Date, the Debtors had approximately 850 inpatients. *Id.* at 6, ¶ 17. The scope of the services provided by the Verity Health System exemplified by the fact that in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. *Id.*, at 4, ¶ 12.

4. On September 14, 2018, the Office of the United States Trustee appointed an Official Committee of Unsecured Creditors in these chapter 11 Cases.

5. Prior to the Petition Date, the Hospitals and VMF were originally owned and operated by the Daughters of Charity of St. Vincent de Paul, Province of the West (the "Daughters of Charity"), to support the mission of the Catholic Church through a commitment to the sick and poor. First-Day Decl., at 21, ¶ 81. In June 2001, Daughters of Charity Health System ("DCHS") was formed. *Id.* at 22, ¶ 83. In 2002, DCHS commenced operations and was the sole corporate member of the Hospitals, which at that time were California nonprofit religious corporations. *Id.*

6. In 2015, DCHS marketed their health system for sale, and focused on offers that maintained the health system as a whole, and assumed all the obligations. First-Day Decl., at 23, ¶ 88. In July 2015, the DCHS Board of Directors selected BlueMountain Capital Management LLC

[1] All references to "§" or "section" herein are to the Bankruptcy Code, 11 U.S.C. §§ 101, *et seq.*, as amended.

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("BlueMountain"), a private investment firm, to recapitalize its operations and transition leadership of the health system to the new Verity Health System (the "BlueMountain Transaction"). *Id.*

7. In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 million to the hospital system, arrange loans for another $160 million to the health system, and manage operations of the health system, with an option to buy the health system at a future time. First-Day Decl., at 23, ¶ 89. In addition, the parties entered into a System Restructuring and Support Agreement (the "Restructuring Agreement"), DCHS's name was changed to Verity Health System, and Integrity Healthcare, LLC ("Integrity") was formed to carry out the management services under that certain Health System Management Agreement (the "Management Agreement"). *Id.*

8. On December 3, 2015, the California Attorney General approved the BlueMountain Transaction, subject to conditions. Adcock Decl., at 24, ¶ 91. Despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations, the health system did not prosper. *Id.* at ¶ 93.

9. In July 2017, NantWorks, LLC ("NantWorks") acquired a controlling stake in Integrity. Adcock Decl., at 24, ¶ 94. NantWorks brought in a new CEO, CFO, and COO. *Id.* NantWorks loaned another $148 million to the Debtors. *Id.*

10. Despite the infusion of capital and new management, it became apparent that the problems facing the Verity Health System could not be resolved without a formal court supervised restructuring. First-Day Decl., at 24, ¶ 95. Thus, despite VHS' great efforts to revitalize its Hospitals and improvements in performance and cash flow, the legacy burden of more than a billion dollars of bond debt and unfunded pension liabilities, an inability to renegotiate collective bargaining agreements or payor contracts, the continuing need for significant capital expenditures for seismic obligations and aging infrastructure, and the general headwinds facing the hospital industry, make success impossible. *Id.* at 24-25. Losses continue to amount to approximately $175 million annually on a cash flow basis. *Id.*

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11. Additional background facts on the Debtors, including an overview of the Debtors' business, information on the Debtors' capital structure and additional events leading up to these chapter 11 cases, are contained in the First-Day Declaration.

B. The Management Agreement.

12. As set forth above, Integrity was formed in 2015 to carry out the management services under the Management Agreement, for which Integrity is paid a monthly management fee. Through June 30, 2017, Integrity was wholly owned by BlueMountain. In July 2017, NantWorks acquired a 90% ownership interest in Integrity from BlueMountain. There were no significant changes to the terms of the Restructuring Agreement or the California Attorney General conditions as a result of this transaction. First-Day Decl. at ¶ 56.

13. As set forth above, on December 3, 2015, the California Attorney General approved the BlueMountain Transaction, subject to certain conditions, which included limits on transfers of control as explained below. *See* Letter from Wendi A. Horwitz, Deputy Attorney General, to John O. Chesley, Ropes & Gray LLP, Re: Proposed Change in Governance and Control of Daughters of Charity Health System, dated Dec. 3, 2015 (the "AG Conditions Letter"), available at https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/pdf/chs.pdf (last visited on Sept. 17, 2018).

14. The Management Agreement has a 15-year term, commencing December 14, 2015 (the term runs through December 13, 2030). The authority given to Integrity is very broad, as set forth in sections 1.1 through 1.6 (and particularly sections 1.4 and 1.5) of the Management Agreement. A copy of the Management Agreement is attached as **Exhibit "A."**

15. As set forth in the Management Agreement, as modified by an Amendment, Integrity provides a Chief Executive Officer ("CEO"), a Chief Operation Officer ("COO") and President, a Director of Medical and Clinical Affairs (generally referred to as the Chief Medical Officer (the "CMO") and a Chief Financial Officer ("CFO"). Integrity does not employ any other officials for VHS.

16. In exchange for providing the management services, VHS is obligated to make payments to Integrity. On a monthly basis, VHS records management fee expense and makes

payments to Integrity associated with the management services received under the Management Agreement. Adcock Decl., at ¶ 6.

17. During the initial fiscal year which ended June, 2016, the monthly management fee was determined based on a specified percentage of trailing 12 month operating revenues for VHS. Such management fees are adjusted each succeeding fiscal year based on changes in the consumer price index. *Id.*

18. As previously agreed to by Integrity, VHS defers payment for a portion of management fees based on its days' cash on hand over the most recent 90 day period. All deferred management fees accrue interest at 2.82% per annum to the extent such amounts are not paid in the fiscal year that services are received. Such deferred management fees are contingently payable based on the terms of the Management Agreement, which include annual calculations of excess cash on hand. First-Day Decl. at ¶ 57. Those payments over the last two-and-one-half years have been as follows:

Integrity Management Agreement
Summary of Fees, Deferrals and Payments
As of July 27, 2018

	FY 16	FY 17	FY18	FY19	Total
Total Fees	$32,215,313	$59,333,026	$60,282,355	$5,169,212	$156,999,906
Paid	16,107,656	29,666,513	17,582,354	1,292,303	64,648,826
Deferred	16,107,656	29,666,513	42,700,001	3,876,909	92,351,080
Interest Earned	-	454,236	1,315,855	221,244	1,991,335
Total Deferred and Interest		30,120,749	44,015,856	4,098,153	94,342,415

Notes:
1. The $1.26M management fee payments for May and June have not occurred yet. As such, these payments show up in the deferred balance for FY 18, however, upon payment these would shift from deferred to paid.
2. FY 16 fees only cover the partial period from Dec. 15' - June 16'

Adcock Decl. at ¶ 6.

C. Notice to the Attorney General.

19. As noted above, the Attorney General in connection with the 2015 recapitalization, imposed certain conditions upon VHS in regard to VHS terminating the Management Agreement.

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First, the Attorney General's conditions required that he be given 60 days' notice of a proposed modification or rescission of the Management Agreement:

> 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:
>
> * * *
>
> b. Health System Management Agreement with Integrity Healthcare, LLC;
>
> * * *
>
> 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.

AG Conditions Letter, at 2 (emphasis added).

20. Second, the Attorney General's conditions required that he be given 60 days' notice of any transfer of control or management:

> For 15 years from the closing of the System Restructuring And Support Agreement, [each hospital] and all future owners, managers, lessees, licensees, or operators of [each hospital] *shall be required to provide written notice to the attorney general 60 days prior to entering into any agreement or transaction* to do any of the following:
>
> * * *
>
> (b) *Transfer* control, responsibility, *management* or governance of [each hospital]. The substitution or addition of a new corporate member or members of [each hospital] or Verity Health System of California, Inc., that transfers the control of, responsibility for or governance of [each hospital] shall be deemed a transfer for purposes of this Condition.

AG Conditions Letter, at 3 (emphasis added).

21. Accordingly, on August 21, 2018, VHS' General Counsel, Elspeth Paul, gave notice in writing to Ms. Wendi Horwitz, the Deputy Attorney General responsible for such

transactions, of VHS' decision to terminate the Management Agreement and explained the reasons for the proposed termination of the Management Agreement:

> Since entry into the Management Agreement and imposition of the Attorney General's condition, Verity has experienced an unprecedented change in circumstances, facing tremendous, unexpected economic difficulties. Despite its extensive efforts to curb expenses and operate efficiently, Verity is now in a position where continued operation under the existing Management Agreement is economically impossible. As described above, a substantial amount of the fees owned under the Management Agreement remain deferred and unpaid. Further, given the virtual elimination of the role of BlueMountain, the current management structure is unnecessary.
>
> Verity has determined that the most efficient and effective solution for ongoing operations is for it to terminate the Management Agreement and directly retain and employ the individuals currently providing management services to it pursuant to the Management Agreement with Integrity, namely, the (i) Chief Executive Officer, (ii) Chief Operations Officer and President, (iii) Director of Medical and Clinical Affairs and (iv) Chief Financial Officer. By bringing these positions in-house, with management services provided directly by Verity employees, Verity believes it can reduce the financial strain facing the health system, while ensuring the continuity in management for Verity, to the benefit of our non-profit hospitals, patients, employees and the communities we serve. Put another way, Verity can receive the benefit of maintaining an ongoing (employment) relationship with the current executive management team without detrimentally impacting hospital operations or access to care, while eliminating significant costs.

Letter from Elspeth Paul, General Counsel, to Wendi Horwitz, Deputy Attorney General, dated Aug. 21, 2018 (the "Paul Letter")), attached hereto as **Exhibit "B**." The Paul Letter is also available at https://oag.ca.gov/charities/nonprofithosp#notice001 (last visited on Sept. 17, 2018).

D. Rejection of the Management Agreement.

22. As set forth in the Paul Letter and the Adcock Declaration, VHS has made the decision to terminate the Management Agreement and to employ directly (i) Richard G. Adcock as the CEO, (ii) Anthony Armanda as the COO, (iii) Anita Chou as the CFO, and (iv) Dr. Tirso del Junco, Jr., as the CMO. Their employment became effective on August 30, 2018. Adcock Decl. at ¶ 5.

23. Their combined compensation will be approximately $3.1 million, which will be a substantial savings from what VHS was paying Integrity in management fees to provide four Officers to VHS. Although management fees paid pursuant to the Management Agreement vary, on an annual basis rejection of the Management Agreement will save the Debtors approximately $20 million annually. Adcock Decl. at ¶¶ 7-8.

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IV.

ARGUMENT

A. The Debtor Has The Right To Reject Executory Contracts Pursuant To 11 U.S.C. § 365(a).

Section 365 provides that a debtor may reject an executory contract. 11 U.S.C. § 365. This section is meant to, among other things, permit the debtor to receive the economic benefits necessary for reorganization, as well as to avoid additional expenses from burdensome contracts for the ultimate benefit of the estate. *In re Robert L. Helms Constr. & Dev. Co., Inc.*, 139 F.3d 702 (9th Cir. 1998) (*en banc*). Moreover, "[a] bankruptcy court's hearing on a motion to reject is a summary proceeding that involves only a cursory review of a trustee's decision to reject the contract." *In re G.I. Industries, Inc.*, 204 F.3d 1276, 1280 (9th Cir. 2000). An executory contract is property of the estate. *Commc'ns v. Codex Corp. (In re Computer Commc'ns)*, 824 F.2d 725, 730 (9th Cir. 1987).

The Management Agreement is an executory contract, which is property of the Estates. An executory contract is "[a] contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance will constitute a material breach excusing the performance of the other." *Comm. Union Ins. Co. v. Texscan Corp. (In re Texscan Corp.)*, 976 F.2d 1269, 1272 (9th Cir. 1992); *Collingwood Grain, Inc. v. Coast Trading Co., Inc. (In re Coast Trading Co.)*, 744 F.2d 686, 692 (9th Cir. 1984).

Here, both the Debtor and Integrity have material unperformed obligations under the Management Agreement because the agreement remains in effect until December 13, 2030. Thus, Integrity has continuing obligations to provide management services and the Debtor has a continuing obligation to pay for those services. Based on the foregoing, there is no dispute that the Management Agreement is an executory contract.

B. The Rejection Of The Management Agreement Is Within The Debtors' Sound Business Judgment.

In reviewing a debtor in possession's decision to assume or reject an executory contract, a bankruptcy court should apply the "business judgment test" to determine whether to approve the

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assumption or rejection. *See NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 523, 104 S.Ct. 1188, 79 L.Ed.2d 482 (1984) (recognizing that the business judgment rule is used in reviewing motions to reject executory contracts); *Agarwal v. Pomona Valley Med. Grp., Inc. (In re Pomona Valley Med. Grp., Inc.)*, 476 F.2d 665, 670 (9th Cir. 2007). The business judgment standard requires that the bankruptcy court "presume that the debtor-in-possession acted prudently, on an informed basis, in good faith, and in the honest belief that the action taken was in the best interests of the bankruptcy estate." *Pomona Valley Med. Grp.*, 476 F.2d at 670. As a result, the bankruptcy court should approve rejection "unless it finds that the debtor-in-possession's conclusion that rejection would be 'advantageous is so manifestly unreasonable that it could not be based on sound business judgment, but only on bad faith, or whim or caprice." *Id.* (quoting *Lubrizol Enters. v. Richmond Metal Finishers*, 726 F.2d 1043, 1047 (4th Cir. 1985)).

Here, as set forth above, VHS has faced unprecedented economic difficulties since entry into the Management Agreement and imposition of the Attorney General's conditions. The continued operation under the existing Management Agreement is economically impossible. Moreover, given the virtual elimination of the role of BlueMountain, the current management structure is unnecessary. As set forth in the Paul Letter, VHS has concluded that the most efficient and effective solution is to terminate the Management Agreement and directly retain the individuals currently provided to manage VHS by Integrity. This would include the current CEO, CFO, COO and CMO. This will ensure continuity in management for VHS, to the benefit of its patients and operations, and will eliminate significant costs.

When the Attorney General imposed the condition related to the Management Agreement it was unforeseen that (a) the economics of VHS's operations would make the Management Agreement economically infeasible, and (b) BlueMountain would sell off its position, making the requirement of the Management Agreement unnecessary.

Given the foregoing, the Debtors' decision to reject the executory contract clearly falls within its sound business judgment. VHS will save substantial sums of money by employing the four executive officers directly, over the fees paid to Integrity for Integrity supplying four executive officers to VHS. The Debtor's overhead will be significantly reduced. *See, e.g., In re*

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Pomona Valley Medical Group, Inc., 476 F.3d 665 (9th Cir. 2007) (The court granted the debtors' motion, finding that "the rejection of the Agreement was in the best interests of the bankruptcy estate and its creditors."); *In re Health Plan of the Redwoods*, 286 B.R. 779, 780 (Bankr. N.D. Cal. 2002) (court grants motion to reject executory contract because the rejection would "put an end to continuing losses which have resulted from the contract" and "allow the debtor to significantly reduce its overhead"); *In re Turbowind, Inc*., 42 B.R. 579, 584-85 (Bankr. S.D. Cal. 1984) (granting motion to reject executory contract where agreement in question was "not cost efficient and there will be a duplication of effort and expense" and "the potential financial burden on the debtor outweighs any benefits to the estate").

Additionally, reducing VHS's expenses by rejecting the Management Agreement is within the sound business judgment of the Debtor because "the benefits of rejecting the [Management Agreement] far outweigh any benefits to the debtor from its continuation," and "there is a reasonable likelihood that the general creditors of the estate will derive substantial or significant benefit from the proposed rejection." *In re Turbowind*, 42 B.R. at 585. "Since the debtor has the right under the Bankruptcy Code to reject the contract, the court's discretion is limited once it has determined that the debtor is exercising sound business judgment." *In re Health Plan of the Redwoods*, 286 B.R. at 780. Consequently, because the Debtor's rejection of the Management Agreement is manifestly reasonable and within its sound business judgment, the Court should grant the Motion.

C. <u>The Rejection Should Be Retroactive To The Petition Date.</u>

This Motion should be granted retroactive to the Petition Date, since Integrity has provided no services under the Management Agreement since the Petition Date. Section 365 provides that "the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease . . . immediately before the date of the filing of the petition . . . ." 11 U.S.C. § 365(g)(1); *see also Bildisco*, 465 U.S. at 530; *Pomona Valley Med. Gp.*, 476 F.3d at 671 n.7; *Aslan v. Sycamore Inv. Co. (In re Aslan)*, 909 F.2d 367, 371-72 (9th Cir. 1990). In other words, the relief requested herein is statutorily authorized as *nunc pro tunc* to the Petition Date..

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V.

CONCLUSION

Based on the foregoing, the Debtor requests the (i) the entry of an order granting the Motion to reject the Management Agreement with Integrity pursuant to 11 U.S.C. § 365(a) retroactive to August 31, 2018, and (ii) granting such other and further relief as is just and proper.

Dated: September 18, 2018

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By: /s/*Samuel R. Maizel*
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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, declare, that if called as a witness, I would and could competently testify thereto, of my own personal knowledge, as follows:

1. I am the Chief Executive Officer for Verity Health Systems of California, Inc. ("VHS"). I became the Debtors' Chief Executive Officer effective January 2018. Prior thereto, I served as VHS's Chief Operating Officer since August 2017.

2. Except as otherwise indicated herein, this Declaration is based upon my personal knowledge, my review of relevant documents, information provided to me by employees of the Debtors and Integrity Healthcare, LLC ("Integrity") or the Debtors' legal and financial advisors, or my opinion based upon my experience, knowledge, and information concerning the Debtors' operations and the healthcare industry. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

3. This Declaration is in support of the Debtors' *Notice Of Motion And Motion To Reject Health System Management Agreement* ("Motion") and for all other purposes permitted by law.

4. The Debtor and Integrity entered into the Health Care Management Agreement on or about July 17, 2015 ("Management Agreement"). A true and correct copy of the Management Agreement is attached as Exhibit A.

5. VHS has made the decision to terminate the Management Agreement with Integrity. VHS will employ directly the four Officers that were previously supplied by Integrity to VHS. Those four Officers are a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer and Chief Medical Officer. I am and would continue to be the Chief Executive Officer, Anthony Armada is and would continue to be the Chief Operating Officer, Anita Chou is and would continue to be the Chief Financial Officer and Dr. Tirso del Junco, Jr., M.D. is and would continue to be the Chief Medical Officer.

6. In exchange for providing management services, VHS is obliged to make payments to Integrity. On a monthly basis, VHS records management fee expense and makes payments to Integrity associated with the management services received under the Management Agreement. During the fiscal year which ended June 2016, the monthly management fee was determined based on a specificed percentage of trailing 12 month operating revenues for VHS. Such management fees are adjusted each succeeding fiscal year based on changes in the consumer price index. As previously agreed to by Integrity, VHS defers payment for a portion of management fees based on its days' cash on hand over the most recent 90 day period. The fees payable pursuant to the Management Agreement have been substantial:

Integrity Management Agreement
Summary of Fees, Deferrals and Payments
As of July 27, 2018

	FY 16	FY 17	FY18	FY19	Total
Total Fees	$32,215,313	$59,333,026	$60,282,355	$5,169,212	$156,999,906
Paid	16,107,656	29,666,513	17,582,354	1,292,303	64,648,826
Deferred	16,107,656	29,666,513	42,700,001	3,876,909	92,351,080
Interest Earned	-	454,236	1,315,855	221,244	1,991,335
Total Deferred and Interest		30,120,749	44,015,856	4,098,153	94,342,415

Notes:
1. The $1.26M management fee payments for May and June have not occurred yet. As such, these payments show up in the deferred balance for FY 18, however, upon payment these would shift from deferred to paid.
2. FY 16 fees only cover the partial period from Dec. 15' - June 16'

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7. As set forth in the Chart, VHS has paid $64,648,826 for the last two-and-one-half years. In accordance with the Management Agreement, Integrity supplied four officers to VHS: the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Chief Medical Officer.

8. VHS will pay directly the four officers that Integrity provided to VHS. The total year's compensation payable by VHS for the four officers will be approximately $3.1 million.

I declare under penalty of perjury and of the laws in the United States of America, the foregoing is true and correct.

Executed this 18th day of September, 2018, at Los Angeles, California.

RICHARD G. ADCOCK

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EXHIBIT A - MANAGEMENT AGREEMENT

DENTONS US LLP
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(213) 688-1000

Execution Copy

HEALTH SYSTEM MANAGEMENT AGREEMENT

THIS HEALTH SYSTEM MANAGEMENT AGREEMENT (this "Agreement") is entered into on December 14, 2015 (the "Effective Date") by and between Integrity Healthcare, LLC, a Delaware limited liability company ("Manager"), and Verity Health System of California, Inc. ("Health System"). Manager and the Health System are sometimes collectively referred to herein as the "Parties" and individually referred to herein as a "Party."

WHEREAS, Health System engages in the business of delivering healthcare services to the public through the hospitals identified in Attachment I hereto (the "Hospitals") and its Affiliates (defined below) in furtherance of the mission of serving the sick and the poor by providing comprehensive healthcare services in and through the Affiliate's locations and operations;

WHEREAS, in the interest of avoiding a possible closure of the Hospitals and subsequent liquidation which more than likely would result in (i) Health System's failure to repay certain outstanding liabilities, including in respect of certain tax-exempt bonds issued by the California Statewide Community Development Authority (the "Revenue Bonds"), (ii) the loss of employment for the individuals who work for and with the Health System and (iii) the elimination of a hospital and emergency department in the applicable communities, among other results, Health System wishes to retain a qualified administrative manager for the purpose of providing certain management services to the Health System, and the businesses and operations of the Health System and for providing a Chief Executive Officer and certain other executive officers for the Health System;

WHEREAS, Manager acknowledges that its management of the Health System will be in a manner consistent with the charitable purposes (as set forth in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended) of the Health System and its tax-exempt Affiliates and the requirements of this Agreement;

WHEREAS, Health System desires to retain Manager to manage the Health System, and provide advice, counsel, and expertise to the Health System and to its Affiliates, and Manager desires to provide such services, on the terms set forth herein, and it is the Parties intent that the Agreement shall comply with all applicable legal requirements; and

NOW, THEREFORE, in consideration of the foregoing premises and the mutual representations, warranties, covenants, agreements and conditions hereinafter set forth, and intending to be legally bound hereby, each Party hereby agrees as follows:

ARTICLE I
DUTIES OF MANAGER AND HEALTH SYSTEM

1.1. Exclusive Appointment; Standard of Care.

1.1.1 Subject at all times to the ultimate supervision and authority of its Board of Directors, the Health System does hereby exclusively designate and appoint Manager as its sole and exclusive agent to provide and assume responsibility for the management, administrative and support services required under this Agreement, and Manager does hereby

accept such appointment and agrees to provide such administrative, support, and management services in accordance with the terms of this Agreement. The Parties acknowledge that the scope of both Manager's authority and duties to manage, administer, and support the Health System are limited to the authority and duties set forth in this Agreement, and as may otherwise may be limited by law.

1.1.2 Manager agrees with Health System that (a) it will execute its duties under this Agreement in a manner that exclusively furthers the charitable purposes of the Health System and its tax-exempt Affiliates as defined under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and as required under California law, and in a manner consistent with the terms and conditions of its agreements with the Health System, and that in connection with the Manager's execution of its duties under this Agreement, in the event of a conflict between business considerations and these charitable purposes, that the charitable purposes as articulated and determined by the Board of Directors of the Health System will control (the "Manager's Standard of Care"); and (b) Manager shall be acting as the agent of Health System in connection with the performance of its duties under this Agreement. Manager's Standard of Care and Manager's duties as agent to Health System are further subject to, and limited by, the terms and conditions of this Agreement and the Operating Limitations, and as may otherwise be limited by law. As Manager assists the Health System to achieve its business plan and goals, the Health System shall direct each of the Health System's Affiliates to cooperate with Manager to further the purpose and intent of this Agreement. Health System shall ensure that Manager shall be invited to attend all meetings of the Board of Directors or other governing body of each Health System's Affiliate, with the understanding and agreement that Manager shall be excluded from any executive sessions of any Board of Directors, or other governing body regarding confidential matters.

1.1.3 The Parties acknowledge that Manager's personnel and affiliates have significant experience in the business of providing management and operational services to acute care hospitals, as well as post-acute and other health care related facilities and businesses. In addition to direct management, Manager and its affiliates may at times in the future provide portfolio management services to BlueMountain Capital Management, LLC and its affiliates (hereunder referred to as "BlueMountain") with respect to health care related investments made by BlueMountain. In connection with these activities Manager, and its affiliates, including BlueMountain, have made and will continue to make, substantial investments in personnel, IT systems, risk management and other intellectual property assets and processes, all of which will be utilized by Manager in the furtherance of its obligations under this Agreement. Accordingly, Manager shall not be restricted from utilizing such assets, including Manager Employees (as defined in Section 1.4 below) in the furtherance of its obligations to the Health System under this Agreement as well as in the ordinary course of Manager's business with respect to health care facilities and related investments that are not part of the Health System. For the avoidance of doubt, System Employees (as defined in Section 1.4 below) shall not be utilized by Manager for any other purpose apart from the furtherance of its obligations to the Health System under this Agreement.

1.2. Applicable Laws. At all times during the Term (as defined below) of this Agreement, Manager shall not take or fail to take any action on behalf of the Health System in material violation of applicable Laws, including: (a) federal laws and regulations relating to the

participation by the Hospitals in the Medicare program or any other federal Health System benefit program; (b) state laws and regulations applicable to participation by the Hospitals in any state Medicaid program or any other state Health System benefit program; (c) state laws and regulations applicable to Manager; (d) applicable standards and requirements of accreditation organizations; (e) all other applicable federal, state and local laws and regulations, including those relating to the maintenance of exemptions from income and ad valorem taxes and the exclusion of interest on Bonds from gross income for tax purposes (except with respect to any Affiliate that is converted to a for-profit entity following the sale of assets of the Health System pursuant to the exercise of the purchase option(s) contemplated under those certain purchase option agreements entered into by and among the Health System's Affiliates and certain affiliate(s) of BlueMountain as of even date with the Effective Date (the "Option Agreements"); and (f) all other requirements relating to the provision of Management Services or payment for such services, including laws relating to confidentiality of patient-related information, and laws governing billing and collecting payments from payors and arrangements between providers and sources of referrals of patients, medical services or supplies. For purposes hereof, "Laws" means all federal, state, local, municipal, foreign, international, multinational or other statutes or laws (including common law), ordinances, rules, treaties, codes or regulations and all decrees, injunctions, judgments, orders, rulings, assessments or writs of any applicable Governmental Authority, and "Governmental Authority" means any federal, state or local or any foreign government, legislature, governmental entity, regulatory, administrative authority, agency or commission or any court, tribunal, or judicial or arbitral body.

1.3. System Employees. Pursuant to this Agreement, Manager shall act in a professional, competent and efficient manner and shall assist the Health System and its Affiliates in their efforts through its Affiliates to provide a quality of service consistent with and comparable to other licensed and accredited acute care hospitals in and around Los Angeles, Santa Clara and San Mateo Counties, California. In connection therewith, and subject to budgetary limitations and personnel allocations described below, Manager shall provide management services for the continuing operation of the Health System by, among other things, supervising, overseeing, and directing (including but not limited to the right to hire, discipline, suspend, lay off and/or terminate) Health System personnel, including Health System officers, employed by Health System and required in support of the Health System (the "Employees"). Manager shall employ and provide a Chief Executive Officer, Chief Operating Officer, Director of Medical and Clinical Affairs, and a Chief Financial Officer (collectively referred to as "Manager Executives") for the Health System. Manager may also employ additional personnel with respect to financial reporting, risk management and systems integration and other administrative functions (together with Manager Executives hereunder referred to as "Manager Employees"), some of whom may be employees of Manager and some of whom may be employees of affiliates of Manager, including but not limited to employees of BlueMountain, to further assist Manager in the performance of its obligations under this Agreement. Absent an agreement of Manager and the Health System to the contrary, all other members of executive management and personnel shall be and remain employees of the Health System, the Hospitals, its Affiliates or their respective subsidiary foundations ("System Employees"). Manager shall be restricted from utilizing or directing System Employees for any other purpose apart from the furtherance of its obligations to the Health System under this Agreement. The Chief Operating Officer, Director of Medical and Clinical Affairs, and Chief Financial Officer of the Health Systems and the Hospitals' officers (including the CEOs of the Hospitals, the President and

Chief Medical Officer of Verity Medical Foundation (f/k/a DCHS Medical Foundation), and other executives and officers of the Health System's Affiliates and Caritas Business Services) will report to the Chief Executive Officer of the Health System, and to the respective Board of Directors of his or her employer.

1.4. Management Services. Subject to the provisions of this Agreement and the direction and oversight of the Health System's Board of Directors, at all times during the Term of this Agreement, Manager shall have the exclusive right to provide such services as Health System determines to be necessary or appropriate for the management, support, and administration of the Health System (collectively, the "Management Services"). The Management Services will include oversight, supervision, direction, implementation or performance of any or all of the following, on behalf of the Health System and, related to the Health System's Affiliates for consultation, advice, recommendations, and performance improvement plans for the Health System, as appropriate, with respect to the following:

(a) hiring, orientation, training, evaluation, and termination, of all of the Employees and contractors of Health System or Manager in support of the Management Services;

(b) on behalf of Health System, employing or engaging a qualified executive to serve as the Chief Executive Officer of the Health System;

(c) leasing and maintenance of the real property and the repair or construction of equipment as required by the terms of this Agreement;

(d) billing for medical care, products, and services provided by the Health System and its Affiliates, to the general public rendered before (as necessary) or after the Effective Date of this Agreement, collection of revenue for such care, products, and services (subject to any limitations set forth in Article III below) and settlement or compromise of any such amounts;

(e) financial management and accounting services for the Health System;

(f) preparation of policies, procedures, and other materials and all communications and public relations regarding the Health System;

(g) credentialing or certification activities on behalf of Health System physicians and other licensed medical care professionals;

(h) contract negotiations with payors on behalf of Health System;

(i) preparation of periodic reports pertaining to the Health System;

(j) preparation of quarterly and annual operating and capital budgets for the Health System, to be reviewed and approved by the Board of Directors of Health System;

(k) development planning and activities of the Health System, including pursuit of joint partnerships, clinical affiliations, co-management arrangements, and the like;

(l) provision of all patient care initiatives as required under the regulations and standards for the Health System;

(m) timely payment of all rents, insurance, taxes, operating costs and all other costs and expenses relating to operation of the Health System, before delinquency or penalty, including payments due and owing by Health System relating to the Revenue Bonds;

(n) timely payment and administration of all Retirement Plans, the Multiemployer Plans and health and welfare plans;

(o) recommendations with respect to pension structure, asset monetization or other activities designed to improve the financial well-being of the Health System; and

(p) establishing credit in Manager's own name or in the name of the Health System, and purchasing in its own name or in the name of the Health System or the Health System's Affiliates all supplies and other items necessary for the efficient operation of the Management Services.

Notwithstanding the above, to the extent Management Services relate to Hospital deficiencies arising prior to the Effective Date, Manager shall use commercially reasonable efforts to implement for the Health System, and develop for the Health System's Affiliates, appropriate corrective action plans, as necessary, but shall not be held responsible for said deficiencies, if any.

The scope and nature of the Management Services may be modified and/or expanded from time to time as set forth in a business plan approved by the Board of Directors of the Health System. However, in no event will Health System seek to diminish or duplicate the Management Services or responsibilities of Manager hereunder.

1.5. Management Initiatives and Improvements. Subject to the provisions of this Agreement, at all times during the Term of this Agreement, Manager shall use commercially reasonable efforts to improve upon the overall performance of Health System as Manager and Health System together determine may be necessary or appropriate based on their consideration of the mission of Health System and the scope of the Management Services; such commercially reasonable improvement efforts may include the following categories of improvement activities:

(a) *Financial Management Objectives.* Manager shall use commercially reasonable efforts to:

1. Organize the functions of revenue and receivables management, cash management, payroll and human resources management, capital management, supply chain management, reimbursement, budgeting, decision support, general accounting, including

accounts payable, purchasing and cashiering, and information technology services;

2. Prepare financial reports for the Health System and evaluate financial and cost reports for the Health System's Affiliates;

3. Prepare department operating budgets for purposes of maximizing operational efficiencies and propose for approval all budgets from the applicable Affiliate Board of Directors;

4. Monitor the financial and operating performance of any Health System activity;

5. Analyze and/or recommend changes as necessary with respect to the operating performance of Health System, and to permit income necessary to support Health System activities, and on behalf of Health System to supervise and direct the Health System's Affiliates in making such of those changes as are authorized or delegated by Health System or otherwise set forth in this Agreement and applicable bylaws of the Health System's Affiliates; and

6. Oversee third parties who may be retained to assist in expediting payment of overdue accounts.

(b) *Quality Assurance and Utilization Review.* Manager shall use commercially reasonable efforts with respect to the Health System to direct and oversee, and related to the Health System's Affiliates to provide analysis, expertise, advice, recommendations, and consultation to the Health System with respect to:

1. the Health System utilization management and quality assurance oversight mechanisms;

2. Education of Hospital physicians and Health System personnel concerning inappropriate utilization of care or delivery of medical services;

3. the Health System policies and procedures relating to the quality of patient care services as it relates to compliance with licensing and accreditation requirements;

4. the preparation and conduct of surveys by the Joint Commission and/or any other national, state or local agency; and

5. Management and improvement of quality indicators for core measures and HCAHPS, and develop effective means for communicating to the Health System feedback from the community and physicians regarding quality and effectiveness of the Health System's quality and patient satisfaction programs.

(c) *Health System Facilities and Infrastructure Improvements.* Manager shall use commercially reasonable efforts to:

1. Direct the Health System in the continuous and ongoing maintenance and repair of physical facilities in the Health System, including, without limitation, roofs, walls, HVAC systems, furniture and equipment, in order to maintain standards of operation at least equivalent to those prevailing as of the Effective Date, normal wear and tear excepted, which activities will include addressing any seismic compliance considerations; and

2. Direct the maintenance, improvements and strategies related to the Health System IT system and its components; and

3. Engage in long-term facilities planning with and for the Health System and the Health System's Affiliates.

1.6. Scope of Authority. Manager shall have the power and authority to do any and all actions that Manager determines, subject to the ultimate supervision of the Board of Directors of the Health System, but in consideration of any applicable reserved powers which may be held by the Health System as required by law or otherwise agreed by the parties, to be necessary, advisable, or proper, consistent with the terms of this Agreement and all applicable Laws, to provide the services pursuant to this Agreement to manage, administer or support the Health System. Nothing in this Agreement shall be deemed or interpreted to permit or cause the delegation or transfer of any responsibility or obligation required of, or by, the Board of Directors of the Health System or operational control of any of its Affiliates under applicable laws of the State of California or the United States of America. It is the Parties' intent to develop, adopt, and maintain in effect during the Term an appropriate authority matrix, which may change over time, as reasonable and necessary to carry out the purpose of this Agreement. As of the Effective Date, the Parties have agreed upon and adopted the System Authority Matrix attached hereto as Exhibit A (the "System Authority Matrix"). The System Authority Matrix shall be reviewed by the Parties on a periodic basis, not less frequently than once every three (3) years during the Term. Manager is hereby expressly authorized to subcontract for the provision of any of the Management Services that Manager performs under this Agreement; provided, however, that Manager may only subcontract or delegate Management Services to an affiliate of Manager with prior written notice to Health System and notwithstanding any such delegation or subcontract, Manager shall remain liable under the terms of this Agreement. Notwithstanding any provision to the contrary herein, Manager shall not delegate or subcontract any of its material obligations under this Agreement to any Person (including an affiliate of Manager) without the prior written consent of the Board of Directors of the Health System (which consent shall not be unreasonably withheld, conditioned, or delayed). Health System shall ensure that each Affiliate shall, from time to time, at Manager's request, execute and deliver, or cause to be executed and delivered, such further instruments or other documents, and perform such further acts, as Manager may reasonably require to fully perform the Management Services in accordance with this Agreement.

1.7. Confidentiality of Medical Records. Manager shall comply with all applicable Laws, all policies and procedures adopted by the Health System's Affiliates, and all state and federal rules and regulations in effect from time to time during the Term of this Agreement, regarding the confidentiality of patient medical records and information. Without limiting the foregoing: (a) each of the Parties agrees to comply with its obligations as a covered entity under the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 and regulations promulgated thereunder by the Department of Health and Human Services ("HHS") (collectively, "HIPAA"), including the HIPAA Privacy Rule, 45 CFR Parts 160 and 164, the HIPAA Security Rule, 45 CFR Parts 160, 162 and 164, the Health Information Technology for Economic and Clinical Health Act ("HITECH Act"), and regulations promulgated thereunder by HHS, including requirements related to security and privacy of patient information, and standard electronic transactions, code sets and identifiers; and (b) Manager agrees to comply with the obligations of the HIPAA Business Associate Addendum, executed by the Manager, the Health System and certain Affiliates on July 17, 2015, attached hereto as Exhibit B.

1.8. Ownership of Recorded Media. Except as expressly set forth herein, or in other written agreements between the Parties, neither Party shall acquire any ownership right or interest in any of the other Party's property, assets or interests, including such Party's software, databases, servers, hardware, or any other tangible or intangible property or assets (such as goodwill or going concern value) or any Affiliate's intellectual property or electronic patient records.

1.9. Report Requirements. Manager shall prepare and make available to Health System monthly reports for the Health System, including profit and loss statements, to be available to Health System by the 30th day of the following month. Year-end profit and loss statements, as well as information required for preparation of applicable tax returns, shall be available to Health System and, at Health System's direction, to its accountants prior to 45 days into the year following the year for which they are prepared. With the assistance of each Affiliate and necessary Health System personnel, Manager shall prepare and file on a complete and timely basis all reports, certificates, and other filings required under continuing disclosure agreements applicable to the Health System and under the Master Indenture of Trust, dated as of December 1, 2001, from Health System and the Initial Affiliates of the Obligated Group (as defined therein) to U.S. Bank Trust National Association, as amended and supplemented, and any other agreements relating to indebtedness of Health System. In addition, at the Health System's request, Manager shall make available to such Affiliate the following: (a) all required federal or state agency reports required in connection with the operation of the Health System; (b) all inspection reports, correspondence and notices from all state licensing agencies relating to the Health System; and (c) all correspondence and notices from all lenders and insurers relating to the Health System. Health System shall direct the Health System's Affiliates to provide: (i) payroll and quarterly tax reports; (ii) payroll information (including issuance of W-2s); and (iii) the items described at (a) through (c) in the foregoing sentence, within ten (10) days of Manager's receipt of same.

1.10. Manager Insurance. During the Term of this Agreement, Manager shall, at Manager's expense, maintain comprehensive general liability insurance coverage, written by a commercial carrier reasonably acceptable to Health System, with respect to its provision of

services at the Health System pursuant to this Agreement, with commercially reasonable limits of liability and either with a fidelity endorsement or a separate crime policy. Each Affiliate shall be named as an additional insured on any commercial liability insurance policies maintained by Manager hereunder, unless as set forth below, the insurance policy involved is a policy issued to the Health System on which Manager is a named insured. Manager shall provide Health System with a certificate evidencing the foregoing insurance coverage at the Effective Date, and shall not cancel such coverage without at least 30 days' prior written notice to the Health System. As an alternative to the foregoing requirements, Manager may elect to become a named insured on policies issued to Health System providing the same coverages as set forth above.

1.11. Health System Insurance. Health System and its Affiliates shall have obtained and shall maintain in full force and effect comprehensive general liability insurance coverage, written by a commercial carrier that would be reasonably acceptable to hospitals in California, with commercially reasonable limits of liability, which are not less than the limits which exist as of the Effective Date, and either with a fidelity endorsement or a separate crime policy, and shall maintain other adequate insurance for the Health System and its operations, including professional liability and malpractice coverage, director and officer liability coverage and fiduciary liability coverage. In the event Health System fails to obtain the insurance set forth in this Section 1.11, then Manager shall obtain this insurance consistent with the insurance referenced in Section 1.11 above.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

2.1. General Capacity to Perform. Manager hereby represents and warrants to Health System that, and Health System (on behalf of its itself and each of the Health System's Affiliates for purposes of (a) and (b)) hereby represents and warrants to Manager that, it: (a) has the full power and authority to own its property and to carry on its business as now being conducted; (b) is duly qualified to do business in and is in good standing in the State of California; and (c) has the full power and authority to execute and deliver this Agreement and to perform and comply with its terms, conditions and agreements, all of which have been duly authorized by all proper and necessary corporate or limited liability company action, as applicable.

2.2. Specific Capacity to Perform. Manager hereby represents and warrants to Health System that, and Health System hereby represents and warrants to Manager that, this Agreement has been duly executed and delivered by its proper and authorized officers and constitutes the valid and legally binding obligation of such Party. Manager further represents and warrants, and Health System is relying upon such representation and warranty, that Manager possesses the skill, knowledge and resources required to fulfill its obligations under this Agreement. Further, Manager represents, warrants and covenants that it will at all times maintain all required governmental approvals required to perform the Management Services.

2.3. Compliance with Legal Requirements. Manager hereby represents and warrants to Health System that, and Health System (on behalf of its itself and each of the Health System's Affiliates) hereby represents and warrants to Manager that, it has and shall maintain throughout the Term of this Agreement all appropriate federal and state governmental approvals

which are required in order for such party to perform the services required of it under this Agreement. Health System further represents and warrants that each Affiliate is currently enrolled as a provider in good standing with the Medicare and Medi-Cal programs.

2.4. Government Payment Programs; Excluded Individuals. Manager hereby represents and warrants to Health System that, and the Health System (on behalf of itself and each of the Health System's Affiliates) hereby represents and warrants to Manager that, (a) it has not been suspended or excluded from participation in the Medicare or Medi-Cal programs or is otherwise subject to any restriction upon its participation therein, (b) no corporate affiliate or owner (as applicable), director, manager, officer, employee or contractor of such Party is, or is proposed to be, suspended, excluded from participation in, or sanctioned under, any federal or state health insurance program (including Medicare and Medicaid) (an "Excluded Individual"), (c) it has not been convicted of any criminal offense related to the delivery of any medical or health-related services or supplies, or related to the neglect or abuse of patients, and (d) it is not unable to obtain or maintain liability insurance consistent with commercially reasonable industry practices. The Health System (on behalf of its itself and each of the Health System's Affiliates) further represents and warrants that it has not received any notice of investigation by any governmental or regulatory agency in connection with its activities or those of the Hospitals as a provider under the Medicare and Medi-Cal programs.

2.5 Non-Interested Person Representation of Manager. Manager hereby represents that as of the Effective Date it has no financial interest and is not an "Interested Person" (as defined in Internal Revenue Service Form 1023) as it may relate to any third party contractor or vendor of the Health System or any Affiliate. Manager further represents that in the event Manager becomes an Interested Person during the Term of this Agreement, Manager shall make this disclosure to Health System.

ARTICLE III
LEGAL RESPONSIBILITIES

3.1. Staff Licenses. Health System shall ensure that all Employees as of the Effective Date shall have all appropriate licenses and certifications in the State of California and any medical or professional staff privileges at the Affiliates required in order for such Employees to perform the functions assigned to them by Health System.

3.2. Legal Compliance. Manager and Health System shall take all necessary steps to fully comply with the applicable Laws in the performance of their duties, powers and responsibilities hereunder, and shall seek to maintain such compliance at all times.

3.3. Monthly Debt Service Schedule. Health System shall provide Manager with a schedule of all principal and interest payments due with respect to indebtedness with respect to the Health System and the method for calculating interest with respect to such indebtedness.

ARTICLE IV
APPLICATION OF FUNDS; MANAGEMENT FEES

4.1. Application of Funds; Management Compensation.

4.1.1 Manager shall be entitled to receive compensation for the Management Services rendered pursuant to this Agreement based on a Management Fee Percentage ("MFP") equal to 4.00% based on consolidated financial statements for the Health System and the Affiliates ("Consolidated Statements") as follows ("Manager Compensation"):

(a) A fixed monthly fee for the period commencing on the Effective Date and ending on the last day of the fiscal year (the "Initial Year") in which the Effective Date occurs, equal to one-twelfth of the MFP of the greater of (i) Operating Revenues of the Health System for the trailing twelve (12) months as of June 30, 2015, or (ii) Operating Revenues for the trailing twelve (12) months as of October 31, 2015 (such monthly fee, as adjusted herein, the "Fixed Monthly Fee"). As of the first day of the fiscal year following the Initial Year and on the first day of each successive fiscal year thereafter, the Fixed Monthly Fee shall automatically adjust to equal the Fixed Monthly Fee in effect for the immediately prior fiscal year multiplied by one (1) plus the change from the immediately prior fiscal year in the greater of (x) the CPI, or (y) zero. Health System agrees to engage and consult with Deloitte & Touche LLP for the purpose of determining the Fixed Monthly Fee in accordance with this Section 4.1.1(a), which shall be subject to approval by the Health System's Board of Directors. Integrity and the Health System shall use commercially reasonable efforts to ascertain (and obtain Board of Director approval for) the Fixed Monthly Fee for the Initial Year on or before January 8, 2016.

4.1.2 For any period in respect of which Management Services are provided that is not a full month, the Manager Compensation shall be determined on a prorated basis according to the number of days in the month. Notwithstanding any provision to the contrary in this Agreement or the System Restructuring and Support Agreement, the pro-rated payment of the first Fixed Monthly Fee due under this Agreement shall be paid at the Closing (as defined under the System Restructuring and Support Agreement) (the "Initial Fixed Monthly Fee Payment"). The Initial Fixed Monthly Fee Payment, representing Manager Compensation that the Parties estimate will be earned by Manager for the period from the Effective Date through and including December 31, 2015, shall equal $1,450,000.00 and be reflected as such on the closing/settlement statement agreed to by Manager and Health System in connection with the Closing. Manager and Health System acknowledge and agree that the Initial Fixed Monthly Fee Payment is an estimate only and shall be subject to reconciliation on or before January 8, 2016 based on the actual Fixed Monthly Fee for the period commencing on the Effective Date and ending on December 31, 2015 as determined in accordance with Section 4.1.1(a).

4.1.3 Except as otherwise provided below, Manager Compensation shall be due and payable to Manager monthly in advance on the 10th day of each month during the Term.

4.1.4 Notwithstanding the foregoing, as of the Effective Date, the Fixed Monthly Fee will be deferred and paid as provided below.

(a) From the Effective Date and continuing thereafter through the Initial Year and the second fiscal year from the Effective Date:

1. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, exceeds fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 2.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; however

2. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, does not exceed fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 1.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; and

(b) Beginning the first day of the third fiscal year from the Effective Date:

1. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, exceeds fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 2.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; however

2. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, does not exceed fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 1.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; and

3. Upon the issuance of the audit for the most recently ended fiscal year but no later than 150 days after the end of the prior fiscal year, Operating Revenues over the sum of Cash Operating Expenses, Pension Funding Obligations, Capital Expenditures and Debt Service shall be calculated for that prior fiscal year, and, to the extent of any excess, all amounts currently deferrable or previously deferred pursuant to

paragraphs 4.1.4(a) and 4.1.4(b)(1-2) and not previously paid pursuant to this paragraph 4.1.4(b)(3) shall be paid to the extent of such excess. Any payments made pursuant to this subparagraph 3 shall be made only to the extent that the payment, does not result in Days' Cash on Hand going below fifteen (15) days. The calculation to be made under this subsection will be made not later than ten (10) business days following the issuance of the audit. Payments will be made within one business day of the approval of the Board of Directors of the Health System. If Fixed Monthly Fees are deferred for any particular period, they are considered for payment along with other accruing Fixed Monthly Fees in the next ensuing period for payment as follows: (i) Fixed Monthly Fees that are deferred under the provisions of Subsection (b)(3) above are only considered quarterly if the thresholds set forth therein have been met; and (ii) Fixed Monthly Fees deferred under the provisions of 4.1.4(a) and 4.1.4(b)(1) and (b)(2) will begin to accrue as set forth therein but only be considered for payment quarterly beginning in the third fiscal year after the Effective Date if the threshold set forth therein has been met.

4. Except for Fixed Monthly Fees that become due and payable pursuant to Section 4.1.4(b)(3) hereof, which shall be due and payable on a current basis at all times after such applicable threshold(s) has been met, other Fixed Monthly Fees deferred under the foregoing provisions of this Section 4.1.4 will be subordinated to all secured and unsecured payment obligations of the Health System, including funding obligations which represent pension underfunding, to the extent necessary to meet statutory requirements under ERISA.

5. The Manager shall report Days' Cash on Hand, the amount of the Fixed Monthly Fee, and the Fixed Monthly Fees deferred under Section 4.1.4, to the Board of Directors of Health System at the next regular meeting of such Board of Directors and prior approval of the Board of Directors of Health System shall be required prior to payment of any deferred Fixed Monthly Fees pursuant to Section 4.1.4(b)(3).

(c) All deferred Fixed Monthly Fees, to the extent not paid within the fiscal year in which earned, shall accrue interest from and after the first date of the next fiscal year at the rate of 2.82%. Such interest that accrues on deferred Fixed Monthly Fees in a fiscal year shall be added as of the last day of such fiscal year to the Fixed Monthly Fees to which it relates and subject to the payment and deferral provisions applicable to Fixed Monthly Fees for all purposes hereof.

(d) Except to the extent otherwise provided for in this Agreement, all deferred Fixed Monthly Fees (inclusive of all accrued interest thereon) accrued during the Term shall be due and payable at the end of the Term, if not paid sooner pursuant to the terms hereof.

(e) The Manager may elect to forfeit any Manager Compensation that would otherwise be deferred pursuant to paragraph (d) of this Section 4.1.4. The Manager may further

elect at any time to add any forfeited amounts to the Termination Fee or to the amounts deferred in a subsequent year.

(f) For the avoidance of doubt, as used in this Agreement, "fiscal year" is the fiscal year of Health System as set forth in the bylaws of Health System. As of the Effective Date, the fiscal year of Health System begins on the first day of July each year and ends on June 30th of the following year.

4.2. Certain Defined Terms. For purposes of this Agreement:

4.2.1 "Affiliates or Health System's Affiliates" shall mean the Hospitals and the related entities that support those entities: DCHS Medical Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, Saint Louise Regional Hospital Foundation, O'Connor Hospital Foundation, Seton Medical Center Foundation, Caritas Business Services, St. Vincent De Paul Ethics Corporation, St. Vincent Dialysis Center, Inc., Marillac Insurance Company, Ltd., De Paul Ventures, LLC, De Paul Ventures – San Jose ASC, LLC, and De Paul Ventures – San Jose Dialysis, LLC.

4.2.2 "Collection Quarter" shall mean any fiscal quarter falling within the Term of this Agreement, including the quarter during which the Agreement is terminated (regardless of whether termination occurs on the last day of a quarter).

4.2.3 "Days' Cash on Hand" shall mean, for any period, the quotient obtained by dividing (1) the Health System's cash and cash equivalents (including board designated funds and available borrowings on any revolving credit facility including, but not limited to, amounts eligible to be drawn under the 2015 Revenue Notes that are not subject to a condition that cannot be met on the testing date, but specifically excluding any unreleased portion of the Contribution (as that term is defined and described in Sections 2.1(k) and 2.1(l) of the System Restructuring and Support Agreement)) as of the end of the trailing twelve month period by (2) the quotient of dividing (a) the Health System's Cash Operating Expenses for the trailing twelve month period by (b) the number of days in such period.

4.2.4 "Operating Revenues" shall mean all net revenues recognized in the Consolidated Statements in accordance with GAAP and past practices on or after the Effective Date by the Health System including without duplication, revenues that relate to any and all presently existing and hereafter arising DSH Payments, Stabilization Funds, QAF Payments and Governmental Receivables (as defined below) and grants, including any of the foregoing that are attributable to the rendering of hospital inpatient and outpatient services or related supplies, devices and equipment, including diagnosis, treatment, technical and ancillary services ("Patient Services") during the Term of this Agreement, and irrespective of the source of payment or for the time period with which it may relate. Operating Revenue will not include any gain or loss resulting from either the early extinguishment or refinancing of indebtedness, or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles, unrealized gains or losses that do not result in the receipt or expenditure of cash, charitable contributions and the interest earned thereon and nonrecurring items which do not involve the receipt, expenditure or transfer of assets. For the avoidance of doubt, Operating

Revenues shall include all revenues accounted for on the consolidated net revenues of the Health System which results from the deduction of contractual allowances, charity care, provisions for doubtful accounts and other items that the System has historically deducted from Gross Billings."

4.2.5 "Accounts Receivable" mean and include, in addition to the definition of accounts in the Uniform Commercial Code, any and all presently existing and hereafter arising accounts receivable, recoveries, refunds, counterclaims, claims of set-off and claims of Health System against payers and third persons relating thereto, and all other forms of obligations owing to Health System, without regard to dates of service before or after the Effective Date, whether known or unknown, matured or unmatured, accrued or contingent, that arise out of the provision of Patient Services or other services of the Health System at any time, including: (i) payments on a fee-for-service basis; (ii) payments on a capitated, case rate, percentage of premium basis, or any other prepaid basis; (iii) payments attributable to diagnostic imaging, testing or other ancillary services provided directly or under arrangements; (iv) risk sharing or gain sharing payments; (v) payments under policies of reinsurance; (vi) payments based on liens in cases of third party liability and workers' compensation; (vii) all Governmental Receivables that are assignable under applicable Laws; and (viii) the proceeds of all Governmental Receivables that are not assignable under applicable Laws.

4.2.6 "DSH Payments" mean and include payments owing to Health System under the Medi-Cal disproportionate share hospital program.

4.2.7 "QAF Payments" means any and all payments made to the Hospitals and any and all payments to which an Affiliate receives or is entitled to claim or receive under the Medi-Cal Hospital Quality Assurance Fee Program, as now existing or, as amended and superseded by any other California legislation, or any successor legislation which imposes a fee or tax on hospitals that is used to generated additional or supplemental Medi-Cal payments to hospitals and/or Medi-Cal managed care plans to be used for hospital services, including the Hospital Quality Assurance Fee Act of 2011 (California Welfare and Institutions Code, Chapter 7, Article 5.227) and any subsequent California legislation relating to QAF Payments.

4.2.8 "Retirement Plans" means the Daughters of Charity Health System Retirement Plan, the Daughters of Charity Health System Retirement Plan Account, the Daughters of Charity Health System Supplemental Retirement Plan (401(a)), the Daughters of Charity Health System Supplemental Retirement Plan (TSA/403(b)), and any other defined contribution plan that is listed on **Schedule 4.2.7** of the System Restructuring and Support Agreement (whether or not frozen).

4.2.9 "Multiemployer Plans" means the Local 39 Pension Plan and the Retirement Plan for Hospital Employees, as Amended and Restated Effective January 1, 2012 and as further amended.

4.2.10 "Stabilization Funds" mean and include any and all payments made to the Health System and any and all payments which the Health System receives or is entitled to claim or receive under the Medi-Cal Hospital Provider Rate Stabilization Act, as amended and superseded by any other California legislation, or any successor legislation which imposes a fee

or tax on hospitals that is used to generated additional or supplemental Medi-Cal payments to hospitals and/or Medi-Cal managed Health System plans to be used for hospital services, including but not limited to the Hospital Quality Assurance Fee Act of 2011 (California Welfare and Institutions Code, Chapter 7, Article 5.227) and any subsequent California legislation relating to stabilization payments.

4.2.11 "Governmental Receivables" mean and include all presently existing and hereafter arising Accounts Receivable, contract rights and all other forms of obligations owing from any Governmental Authority to Affiliates that arise out of the sale, lease, license or assignment of goods or other property, or the provision of Hospital Services or other services of the Health System, including any payments, grants or funds from Medicare, Medicaid or any other Governmental Authority.

4.2.12 "Operating Expenses" means, with respect to any period of time, all ordinary and necessary expenses incurred, in accordance with GAAP and past practices in the operation, management, administration and support of the Health System, including without duplication: (i) the cost of inventory, supplies and outside ancillary services furnished or obtained by Manager for the Health System and its Affiliates; (ii) the direct costs of billing and collection services on behalf of the Health System; (iii) the salaries, wages, employee benefits (including medical insurance where applicable), Social Security contributions, payroll taxes, workers' compensation insurance premiums and other amounts withheld for the Employees and contractors, including non-physician professional personnel; (iv) costs for utilities, including electricity, gas, water and telephone and obtaining other necessary services and supplies, whether purchased directly by Health System or provided by independent contractors, vendors, and other third parties, which shall include Manager; (v) costs of advertising and marketing performed on behalf of the Health System and its Affiliates; (vi) all insurance premiums, charges and other costs and expenses with respect to insurance covering the Health System and its Affiliates and the operations thereof, including liability, fire and casualty and extended coverage insurances; (vii) all expenses for maintenance and repair; (viii) administrative expenses; (ix) costs for the lease, rental or license of real or personal property (including payments with respect to intellectual property); (x) fees and costs for professional services, including the fees and expenses of attorneys, accountants and appraisers, incurred directly or indirectly in connection with any category of expense that is required to be capitalized in accordance with GAAP; and (xi) any interest expense. Operating Expenses will not include any gain or loss resulting from either the early extinguishment or refinancing of indebtedness, or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles, unrealized gains or losses that do not result in the receipt or expenditure of cash and nonrecurring items which do not involve the receipt, expenditure or transfer of assets.

(a) "Cash Operating Expenses" shall mean all Operating Expenses per section 4.2.12 less any depreciation and amortization expense and deferred Fixed Monthly Fees included in Operating Expenses.

(b) "Capital Expenditures" means capital expenditures approved as a part of the capital budget and either expended or reserved within the fiscal year, which will not be less than Forty Million dollars ($40,000,000) during each of the first three calendar years,

commencing the January 1 following the Closing, and for the ensuing years of the Management Agreement, not less than Thirty Million dollars ($30,000,000) per calendar year except as such amounts are adjusted pursuant to Section 7.7 of the System Restructuring and Support Agreement. Notwithstanding any provision to the contrary in this Agreement, any Capital Expenditures designated as (1) growth capital expenditures, which shall be designated as such in the Health System Board of Director's approval of the project, or (2) capital expenditures associated with mergers or acquisitions, shall not be included in the calculation of positive cash flow in Section 4.1.4(b)(3)).

(c) "Pension Funding Obligations" shall mean payments legally required by the Employee Retirement Income Security Act of 1974, as amended, or an applicable collective bargaining agreement, if any, pertaining to the Health System's funding obligations under the Retirement Plans and Multiemployer Plans, as applicable, as well as any insurance premiums required by the Pension Benefit Guaranty Corporation and payable by the Health System with respect to the Retirement Plans. To the extent that any of these amounts are included in Cash Operating Expenses, if at all, such amounts shall be excluded from Pension Funding Obligations for purposes of this Agreement.

4.2.13 "Debt Service" shall include all required principal amortization payments on the Health System's 2005 Bonds, as well as any interest expense actually paid in cash with respect to Health System indebtedness not already included in Cash Operating Expenses.

4.2.14 "CPI" shall mean the Consumer Price Index for All Urban Consumers, U.S. City Average, All Items, as published by the Bureau of Labor Statistics of the U.S. Department of Labor.

4.2.15 "System Restructuring and Support Agreement" shall mean the System Restructuring and Support Agreement, by and between Health System, Daughters of Charity Ministry Services Corporation, certain funds managed by Blue Mountain Capital Management, LLC and Manager, dated July 17, 2015, as amended by that certain Amendment No.1, dated September 18, 2015, and that certain Amendment No.2, dated December 14, 2015.

4.2.16 "2015 Revenue Notes" means the California Public Finance Authority Revenue Notes (Verity Health System), Series 2015A, Series 2015B, Series 2015C and Series 2015D.

4.2.17 "Consolidated Statements". For purposes of Section 4.1 and Section 4.2, references to financial results of the "Health System" shall mean and include the consolidated results of operations as reported in the consolidated (or consolidating, as applicable) statements of the Health System and its Affiliates.

4.3. Interest. If any fee or other amount due by Health System to Manager under this Agreement is not paid within thirty (30) days after such payment is due (excluding any Fixed Monthly Fees that are deferred in accordance with Section 4.1.4 of this Agreement), at the election of the Manager, such amount shall bear interest from and after the respective due dates thereof until the date on which the amount is received in the bank account designated by Manager to which such amount is owed at an annual rate of interest equal to the lesser of (a) the

prevailing lending rate of Manager's principal bank for working capital loans to Manager at LIBOR plus three percent (3%) and (b) the highest rate permitted by applicable Law.

ARTICLE V
TERM AND TERMINATION

5.1. Term. The term of this Agreement shall commence on the Effective Date and continue through the day immediately preceding the fifteenth (15th) anniversary of the Effective Date (such period, the "Initial Term"), unless terminated earlier in accordance with the terms of this Agreement. At the end of the Initial Term, this Agreement shall automatically renew for a five (5) year term (each a "Renewal Term") unless either Party notifies the other Party at least one hundred eighty (180) days prior to the end of the Initial Term that it does not wish to renew (an "Renewal Denial") the Agreement. The Initial Term, together with any Renewal Terms, are referred to collectively as the "Term." The "Effective Date of Termination" shall be the effective date of the termination of this Agreement, as determined in accordance with the provisions of this Article V.

5.2. Termination for Cause by Health System. Health System shall have the right to terminate this Agreement at any time if there shall be Cause that is not cured within any applicable cure period set forth in this Section 5.2 and provided that Health System affords Manager an opportunity for discussion immediately following delivery of notice to Manager of Cause. The following shall constitute Cause for purposes of this Section 5.2:

(a) (i) Any willful or negligent systematic act or omission by Manager that imminently jeopardizes or places at risk the health, safety or welfare of patients of the Health System or any Affiliate; or (ii) any act or omission by Manager that jeopardizes or places at risk the health, safety or welfare of patients in the Health System or any Affiliate, but not in an imminent manner, shall constitute a material breach of this Agreement and shall be grounds for termination subject in each case to a 30 day cure period; *provided, however*, that in the event there is Cause under Section 5.2(a)(i), the Chair of the Board of the Health System and any other Board member of the Board of the Health System, the Chair of the Board of any affected Affiliate, the CEO of Health System, the CEO of the affected Affiliates, and the representatives of BlueMountain and Manager shall promptly meet to discuss the act or omission and consequences thereof and if the CEO of Health System and the Chair of the Board of the Health System of the affected Affiliate(s) are not satisfied with Manager's immediate response to such act or omission, or consequence thereof, then the Health System may take such corrective actions as it deems necessary to protect the health, safety, or welfare of the patients of the Health System or any Affiliate and Manager agrees to reimburse the Health System or any Affiliate for its reasonable costs and expenses incurred in connection with such corrective action.

(b) (i) Any willful conduct by Manager that imminently jeopardizes any certifications or accreditations of the Health System or any Affiliate; or (ii) any willful conduct by Manager that jeopardizes any certifications or accreditations of the Health System or any Affiliate, but not in an imminent manner, shall constitute a material breach of this Agreement and shall be grounds for termination subject in each case to a ninety (90) day cure period; *provided, however*, that if Manager has used best efforts to cure said material breach, and such material breach is not amenable to cure within said ninety (90) day period, Manager may

continue such efforts to the extent reasonably necessary to afford Manager reasonable opportunity to cure said material breach with the consent of the Board of the Health System (such consent not to be unreasonably withheld); *provided further, however*, that in the event there is Cause under Section 5.2(b)(i) or (ii), the Chair of the Board of the Health System and any other Board member of the Board of the Health System, the Chair of the Board of any affected Affiliate, the CEO of Health System, the CEO of the affected Affiliates, and the principals of BlueMountain and Manager shall promptly meet to discuss the conduct and consequences thereof, and if the CEO of Health System and the Chair of the Board of the Health System and the affected Affiliate(s) are not satisfied with Manager's immediate response to such conduct or consequence thereof, then the Health System may take such corrective actions as it deems necessary to preserve and maintain the certifications or accreditations of the Health System or any Affiliate and Manager agrees to reimburse the Health System or any Affiliate for its reasonable costs and expenses incurred in connection with such corrective action.

(c) (i) Any illegal conduct by Manager that imminently jeopardizes any necessary certification, permit, consent and approval to operate the Health System or the Affiliates and/or receive reimbursement for medical goods and services provided at any Hospitals or other locations of the Health System's Affiliates; or (ii) any illegal conduct by Manager that jeopardizes, but not in an imminent manner, any necessary certification, permit, consent and approval to operate the Health System or any Affiliate and/or receive reimbursement for medical goods and services provided at the Hospitals or other locations of the Health System's Affiliates, shall constitute a material breach of this Agreement and shall be grounds for termination subject in each case a ninety (90) day cure period; *provided, however*, that if Manager has used best efforts to cure said material breach, and such material breach is not amenable to cure within said ninety (90) day period, Manager may continue such efforts to the extent reasonably necessary to afford Manager reasonable opportunity to cure said material breach with the consent of the Board of the Health System (such consent not to be unreasonably withheld); *provided further, however*, that in the event there is Cause under Section 5.2(c)(i), the Chair of the Board of the Health System and any other Board member of the Board of the Health System, the Chair of the Board of any affected Affiliate, the CEO of Health System, the CEO of the affected Affiliates, and the representatives of BlueMountain and Manager shall promptly meet to discuss the conduct and consequences thereof, and if the CEO of Health System and the Chair of the Board of the Health System and the affected Affiliate(s) are not satisfied with Manager's immediate response to such conduct or consequence thereof, then the Health System may take such corrective actions as it deems necessary to preserve and maintain any necessary certification, permit, consent and approval to operate the Health System or any Affiliate and/or receive reimbursement for medical goods and services provided at any Hospitals or other locations of the Health System's Affiliates and Manager agrees to reimburse the Health System or any Affiliate for its reasonable costs and expenses incurred in connection with such corrective action.

(d) Willful or persistent failure or refusal to perform Manager's material obligations under the Agreement for thirty (30) days after written notice thereof from Health System;

(e) A material breach or default by Manager of any representation and warranty, duty, obligation or covenant made by Manager, and such material breach or default is

not materially cured within thirty (30) days after the provision of written notice of such breach or default by Health System; provided, however, that if Manager has taken all reasonable steps necessary to cure said material breach or default, and such material breach or default is not amenable to cure within said thirty (30) day period, Health System shall extend the cure period on a month-by-month basis to the extent reasonably necessary to afford Manager reasonable opportunity to cure said material breach or default, but in no event for a period of longer than ninety (90) consecutive days: provided, however, that if the material breach or default under this Agreement consists of or results in material breach or default of a material obligation to any third party or material violation of a legal obligation, then the material breach or default under this Agreement shall be subject to cure only if and to the extent that the material breach or default of the third party obligation or legal obligation is subject to cure;

(f) Any governmental or regulatory agency gives notice of any formal action to cause a Medicare decertification of a Hospital or any other location of the Affiliates, or notice of any intent to do so (collectively, "Government Action") based on activities that occurred after the Effective Date which were the direct result of conduct by the Manager, or the failure of Manager to take appropriate remedial action after the Effective Date, and any available pre-termination appeals are exhausted;

(g) Any Governmental Authority obtains a final, non-appealable, decision of a court or other arbiter that causes the loss of the tax-exempt status of the Health System or any Affiliate under §501(c)(3) of the Internal Revenue Code of 1986, as amended, due to the acts or omissions of Manager or existence of this Agreement, provided that Manager fails to initiate corrective action to bring the Health System or Affiliate back into compliance with tax-exempt status under §501(c)(3) of the Internal Revenue Code of 1986, as amended, within 30 days of issuance of such decision; *provided, further*, that loss of the tax-exempt status of the Health System or any Affiliate under §501(c)(3) of the Internal Revenue Code of 1986, as amended, due to the conversion of any or all Affiliates to for-profit entities after the sale of assets of the Health System pursuant to the exercise of a purchase option under either of the Option Agreements, shall not constitute "Cause" under this Section 5.2(g).

(h) Any Governmental Authority or the trustee with respect to the Revenue Bonds obtains a final, non-appealable, decision of a court or other arbiter, with respect to the Revenue Bonds, that there is or has been a material breach of the related loan agreement, regulatory agreement or indenture or that the interest payments on the Revenue Bonds will no longer be excluded from gross income for federal income tax purposes under § 103 of the Internal Revenue Code of 1986, as amended, as the result of acts or omissions of the Manager or existence of this Agreement, provided that there shall be no "Cause" under this Section 5.2(h) if, within 30 days of the issuance of such decision, Manager has taken initiated corrective action to bring the Revenue Bonds back into compliance with such related loan agreement, regulatory agreement, or indenture, or under § 103 of the Internal Revenue Code of 1986, as amended, including but not limited to, by replacing or refinancing the Revenue Bonds; *provided, further*, that a final non-appealable decision described under this Section 5.2(h) arising from or related to the conversion of any or all Affiliates to for-profit entities after the sale of assets of the Health System pursuant to the exercise of a purchase option under either of the Option Agreements, shall not constitute "Cause" under this Section 5.2(h).

(i) Any employee or contractor of Manager working at or on behalf of the Health System is or becomes an Excluded Individual, and, upon learning of such status Manager does not immediately terminate such employee or contractor or transfer such employee or contractor out of the Health System; and

(j) Manager shall materially default in the performance of any covenant, agreement, term or provision of this Agreement to be kept, observed or performed by Manager, and such material default shall continue for a period of sixty (60) days after written notice is given to Manager by Health System stating the specific default; provided a cure may reasonably be affected in sixty (60) days. If it cannot, then Manager must be taking all reasonable steps to effect a cure as quickly as possible thereafter, but in any event such cure must be materially performed within one hundred and twenty (120) days; provided, however, that if the material breach or default under this Agreement consists of or results in breach or default of an obligation to any third party or violation of a legal obligation, then the breach or default shall be subject to cure only if and to the extent that the breach or default of the third party obligation or legal obligation is subject to cure.

5.3. Termination for Cause by Manager. Manager may elect at its sole and absolute discretion to terminate this Agreement for Cause pursuant to this Section 5.3 upon the date specified in Manager's written notice to Health System in respect thereof. The following shall constitute Cause for purposes of this Section 5.3:

(a) A breach of any of Health System's representations and warranties set forth in Article II;

(b) The filing by or against Health System or any of its Affiliates of any proceeding under the federal bankruptcy law, foreclosure laws or the insolvency law of any state or foreign jurisdiction;

(c) Any conviction of Health System or any of its Affiliates for illegal conduct that imminently jeopardizes any of the necessary Licenses to operate the Health System and/or receive reimbursement for medical goods and services provided at the Health System;

(d) Any Affiliate's failure, at the direction of the Health System, to remove any officer of such Affiliate who is an Excluded Individual within ten (10) business days following actual knowledge by any Affiliate;

(e) Any Affiliate's failure, at the direction of the Health System, to cooperate and support in good faith Manager's performance pursuant to this Agreement, subject to the proviso in this Section 5.3;

(f) Any Government Action based solely on activities of Health System that occurred before or after the Effective Date;

(g) Any Governmental Authority undertakes any action or requests that a receiver be appointed with respect to the operation of the Health System for the purpose of replacing any Affiliate as the owner of its portion of the Health System based solely on the activities of any Affiliate that occurred before or after the Effective Date;

(h) Disagreement between Health System and Manager concerning a material operational, financial, or legal issue which is not amenable to resolution following good faith negotiations between Health System and Manager, during the period extending for up to sixty (60) days following written notice of a Dispute and compliance with the Meet and Confer Obligations set forth herein; or

(i) A material breach or default by Health System of any obligation or covenant of Health System under this Agreement, and such material breach or default is not cured within thirty (30) days after the provision of written notice of such breach or default by Manager; provided, however, that if Health System has taken all reasonable steps necessary to cure said material breach or default, and such material breach or default is not amenable to cure within said thirty (30) day period, Manager shall extend the cure period on a month-by-month basis to the extent reasonably necessary to afford Health System reasonable opportunity to cure said material breach or default; provided, further, that if the material breach or default consists of or results in material breach or default of a material third party obligation or material violation of a legal obligation, then the breach or default by Health System of this Agreement shall be subject to cure only if and to the extent that the material breach or default of the third party obligation or legal obligation is subject to cure;

provided that, notwithstanding the above, in the event of any such actions as those described in paragraphs (a) through (g) above, Health System shall be entitled to a period of thirty (30) days within which to cure said action, commencing after the provision of written notice by Manager to Health System; provided, however, that if Health System has taken all reasonable steps necessary to cure and/or resolve such actions, and the same is not amenable to cure within said thirty (30) day period, the Parties shall extend the cure period on a month-by-month basis to the extent reasonably necessary to afford Health System reasonable opportunity to cure the same.

5.4. At Will Termination by Manager or Health System.

5.4.1 Absent "Cause" under Section 5.2, Health System may terminate this Agreement at any time with 90-days' prior written notice to Manager, following a compliance with the Meet and Confer obligation, provided that Health System shall pay to Manager: (i) all Manager Compensation (including any interest accrued thereon) and other fees or reimbursable expenses accrued and payable to the Manager prior to the Effective Date of Termination; and (ii) a termination fee equal to the present value of the Manager Compensation that, in the absence of termination of the Agreement, would be payable to Manager from the date of the noticed termination through the remainder of the Initial Term exclusive of any Renewal Term (the "Termination Fee"). For purposes of determining the Termination Fee: the annual increase to the Fixed Monthly Fee provided for under Section 4.1.1(a) for each of the years remaining in the Term shall be applied and set at an amount equal to the average of the annual rate of increase applied for the years of the Term from the Effective Date to the end of the year immediately preceding the Effective Date of Termination.

5.4.2 Absent "Cause" under Section 5.3, Manager may terminate this Agreement at any time with 150-days' prior written notice to Health System; *provided, however*, that Manager shall forfeit the right to receive any Fixed Monthly Fees that are deferred in accordance with Section 4.1.4 of this Agreement.

5.5. Termination upon Option Exercise. This Agreement shall automatically terminate upon the closing of the purchase and sale of Health System's and its Affiliates' assets pursuant to exercise of the option granted under either of the Option Agreements.

5.6. Effect of Termination. As of the Effective Date of Termination of this Agreement, all rights and obligations accruing prior to such Effective Date of Termination shall remain in full force and effect, including all rights and obligations arising as a result of any termination of this Agreement pursuant to this Article V and Section 5.7 in particular. Furthermore, the following provisions shall survive the expiration or other termination of this Agreement, regardless of the cause of such termination: Sections 1.1.2 and 1.10; Sections 2.2 and 2.3; Article IV; Section 5.4, this Section 5.5, and Sections 5.6, 5.7, 5.8 and 5.9; Article VI; Article VII; Article VIII; and Sections 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.9, 9.10, 9.11, 9.12, 9.14, 9.15 and 9.16.

5.7. Payments Upon Termination for Cause.

5.7.1 Upon any termination of this Agreement by the Health System for Cause under Sections 5.2(a), 5.2(b), 5.2(c) and 5.2(d), Manager shall forfeit any right to receive Manager Compensation that has accrued but not yet been paid as of the noticed date of termination.

5.7.2 Upon termination of this Agreement by the Health System under Sections 5.2(e) through (j), Health System shall remain obligated to compensate Manager for all expenses and fees (including accrued expenses and fees) due and owing Manager by the Health System including Manager's fees as set forth in Article IV (for the avoidance of doubt, including any prorated amounts pursuant to Section 4.1.2).

5.7.3 Upon any termination of this Agreement by Manager for Cause under Section 5.3, Health System shall remain obligated to compensate Manager for all expenses and fees (including accrued expenses and fees) due and owing Manager as of the Effective Date of Termination of this Agreement, including Manager's fees as set forth in Article IV (for the avoidance of doubt, including any prorated amounts pursuant to Section 4.1.2). In addition to the foregoing, Manager shall be entitled to pursue its damages or any other remedies to which it is entitled under State or federal law.

5.8. Transition of Management Upon Termination. Upon the expiration or earlier termination of this Agreement, Manager and Health System shall use commercially reasonable efforts to arrange for transition management of the Health System to the Health System or its designee in a safe and orderly manner, with the primary goal of avoiding jeopardy to the health and safety of all patients of the Health System and the Affiliates. Manager shall be entitled to rely with certainty that Health System or its designee shall assume management of the Health System as of the Effective Date of Termination. Health System shall be responsible for the Operating Expenses of the Health System accruing on and after the Effective Date of Termination.

5.9. Payment to Manager by Health System. Within fifteen (15) days from the Effective Date of Termination pursuant to this Article V, Health System shall pay Manager all amounts owing pursuant to this Agreement.

5.10. No Other Early Termination. This Agreement may only be terminated prior to the expiration of the Term as provided in this Article V.

ARTICLE VI
INDEMNITIES

6.1. Indemnity by Manager. Subject to Sections 6.3 and 6.4, Manager shall indemnify and hold Health System, each Affiliate and its directors, officers, employees, agents, and representatives (the "Health System Indemnified Parties") harmless from any and all liabilities, obligations, claims, causes of action, contingencies, damages, costs, and expenses (including all court costs and attorneys' fees, whether as a result of direct claims or third party claims that the Health System Indemnified Parties or any of them may suffer or incur) of any nature to the extent directly caused by a specific act or omission of Manager in its performance of the Management Services. Except for Manager's indemnification obligations set forth in Article VI, as between Health System's Affiliates and Manager, Manager will have no liability for monetary damages or monetary relief to any Affiliate for any violation of Manager's Standard of Care or claims of breach of any fiduciary duties or duties as agent unless such violation or breach was due to Manager's Gross Negligence or Willful Misconduct. For purposes hereof: "Operating Limitations" means (a) the requirements and limitations on Manager set forth in this Agreement, (b) any provisions of any contracts or other agreements relating to the Revenue Bonds limiting or otherwise imposing conditions on the assets or operation of the Health System or Affiliate; (c) any limitation or conditions arising under applicable Laws; and (d) the business plan relating to the Health System or Affiliate as may be developed by Manager and Health System from time to time and adopted by the board of directors of Health System; and "Manager's Gross Negligence or Willful Misconduct" means any gross negligence in the performance of Manager's duties under this Agreement or willful misconduct or fraud committed by Manager or its affiliates with respect to the Health System or any Affiliate, provided that (a) the acts or omissions of the Employees (as defined below) shall not be imputed to Manager or its affiliates, or otherwise deemed to constitute Manager's Gross Negligence or Willful Misconduct, unless such acts or omissions resulted from the gross negligence, willful misconduct or fraudulent acts of Manager in supervising such Employees, and (b) no settlement by any Party in good faith of any claims (including claims by the Employees) shall be deemed to create any presumption that the acts or omissions giving rise to such claims constitute Manager's Gross Negligence or Willful Misconduct.

6.2. Indemnity by Health System. Subject to Sections 6.3 and 6.4, Health System and each Affiliate shall indemnify and hold Manager and its directors, officers, employees, agents, and representatives (the "Manager Indemnified Parties") harmless from any and all liabilities, obligations, claims, causes of action, contingencies, damages, costs, and expenses (including all court costs and attorneys' fees, whether as a result of direct claims or third party claims that the Manager Indemnified Parties or any of them may suffer or incur) of any nature, that are not within the scope of Manager's indemnification pursuant to Section 6.1, except to the extent caused by the gross negligence of any Manager Indemnified Parties.

6.3. Waiver of Liability. AS LONG AS A PARTY IS A NAMED INSURED OR ADDITIONAL INSURED UNDER THE OTHER PARTY'S INSURANCE POLICIES, OR THE POLICIES OTHERWISE PERMIT IF SUCH PARTY IS NOT SO NAMED, SUCH PARTY HEREBY RELEASES THE OTHER PARTY AND ITS AFFILIATES AND ITS AND THEIR TRUSTEES, BENEFICIARIES, DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS, AND THE SUCCESSORS AND ASSIGNS OF EACH OF THE FOREGOING, FROM ANY AND ALL LIABILITY FOR MONETARY RELIEF, DAMAGE, LOSS, COST OR EXPENSE INCURRED BY THE RELEASING PARTY, WHETHER OR NOT DUE TO THE NEGLIGENT OR OTHER ACTS OR OMISSIONS OF THE PERSONS SO RELEASED TO THE EXTENT SUCH LIABILITY, DAMAGE, LOSS, COST OR EXPENSE IS COVERED BY THE INSURANCE POLICIES OF THE RELEASING PARTY, BUT ONLY TO THE EXTENT OF INSURANCE PROCEEDS RECEIVED.

6.4. Special Damages. Other than liability for third party claims, no Party shall have any liability for any punitive, incidental, consequential, special or indirect damages, loss of future profits, revenue or income, diminution in value or loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement, regardless of whether such losses were foreseeable.

6.5. Indemnification Procedures. The indemnifying Party shall have the right to assume the defense of any claim with respect to which the indemnified Party is entitled to indemnification hereunder. If the indemnifying Party assumes such defense: (a) such defense shall be conducted by counsel selected by the indemnifying Party and approved by the indemnified Party, such approval not to be unreasonably withheld or delayed (provided, that the indemnified Party's approval shall not be required with respect to counsel designated by the indemnifying Party's insurer); (b) so long as the indemnifying Party is conducting such defense with reasonable diligence, the indemnifying Party shall have the right to control said defense and shall not be required to pay the fees or disbursements of any counsel engaged by the indemnified Party except if a material conflict of interest exists between the indemnified Party and the indemnifying Party with respect to such claim or defense; and (c) the indemnifying Party shall have the right, without the consent of the indemnified Party, to settle such claim, but only if such settlement involves only the payment of money, the indemnifying Party pays all amounts due in connection with or by reason of such settlement and, as part thereof, the indemnified Party is unconditionally released from all liability in respect of such claim. The indemnified Party shall have the right to participate in the defense of such claim being defended by the indemnifying Party at the expense of the indemnified Party, but the indemnifying Party shall have the right to control such defense (other than in the event of a material conflict of interest between the parties with respect to such claim or defense). In no event shall (i) the indemnified Party settle any claim without the consent of the indemnifying Party so long as the indemnifying Party is conducting the defense thereof in accordance with this Agreement or (ii) if a claim is covered by the indemnifying Party's insurance, knowingly take or omit to take any action that would cause the insurer not to defend such claim or to disclaim liability in respect thereof.

6.6. No Warranty. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, NO PARTY MAKES OR HAS MADE ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF THE MANAGEMENT SERVICES, INCLUDING WITH RESPECT TO (I) MERCHANTABILITY

OR FITNESS FOR ANY PARTICULAR USE OR PURPOSE OR (II) THE PROBABLE SUCCESS OR PROFITABILITY OF THE HEALTH SYSTEM AFTER THE RECEIPT OF THE MANAGEMENT SERVICES.

6.7. Dispute Resolution; Exclusive Remedy.

(a) In the event of any dispute, controversy, claim, or disagreement arising out of or relating to this Agreement or the acts or omissions of the Parties with respect to this Agreement (each, a "Dispute"), the Parties shall resolve such Dispute as set forth in this Section.

(b) The Parties shall, after one Party gives written notice of a Dispute to the other Parties (the "Dispute Notice"), meet and confer in good faith in at least two separate sessions that include representatives of each Party with the authority to resolve the Dispute, regarding such Dispute at such time and place as mutually agreed upon by the Parties (the "Meet and Confer"). The Parties shall conduct such Meet and Confers as soon as reasonably practicable, but in no event later than thirty (30) days after the date of the Dispute Notice. Each Meet and Confer shall include the CEO of the Health System, the Chair of the Board of Health System and the Chair of the Board of any directly affected Affiliate, and a Member of the Board of Manager, who shall be the Chair of the Board of the Manager, unless the Chair is the Health System CEO, and a representative of BlueMountain Capital Management, LLC, and shall take place at the principal office of the Manager during normal working hours. If a Party fails to comply with this obligation to Meet and Confer within 5 business days from receipt of the Dispute Notice, then that Party shall be deemed to have waived this requirement.

(c) If any Dispute is not resolved to the mutual satisfaction of the Parties within sixty (60) days after delivery of the Dispute Notice (or such other period as may be mutually agreed upon by the Parties in writing), any Party may submit such Dispute to mandatory arbitration conducted by the American Arbitration Association ("AAA") in Los Angeles, California in accordance with the commercial complex litigation arbitration rules of the AAA.

(d) Any Party may apply to a court of competent jurisdiction for entry and enforcement of judgment based on the arbitration award. The award of the arbitrator shall be final and binding upon the Parties without appeal or review except as permitted by the Arbitration Act of the State of California.

(e) The fees and costs of the arbitration, including any costs and expenses incurred by the AAA in connection with the arbitration, shall be borne equally by the Parties, unless otherwise agreed to by the Parties.

(f) Except as set forth in subparagraph (e) above, each Party shall be responsible for the costs and expenses incurred by such Party in connection with the arbitration, including its own attorney's fees and costs; provided, however, that the AAA shall require the claiming Party to pay the costs and expenses of the other Party, including attorneys' fees and costs and the fees and costs of experts and consultants, incurred in connection with the arbitration if the AAA determines that the claims and/or causes of action brought by the Party submitting the Dispute to arbitration were frivolous and without reasonable foundation.

(g) This Article VI shall provide the exclusive remedy for the Parties for any dispute, misrepresentation or breach of warranty or covenant or for any claim which may arise out of this Agreement or the transactions described herein.

ARTICLE VII
NOTICE

Any notice, demand or communication required, permitted or desired to be given hereunder must be in writing and will be deemed effectively delivered when personally delivered or when actually received by recognized overnight courier, addressed as follows:

If to Health System:

Verity Health System of California, Inc.
203 Redwood Shores Parkway, #800
Redwood Shores, CA 94065-1159
Telephone number: (310) 498-6157
Attention: President and Chief Executive Officer

With a copy (which shall not constitute notice) to:

Ropes & Gray LLP
3 Embarcadero Center, Suite 300
San Francisco, California 94111
Telephone number: 415-315-6394
Facsimile number: 415-315-4801
Attention: John O. Chesley, Partner

If to Manager:

Integrity Healthcare, LLC
2200 West Third Street, Suite 200
Los Angeles, CA 90057
Telephone number: (310) 498-6157
e-mail: creem@integrityhci.com
Attention: Mitch Creem

With a copy (which shall not constitute notice) to:

Foley & Lardner LLP
111 Huntington Ave., Suite 2600
Boston, MA 02199-7610
Telephone number: (617) 342-4055
Facsimile number: (617) 342-4001
Attention: J. Mark Waxman, Partner

With a copy (which shall not constitute notice) to:

BlueMountain Capital Management, LLC
280 Park Avenue, 12th Floor
New York, NY 10017
Telephone number: 212-905-2184
email: legalnotices@bmcm.com
Attention: Richard Horne, Associate General Counsel, Tax

or to such other address, or to the attention of such other Person, as any Party may designate by notice delivered in like manner.

ARTICLE VIII
INDEPENDENT CONTRACTOR

In entering into this Agreement, and in acting in compliance herewith, Manager is at all times acting and performing as an independent contractor duly authorized to perform the services required of it hereunder as an agent of Health System. Nothing contained in this Agreement or any agreements, instruments, documents or transactions contemplated hereby shall constitute or be construed to create a partnership, joint venture, general agency, or similar relationship between Health System, or its successors or permitted assigns, and Manager, or its successors or permitted assigns. The Parties acknowledge and agree that (a) Manager shall have the authority to bind Health System with respect to third Persons to the extent Manager is performing its obligations under and consistent with this Agreement; (b) Manager's agency established with the Health System is, and is intended to be, an agency coupled with an interest; and (c) in performing the Management Services, (i) Manager assumes no independent contractual liability and (ii) Manager shall have no obligation to extend its own credit with respect to any obligation incurred in operating the Health System or performing its obligations under this Agreement.

ARTICLE IX
MISCELLANEOUS

9.1. Waiver. The waiver by a Party of any breach of any term, covenant or condition herein contained shall not be deemed to be a continuing waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance by a Party of performance by the other shall not be deemed to be a waiver of any preceding breach of any term, covenant or condition of this Agreement, other than the failure to perform the particular duties so accepted, regardless of knowledge of such preceding breach at the time of acceptance of such performance.

9.2. Prevailing Party. If any litigation or other court action, arbitration or similar adjudicatory proceeding is commenced by any Party to enforce its rights under this Agreement against any other Party, all fees, costs and expenses, including reasonable attorneys' fees, court costs and other expenses, incurred by the prevailing Party in such litigation, action, arbitration or proceeding shall be reimbursed by the losing Party; provided, that if a Party to such litigation, action, arbitration or proceeding prevails in part, and loses in part, the court, arbitrator or other

adjudicator presiding over such litigation, action, arbitration or proceeding shall award a reimbursement of the fees, costs and expenses incurred by such Party on an equitable basis.

9.3. Binding Nature of Agreement. Subject to Section 9.5 below, this Agreement shall be binding upon and shall be for the benefit of the Parties hereto and their respective permitted successors and assigns.

9.4. Entire Agreement. This Agreement and all exhibits referenced herein and attached hereto, contain the entire agreement between the Parties relating to the subject matter contained herein, and supersede any prior oral or written communication between them concerning its terms. Any waiver or modification of this Agreement shall be effective only if in writing and signed by the Party against whom such waiver or modification is sought to be enforced.

9.5. Assignability. Health System may not assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of Manager. Manager may assign any or all of its rights, interests and obligations hereunder to one or more of its affiliates or to any other Person (including as expressly provided in Section 1.6 with respect to subcontracting), subject to the requirement of prior written consent of the Board of Directors of Health System set forth under Section 1.6.

9.6. Preparation of Agreement. Each of the Parties acknowledges that they have had an opportunity to obtain counsel of their own choosing, and that both of them have read this Agreement, understand the terms used herein, and consequences thereof and that they have freely and voluntarily entered into this Agreement. Each of the Parties is willing to and does hereby assume joint responsibility for the form and composition of each and all of the contents of this Agreement, and they further agree that this instrument shall be interpreted as though each of the Parties participated equally in the composition of this instrument, and each and every part thereof.

9.7. Severability. In the event that any covenant, condition or other provision herein contained is held to be invalid, void or illegal by any court of competent jurisdiction, the same shall be deemed severable from the remainder of this Agreement and shall in no way affect, impair or invalidate any other covenant, condition or provision herein contained. If such condition, covenant or other provision shall be deemed invalid due to its scope or breadth, such covenant, condition or other provision shall be deemed valid to the extent of the scope or breadth permitted by law.

9.8. Counterparts. This Agreement may be executed in several counterparts, each of which so executed shall be deemed to be an original, and such counterparts shall together constitute and be one and the same instrument.

9.9. Governing Law. The rights and duties of the Parties and the construction of this Agreement shall be governed by the laws of the State of California.

9.10. Benefit. This Agreement is not intended to confer upon any Person other than Manager, the Affiliates and Health System any rights, obligations or remedies hereunder.

9.11. Headings; Interpretation. The descriptive heading of the articles and sections of this Agreement are inserted for convenience only, do not constitute a part of this Agreement and shall not control or affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." "Person" means any natural person, general or limited partnership, corporation, limited liability company, firm, association, trust or other legal entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

9.12. Access to Books. As an independent contractor of Health System, Manager shall, in accordance with 42 U.S.C. §1395(v)(1)(I) and 42. C.F.R. Part 420, Subpart D § 420.300 et seq., until the expiration of four (4) years after the furnishing of Medicare reimbursable services pursuant to this Agreement, upon proper written request, allow the Comptroller General of the United States, the Secretary of Health and Human Services, and their duly authorized representatives access to this Agreement and to Manager's books, documents and records necessary to certify the nature and extent of costs of Medicare reimbursable services provided under this Agreement. In accordance with such laws and regulations, if Medicare reimbursable services provided by Manager under this Agreement are carried out by means of a subcontract with an organization related to Manager, and such related organization provides the services at a value or cost of Ten Thousand Dollars ($10,000) or more over a twelve (12) month period, then the subcontract between Manager and the related organization shall contain a clause comparable to the clause specified in the preceding sentence.

9.13. Referrals. The Parties acknowledge that none of the benefits granted Manager is conditioned on any requirement that Manager or any of its owners or affiliates make referrals to, be in a position to make or influence referrals to, or otherwise generate business for any Affiliate or the Health System.

9.14. Confidentiality of Manager Information. Each Party recognizes and acknowledges that, by virtue of entering into this Agreement and carrying out the transactions and performing the obligations contemplated herein, each Party and its affiliates, may have access to certain confidential information of the other Party, including, to the extent reasonably protected as confidential and not disclosed to the public or in an unrestricted manner, the policies and procedures and operating manuals, costs and financial information, methods and systems of care delivery, outcome and quality measures, and other information and materials. Except as set forth below, neither Party, nor its affiliates, delegates or contractors, will at any time, either during or subsequent to the Term of this Agreement, disclose to others, use, copy or permit to be copied, without the other Party's express prior written consent any such confidential or proprietary information of the other Party. Notwithstanding the foregoing, neither party will be restricted in any manner from disclosure or use of (i) any information or materials that it independently develops without the use of or reliance upon the confidential information of the other Party, (ii) any information or materials that becomes publicly accessible or available without the breach of this Section 9.14, (iii) any information or material lawfully acquired from a third party not under a duty not to disclose or provide such material. In addition, neither Party will be restricted from (i) disclosing or using confidential information of the other Party to the extent required by law, or (ii) disclosing confidential information of the other Party to its

attorneys, accountants, and other professional service providers in connection with the rendering of their professional services.

9.15. Confidentiality of Terms of This Agreement. Except for disclosure to their legal counsel, accountants or financial advisors, each Party hereto warrants and covenants to each other Party that neither it nor its officers, employees, or agents shall disclose the terms of this Agreement to any Person who is not a Party, unless disclosure thereof is required by law or in connection with the California Attorney General's approval and monitoring of certain transactions between Health System, BlueMountain Capital Management, LLC, and Manager pursuant to Corporations Code section 5914 *et seq.*, or by any other Person legally entitled to review this Agreement as of the Effective Date, or otherwise authorized by this Agreement or consented to by each other Party. Unauthorized disclosure of the terms of this Agreement shall be a material breach of this Agreement.

9.16. Execution of Agreement. This Agreement shall not become effective or in force until all of the required signatories below have executed this Agreement.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK;
SIGNATURE PAGE TO FOLLOW

IN WITNESS WHEREOF, the parties hereto have executed this Health System Management Agreement on the day and year first above written.

MANAGER:
INTEGRITY HEALTHCARE, LLC
By: BlueMountain Capital Management, LLC, its manager

By: _____
Name: Richard Horne
Title: Associate General Counsel, Tax

HEALTH SYSTEM:

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.
For Itself and as Attorney in Fact for the Health System's Affiliates solely for purposes of Sections 6.1 and 6.2

By: _____
Name: Robert Issai
Title: President and Chief Executive Officer

Execution Copy

ATTACHMENT 1
HOSPITALS

O'Connor Hospital

St. Vincent Medical Center

St. Francis Medical Center

Saint Louise Regional Hospital

Seton Medical Center and the skilled nursing home and emergency department known as Seton Medical Center – Coastside, a division of Seton Medical Center

EXHIBIT A
SYSTEM AUTHORITY MATRIX

(SEE ATTACHED)

SYSTEM AUTHORITY MATRIX

VERITY HEALTH SYSTEM OF CALIFORNIA, INC. AND ITS AFFILIATES

Dated: December 14, 2015

Attached is a matrix which lists a number of important actions that might be taken by an entity affiliated with Verity Health System of California, Inc. and the corresponding approvals it must obtain before proceeding with such action. This matrix is intended not only to inform each entity of the need to obtain approval or give notification before acting, but also to clearly set forth the rights that are reserved to or held by certain governing entities within the organization.

The attached matrix is not intended to be an exclusive listing of the various powers reserved to System and its affiliated entities; additional powers may exist by operation of law or by virtue of policies currently existing or which may in the future be added or developed by Verity. Moreover, nothing in the attached matrix is intended to limit the right or ability of any corporation or entity, including Verity and Manager, to initiate certain corporate or operational actions on behalf of any of its subsidiaries or their subsidiaries. Certain decisions and authorities set forth in the attached matrix may require consultation with and recommendations by the Manager, as part of the rights Manager may possess under the Management Agreement.

Many of the terms that appear in the attached tables have meanings that are specific to the matrix. These terms are defined below:

1. Affiliate means a corporation or other legal entity of which Verity is the sole voting shareholder, owner, or corporate member. For the avoidance of doubt, all of the hospitals and Verity Medical Foundation are Affiliates.

2. Affiliate Board means the board of directors, board of trustees, or other governing body charged with managing the activities and affairs of an Affiliate.

3. Affiliate CEO means the Chief Executive Officer of each of the Affiliates.

4. Management Agreement means that certain Health System Management Agreement dated as of even date herewith and entered into in connection with the closing of that certain System Restructuring and Support Agreement, dated July 17, 2015,

made by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System (now known as Verity), Manager, and certain funds managed by BlueMountain Capital Management, LLC.

5. Manager means Integrity Healthcare, LLC, a Delaware limited liability company, the manager of Verity Healthcare System pursuant to the Management Agreement.

6. Verity means Verity Health System of California, Inc., a California nonprofit corporation (formerly known as Daughters of Charity Health System) that is the "parent corporation" of those hospital, healthcare, and other entities that make up the Verity Healthcare System.

7. Verity Board means the Board of Directors of Verity Health System of California, Inc.

8. Verity CEO/President means the individual duly elected and acting as the Chief Executive Officer and President of Verity Health System of California, Inc. For as long as the Management Agreement is in effect, the Verity CEO/President shall be an employee of Manager and shall report to the Manager.

9. Verity Healthcare System means, collectively Verity, the Affiliates, and all direct and indirect subsidiaries of Verity and the Affiliates, and all other entities affiliated with Verity.

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
I. Mission, Values, Expectation				
Adopt, approve, assure compliance with, change and interpret statements of mission, role, or purpose of the Verity and Affiliates			Recommend	Approve
Adopt, approve, assure compliance with, change or interpret statements of Verity's core values and expectations				Approve
II. Governing Documents and Formation of Entities				
Adopt, approve, amend, restate Articles and Bylaws of Verity				Approve
Adopt, approve, amend, restate Articles and Bylaws of the Affiliates	Recommend	Approve	Recommend	Approve
Adopt, approve, amend, restate Articles and Bylaws or other organizational documents of subsidiaries of Affiliates	Recommend	Approve		Approve
Approve the formation of new legal entities by Verity			Recommend	Approve
Approve the formation of new legal entities by	Recommend	Recommend	Recommend	Approve

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
the Affiliates				
III. Merger, Consolidation, Dissolution, Divestiture				
Approve the merger, dissolution, consolidation, divestiture, dissolution, closure, change in corporate membership or corporate reorganization or sale of all or substantially all of the assets of Verity			Recommend	Approve
Approve the merger, dissolution, consolidation, divestiture, dissolution, closure, change in corporate membership or corporate reorganization or sale of all or substantially all of the assets of any of the Affiliates or their subsidiaries		Recommend	Recommend	Approve
IV. Appointments/Removals				
Appoint or remove members of the Board of Directors of Verity				Appoint and Remove
Appoint or remove Chair of System Board				Appoint and Remove
Appoint or remove board members of Affiliates a. Verity Directors				Appoint and Remove

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	**Affiliate Board**	**Verity CEO/President**	**Verity Board**
b. At-large Directors	Consult	Consult	Consult	Appoint and Remove
Appoint or remove Affiliate Board Chairs				Appoint and Remove
Appoint or remove Verity CEO/President				Appoint and Remove
Appoint or Remove CEO of Affiliate		Consult on appointment and removal	Recommend and Consult on appointment and removal	Appoint and Remove
Appoint or Remove CFO, Chief Operating Officer, Director of Clinical and Medical Affairs of Verity			Appoint and Remove	
Appoint or Remove CFO and other corporate and executive officers of Affiliate	Appoint and Remove with concurrence of Verity CFO and consultation of Affiliate Board	Consult on appointment and removal		
Appoint or Remove System General Counsel			Recommend	Appoint and Remove
V. Evaluation of Officers				
Evaluate performance of Verity Board Chair				Evaluate/Approve

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	**Affiliate Board**	**Verity CEO/President**	**Verity Board**
Evaluate performance of Affiliate Board Chairs		Consult	Consult	Evaluate/Approve
Evaluate performance of Verity CEO/President			Consult	Evaluate/Approve
Establish annual performance objectives and determine compensation of Verity CEO/President			Consult	Approve
Evaluate performance of Affiliate CEOs and other executive officers of Affiliates		Consult	Approve, acting with Affiliate Board Chair	
Establish annual performance objectives and determine compensation of Affiliate Presidents/CEOs and other executive officers of Affiliates	Consult	Consult	Approve	
Establish compensation and benefit programs for employees of Verity and the Affiliates			Recommend	Establish, evaluate, and approve
VI. Debt, Strategic & Financial Plans and Capital and Operating Budgets				

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
Establish overall debt limit and centralized debt management program covering Verity, the Affiliates, and all subsidiaries of the Affiliates			Recommend	Approve
Approve incurrence or guarantee of debt by Affiliates in excess of limits permitted by this Matrix	Recommend	Recommend	Recommend	Approve
Approve incurrence of debt under Master Trust Indenture			Recommend	Approve
Establish criteria for financial and strategic plans for Verity			Recommend	Approve
Establish criteria for financial and strategic plans for the Affiliates			Recommend	Approve
Approve strategic plan for DCHS			Recommend	Approve
Approve Affiliate strategic plans	Recommend	Recommend	Recommend	Approve
VII. System-Wide Policies				

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	**Affiliate Board**	**Verity CEO/President**	**Verity Board**
Approve and amend System policies and procedures			Recommend	Approve
VIII. Audit				
Approve/Remove external auditor for System			Recommend	Approve
IX. Capital Expenditures, Lease Obligations as Lessee and Incurrence of Debt by Affiliates and their Subsidiaries				
Establish internal audit program for System and Affiliates			Recommend	Approve
Budgeted amounts: over $3,000,000	Recommend	Recommend	Recommend	Approve
$1,000,000 to $3,000,000	Recommend	Recommend	Approve	
$500,000 to $1,000,000	Recommend	Approve		
Up to $500,000	Approve			
Unbudgeted amounts: up to $50,000	Approve	Approve		
$50,000 up to $100,000	Recommend	Recommend	Approve	
$100,000 up to $1,000,000	Recommend	Recommend	Recommend	Approve

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	**Affiliate Board**	**Verity CEO/President**	**Verity Board**
Over $1,000,000	Recommend	Recommend	Recommend	Approve
X. Leases as Lessor Conveying Property in the Normal Course of Business				
Initial Leases	Recommend	Recommend	Recommend	Approve
Renewal of term of up to three years, or aggregate rent of less than $250,000	Approve			
Renewal term of more than three years, but less than five years, or aggregate rent of more than $250,000 but less than $500,000	Recommend	Approve		
Renewal term of five or more years, or aggregate rent equal to or greater than $500,000	Recommend	Recommend	Approve	Approve

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
XI. Physician Contracts[1]				
Physician recruitment loan agreements. Note: all physician recruitment loan agreements must be supported by a favorable legal opinion, with particular attention to Medicare/Medicaid anti-fraud and abuse, Stark, and private inurement/private benefit	Recommend	Recommend	Recommend	Approve
All other physician contracts, agreements, incentives, lines of credit or loans Note: All physician contracts described by this section must be supported by a favorable legal opinion, with particular attention to Medicare/Medicaid anti-fraud & abuse, Stark, and private inurement/private benefit	Recommend	Approve		

[1] With Verity CEO/President approval, Affiliate CEO may execute otherwise compliant physician agreements and leases when unforeseen need for physician arises and Chief Restructuring Officer or legal counsel of Verity or the Verity Healthcare System advises that a signed agreement is required for legal compliance. Any such agreement shall be reported to the Board of Directors of the Affiliate that is party to such agreement at its next meeting.

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
XII. Routine Contracts for Supplies and Non-Physician Services				
Contract new/renewal for two years or less and:				
Cumulative value up to $1,000,000	Approve			
Cumulative value above $1,000,000	Recommend	Recommend	Approve	
Contract new/renewal for more than two years and/or:				
Cumulative value up to $2,000,000	Recommend	Approve	Approve	
Cumulative value above $2,000,000	Recommend	Recommend	Approve	
XIII. Construction Contracts (as part of approved budget or capital projects)				
Cumulative Contract Value of:				
Over $3,000,000	Recommend	Recommend	Recommend	Approve
$1,000,000 to $3,000,000	Recommend	Recommend	Approve	
$500,000 to $1,000,000	Recommend	Recommend	Approve	
Up to $500,000	Recommend	Approve		

XIV. Sale of Property of Capital Assets in the Normal Course of Business				
Book value of less than $50,000 Book value between $50,000 and $250,000 Book value between $250,000 and $1,000,000 Book value of $1,000,000 and above	Approve Recommend Recommend Recommend	Approve Recommend Recommend	Approve Recommend	Approve
XV. New Bank Accounts and Investment Accounts				
Affiliate and its subsidiaries	Recommend	Recommend	Approve	
System and its non-hospital Affiliates and Verity Medical Foundation			Recommend	Approve
XVI. Settlement of Claims				
Sexual harassment and sexual abuse claim settlement approval Up to $250,000 Over $250,000	Recommend Recommend	Recommend Recommend	Approve Recommend	Approve
All other claims, no matter the nature or size			Recommend	Approve

EXHIBIT B
BUSINESS ASSOCIATE ADDENDUM
(SEE ATTACHED)

BUSINESS ASSOCIATE ADDENDUM

This Business Associate Addendum (the "**Addendum**") supplements and is made a part of the July 17, 2015 Transitional Consulting Services Agreement by and between the Covered Entities listed on Attachment I (each a "**Covered Entity**" or "**CE**") and Integrity Healthcare, LLC, a Delaware limited liability company ("**Business Associate**" or "**BA**"). This Addendum is effective as of the date of the Contract (the "**Addendum Effective Date**").

A. Immediately upon expiration of the Transitional Consulting Services Agreement, the Covered Entities and the Business Associate intend to enter into a Health System Management Agreement under which the Business Associate will continue to provide management and other services on behalf of the Covered Entities. The Transitional Consulting Services Agreement and the Health System Management Agreement are each a "**Contract**" and are collectively the "**Contracts.**"

B. Pursuant to the terms of the Contracts and in connection with those services, CE may need to disclose to BA, or BA may need to create on CE's behalf, certain Protected Health Information ("**PHI**") (defined below).

C. CE and BA intend to protect the privacy and provide for the security of PHI disclosed to BA pursuant to the Contract in compliance with the Health Insurance Portability and Accountability Act of 1996 ("**HIPAA**"), the Health Information Technology for Economic and Clinical Health Act (the "**HITECH Act**"), and regulations promulgated thereunder by the U.S. Department of Health and Human Services (the "**HIPAA Regulations**") and other applicable laws.

D. As part of the HIPAA Regulations, the Privacy Rule and the Security Rule (defined below) require CE to enter into a contract containing specific requirements with BA prior to BA's receipt or creation of PHI, as set forth in, but not limited to, Title 45, Sections 164.314(a), 164.502(e) and 164.504(e) of the Code of Federal Regulations ("**C.F.R.**") and contained in this Addendum.

In consideration of the mutual promises below and the exchange of information pursuant to this Addendum, the parties agree as follows:

1. Definitions

a. **Breach** shall have the meaning given to such term under 42 U.S.C. § 17921(1) and 45 C.F.R. § 164.402.

b. **Business Associate** shall have the meaning given to such term under 42 U.S.C. § 17938 and 45 C.F.R. § 160.103.

c. **California Confidentiality Laws** shall mean the laws of the State of California governing the confidentiality of PHI, including, but not limited to, the California Confidentiality of Medical Information Act (Cal. Civil Code § 56 *et seq.*), the patient access law (Cal. Health & Safety Code §

123100 *et seq.*), the HIV test result confidentiality law (Cal. Health & Safety Code § 120975 *et seq.*), the Lanterman-Petris-Short Act (Cal. Wel. & Inst. Code § 5328 *et seq.*), the medical identity theft law (Cal. Civil Code § 1798.82), and the improper access notification law (Cal. Health & Safety Code § 1280.15).

d. **Covered Entity** shall have the meaning given to such term under 45 C.F.R. § 160.103.

e. **Data Aggregation** shall have the meaning given to such term under 45 C.F.R. § 164.501.

f. **Designated Record Set** shall have the meaning given to such term 45 C.F.R. § 164.501.

g. **Electronic Protected Health Information or EPHI** means Protected Health Information that is maintained in or transmitted by electronic media.

h. **Electronic Health Record** shall have the meaning given to such term under 42 U.S.C. § 17921(5).

i. **Health Care Operations** shall have the meaning given to such term under 45 C.F.R. § 164.501.

j. **Privacy Rule** shall mean the HIPAA Regulation that is codified at 45 C.F.R. Parts 160 and 164, Subparts A and E.

k. **Protected Health Information or PHI** means any information, whether oral or recorded in any form or medium: (i) that relates to the past, present or future physical or mental condition of an individual; the provision of DCHS to an individual; or the past, present or future payment for the provision of DCHS to an individual; and (ii) that identifies the individual or with respect to which there is a reasonable basis to believe the information can be used to identify the individual, and shall have the meaning given to such term under 45 C.F.R. § 160.103. PHI includes EPHI.

l. **Protected Information** shall mean PHI provided by CE to BA or created or received by BA on CE's behalf.

m. **Security Incident** shall mean the attempted or successful unauthorized access, use, disclosure, modification or destruction of information or interference with system operations in an information system.

n. **Security Rule** shall mean the HIPAA Regulation that is codified at 45 C.F.R. Parts 160 and 164, Subparts A and C.

o. **Unsecured PHI** shall have the meaning given to such term under 42 U.S.C. § 17932(h), 45 C.F.R. § 164.402 and guidance issued pursuant to the HITECH Act including, but not limited to that issued on April 17, 2009 and published in 74 Federal Register 19006 (April 27, 2009), by the Secretary of the U.S. Department of Health and Human Services (the "**Secretary**").

2. **Obligations of Business Associate**

a. **General Requirements; Permitted Uses and Disclosures.** BA agrees to comply with all applicable provisions in HIPAA, the HITECH Act, the HIPAA Regulations, and the California Confidentiality Laws. BA shall not use or disclose Protected Information except for the purpose of performing BA's obligations under the Contract and as permitted under this Addendum. BA may use Protected Information, if necessary (i) for the proper management and administration of BA, (ii) to carry out the legal responsibilities of BA, or (iii) for Data Aggregation purposes for the Health Care Operations of CE.

b. **Prohibited Uses and Disclosures.** BA agrees to comply with the prohibition of sale of PHI without authorization under 45 C.F.R. § 164.502 unless an exception under 45 C.F.R. § 164.508 applies.

c. **Appropriate Safeguards.** BA shall implement appropriate safeguards as are necessary to prevent the use or disclosure of Protected Information other than as permitted by Addendum. BA shall use administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of EPHI as required by the Security Rule. To the extent that BA creates, maintains, receives or transmits EPHI on behalf of CE, BA shall implement the safeguards required by this Section 2(c) with respect to EPHI.

d. **Mitigation.** BA shall mitigate, to the extent practicable, any harmful effect that is known to BA of a use or disclosure of PHI in violation of this Addendum.

e. **Reporting of Unauthorized Uses or Disclosures and Securities Incidents.** BA shall report to CE in writing any access, use or disclosure of Protected Information not provided for or permitted by this Addendum, the Privacy Rule, the California Confidentiality Laws or other applicable federal or state law, and any Security Incidents, of which BA becomes aware. BA shall notify CE according to this Section 2(e) promptly, and in no case longer than five (5) calendar days, after BA becomes aware of such unauthorized use, disclosure or Security Incident. Notwithstanding the foregoing, Business Associate and Covered Entity acknowledge the ongoing existence and occurrence of attempted but ineffective Security Incidents that are trivial in nature, such as pings and other broadcast

service attacks, and Covered Entity acknowledges and agrees that no additional notification to Covered Entity of such ineffective Security Incidents is required, as long as no such incident results in unauthorized access, Use or Disclosure of PHI.

f. **Reporting of Breach of Unsecured Protected Information.** BA shall promptly, and in no case longer than five (5) calendar days, after discovery of a Breach under HIPAA or breach under California Confidentiality Laws, report to CE such Breach/breach, consistent with HIPAA, the HIPAA Regulations, and the California Confidentiality Laws. BA also must, without unreasonable delay, identify each individual whose Unsecured PHI has been, or is reasonably believed to have been, accessed, acquired or disclosed as a result of the Breach/breach, and provide such information to CE as needed in order to meet the data breach notification requirements under the HIPAA Regulations and the California Confidentiality Laws. The Breach/breach shall be considered "discovered" when the BA knew or reasonably should have known when the Breach occurred.. BA agrees to fully cooperate, coordinate with and assist CE in gathering the information necessary to notify the affected individuals. BA agrees to cooperate with CE to ensure that all such Breach/breach notices are sent without unreasonable delay, and in no case more than fifteen (15) business days from the discovery of the Breach/breach and in accordance with applicable state laws. BA agrees that it shall be solely responsible for all reasonable costs and expenses incurred by both CE and BA as a result of the Breach/breach, including costs associated with mitigation, preparation and delivery of the notices, to the extent that the Breach/breach is caused by a violation of this Addendum by BA,.

g. **Business Associate's Subcontractors and Agents.** BA shall ensure that any agents or subcontractors to whom it provides Protected Information agree in writing to the substantially the same restrictions and conditions that apply to BA with respect to such PHI. If BA knows of a pattern of activity or practice of an agents or subcontractor that constitutes a violation of the agent's or subcontractor's obligations to BA, then BA shall take reasonable steps to end the violation, and if such steps are unsuccessful, BA must terminate the arrangement if feasible.

h. **Access to and Amendment of Protected Information.** To the extent that BA or its agents or subcontractors maintains a Designated Record Set on behalf of CE and to enable CE to fulfill its obligations under the Privacy Rule, BA shall make Protected Information in Designated Record Sets that are maintained by Subcontractor or its agents or subcontractors available to CE for inspection, copying or amendment within ten (10) calendar days of a request by CE. If an Individual requests inspection, copying or amendment of Protected Information directly from BA or its agents or

subcontractors, BA shall notify CE in writing within five (5) business days of receipt of the request.

i. **Accounting Rights.** BA shall implement a process for recording certain Disclosures of Protected Information by BA ("**Accounting Information**") in order to enable CE to comply timely with its obligations under the Privacy Rule including, but not limited to, 45 C.F.R. § 164.528. At a minimum, this Accounting Information shall include, for each such Disclosure, recordation of (a) the date of Disclosure; (b) the name and address of the recipient of the Protected Information; (c) a brief description of the Protection Information disclosed; and (d) a brief statement of the purpose for the Disclosure that reasonably informs the Individual of the basis for the Disclosure. Within thirty (30) calendar days of notice from CE of a request for an accounting of Disclosures of PHI, BA shall make available to CE this Accounting Information. If an Individual requests an accounting directly from BA or its agents or subcontractors, BA must notify CE in writing within five (5) business days of the request.

j. **Governmental Access to Records.** BA shall make its internal practices, books and records relating to the use and disclosure of Protected Information available to CE and to the Secretary for purposes of determining CE's and/or BA's compliance with HIPAA, the HIPAA Regulations and the HITECH Act. BA shall notify CE regarding any Protected Information that BA provides to the Secretary concurrently with providing such Protected Information to the Secretary and, upon CE's request and at its expense, shall provide CE with a duplicate copy of such Protected Information, unless prohibited by the Secretary.

k. **Minimum Necessary.** BA (and its agents or subcontractors) shall request, use and disclose only the minimum amount of Protected Information necessary to accomplish the purpose of the request, use or disclosure.

l. **Requests for Restrictions.** BA agrees to comply with requests for restrictions on use or disclosure of Protected Information that CE has agreed to or is required to abide by under 45 C.F.R. § 164.522, to the extent that such restriction may affect BA's use or disclosure of such Protected Information and the CE provides written notice of such restriction five (5) business days prior to any requested use or disclosure.

m. **Direct Access to CE's Electronic Systems.** If BA or its employees/agents are granted direct access to CE's electronic systems, then BA will ensure that each of its employees and agents has access only to what is required for each employee/agent to perform the specific duties assigned by BA to that individual employee/agent pursuant to the Contract with CE. Furthermore, BA will provide immediate notice to the person designated by CE by email when its employees/agents are terminated or

change roles or otherwise no longer have a need for access, BA will routinely monitor the list of employees/agents with access, BA will educate its employees/agents that sharing of log-in information among its employees/agents is prohibited, and BA will provide CE with a list of its employees/agents with access to CE's electronic systems upon request by CE.

n. **Compliance with CE's Obligations.** To the extent that BA carries out CE's obligations under HIPAA, the HIPAA Regulations or the California Confidentiality Laws, BA shall comply with all of the requirements of HIPAA, the HIPAA Regulations and the California Confidentiality Laws in the performance of such obligations.

3. **Term and Termination.**

a. **Term.** The term of this Addendum shall be coterminous with the Health System Management Agreement, unless the parties do not enter into such agreement, in which case this Addendum shall be coterminous with the Transition Services Agreement. However, BA shall have a continuing obligation to safeguard the confidentiality of Protected Information received from CE after the termination of the Contracts.

b. **Termination for Cause.** Upon CE's knowledge of a material breach by BA of any provision of this Addendum, CE may either (1) terminate this Addendum upon thirty (30) calendar days prior written notice to BA in the event BA does not cure such breach to the reasonable satisfaction of CE within such thirty (30) calendar day period; or (2) terminate this Addendum immediately and, to the extent BA cannot perform the services without access to Protected Information, the relevant Contract (or portions thereof) related to such breach.

c. **Effect of Termination.** Upon termination of this Addendum for any reason, BA shall return or destroy all Protected Information that BA or its agents or subcontractors still maintain in any form, and shall retain no copies of such Protected Information. Upon CE's request, BA shall certify in writing that such return or destruction has occurred. If BA determines that return or destruction is not feasible, BA shall explain to CE in writing the conditions make the return or destruction of such Protected Information unfeasible. In such an event, BA shall retain the Protected Information subject to all of the protections of this Addendum, and shall limit further Uses or Disclosures to those purposes that make the return or destruction of the Protected Information unfeasible, for so long as BA maintains such Protected Information. In any event, BA also shall maintain a record of disclosures (pursuant to Section 3(i) of this Addendum) for a period of six (6) years and make it available to CE upon request in an electronic format so that CE may meet its disclosure accounting obligations under 45 C.F.R. § 164.528.

4. **Indemnifications; Limitation of Liability**. To the extent permitted by law, each Party shall indemnify, defend and hold harmless the other Party from any and all liability, claim, lawsuit, injury, loss, expense or damage resulting from or relating to the acts or omissions of said Party in connection with Party's representations, duties and obligations under this Addendum.

5. **Amendment to Comply with Law**. Because state and federal laws relating to data security and privacy are rapidly evolving, amendment of the Addendum may be required to provide for procedures to ensure compliance with such developments. BA and CE shall take such action as is necessary to implement the standards and requirements of pursuant to HIPAA, the HIPAA Regulations, the HITECH Act, the California Confidentiality Laws and any other applicable federal or state laws. This Addendum may not be modified, and no provision hereof shall be waived or amended, except in a writing duly signed and agreed to by BA and CE.

6. **No Third-Party Beneficiaries**. Nothing express or implied in the Contract or Addendum is intended to confer, nor shall anything herein confer upon any Person other than CE, BA and their respective successors or assigns, any rights, remedies, obligations or liabilities whatsoever.

7. **Interpretation**. This Addendum shall be interpreted as broadly as necessary to implement and comply with HIPAA, the HIPAA Regulations, the HITECH Act and the California Confidentiality Laws. The Parties agree that any ambiguity in this Addendum shall be resolved in favor of a meaning that complies and is consistent with HIPAA, the HIPAA Regulations, the HITECH Act and the California Confidentiality Laws.

8. **Regulatory References**. A reference in this Addendum to a section of regulations means the section as in effect or as amended, and for which compliance is required.

9. **Identity Theft Program Compliance**. To the extent that CE is required to comply with the final rule entitled "Identity Theft Red Flags and Address Discrepancies under the Fair and Accurate Credit Transactions Act of 2003," as promulgated and enforced by the Federal Trade Commission (16 C.F.R. Part 681) ("**Red Flags Rule**"), and to the extent that BA is performing an activity in connection with one or more "covered accounts," as that term is defined in the Red Flags Rule, pursuant to the Contract, BA shall establish and comply with its own reasonable policies and procedures under the applicable laws.

10. **Assistance in Litigation and Administrative Proceedings**. BA shall make itself, and any employees or agents, available to CE, at no cost to CE, to testify as witnesses, or otherwise, in the event of litigation or administrative proceedings being commenced against CE, its directors, officers or employees based upon a claimed violation of HIPAA, the HIPAA Regulations, or the HITECH Act that is caused by BA, except where BA or its subcontractor, employee or agent is a named adverse party.

11. **Subpoenas**. In the event that BA receives a subpoena or similar notice or request from any judicial, administrative or other party arising out of or in connection with this Addendum, including, but not limited to, any unauthorized use of disclosure of PHI, BA shall promptly forward a copy of such subpoena, notice or request to Covered Entity to afford Covered Entity

the opportunity to exercise any rights it may have under law, provided that BA is not prohibited by law from providing such notice.

12. Governing Law. This Addendum shall be governed by and construed in accordance with the laws of the State of California to the extent that the provisions of HIPAA, the HIPAA Regulations or the HITECH Act do not preempt the laws of the State of California.

13. Survival. The respective rights and obligations of BA under Section 2 (Obligations of Business Associate), Section 3(c) (Effect of Termination), Section 10 (Assistance in Litigation and Administrative Proceedings), Section 11 (Subpoenas), Section 12 (Governing Law), and this Section 13 (Survival) will survive the termination of this Addendum.

[Remainder of Page Left Blank Intentionally].

IN WITNESS WHEREOF, the parties hereto have duly executed this Addendum as of the Addendum Effective Date.

BUSINESS ASSOCIATE:

INTEGRITY HEALTHCARE, LLC

By: 

Name: Richard Horne

Title: Associate General Counsel, Tax

Date: 9-11-15

[SIGNATURE PAGE TO BUSINESS ASSOCIATE ADDENDUM]

COVERED ENTITY:

O'CONNOR HOSPITAL

By: Sister Margaret Keaveney
Print: Sr. Margaret Keaveney
By: President and Chief Executive Officer
Date: 9/14/15

COVERTED ENTITY:

SAINT LOUISE REGIONAL HOSPITAL

By: Sister Margaret Keaveney SC
Print: Sr. Margaret Keaveney
Title: President and Chief Executive Officer
Date: 9/14/15

COVERED ENTITY:

SETON MEDICAL CENTER

By: John Ferrelli
Print: John Ferrelli
Title: Chief Executive Officer
Date: 9-11-15

COVERED ENTITY:

ST. VINCENT MEDICAL CENTER

By: Margaret C Fickes
Print: Margaret Catherine Fickes
Title: President and Chief Executive Officer
Date: 9/14/18

COVERED ENTITY:

ST. VINCENT DIALYSIS CENTER, INC.

By: Margaret C Fickes
Print: Margaret Catherine Fickes
Title: President and Chief Executive Officer
Date: 9/14/18

COVERED ENTITY:

ST. FRANCIS MEDICAL CENTER

By: _____

Print: Gerald T. Kozai

Title: President and Chief Executive Officer

Date: 9/14/2018

COVERED ENTITY:

DCHS MEDICAL FOUNDATION

By:_____
Print: Steve Balalian
Title: President and Chief Executive Officer
Date: 9/14/15

DAUGHTERS OF CHARITY HEALTH SYSTEM

By:_____
Print: Robert Issai
Title: President and Chief Executive Officer
Date: September 11, 2015

CARITAS BUSINESS SERVICES

By:_____
Print: Richard Hutsell
Title: Secretary
Date: _____

DAUGHTERS OF CHARITY HEALTH SYSTEM

By:_____
Print: Robert Issai
Title: President and Chief Executive Officer
Date: _____

CARITAS BUSINESS SERVICES

By:_____
Print: Richard Hutsell
Title: Secretary
Date: 9-17-2015

ATTACHMENT I

COVERED ENTITIES:

Seton Medical Center
O'Connor Hospital
Saint Louise Regional Hospital
St. Francis Medical Center
St. Vincent Medical Center
St. Vincent Dialysis Center
DCHS Medical Foundation

Daughters of Charity Health System*
Caritas Business Services*

*As parties to each of the Contracts, these entities are also parties to the Addendum. These entities are not Covered Entities but rather are HIPAA Business Associates within the meaning of 45 C.F.R. § 160.103 of the Covered Entities. There is currently a Business Associate Agreement in place between each such entity and each of the Covered Entities.

EXHIBIT B - LETTER TO DEPUTY ATTORNEY GENERAL

DENTONS US LLP
300 SOUTH GRAND AVENUE, 14TH FLOOR
LOS ANGELES, CALIFORNIA 90071-3124
(213) 688-1000

2040 E Mariposa Avenue
El Segundo, CA 90245

August 21, 2018

Wendi A. Horowitz, Deputy Attorney General
Office of the Attorney General
State of California, Dept of Justice
300 S Spring Street, Suite 1702
Los Angeles, CA 90013-1256

Re: Verity Health System of California, Inc.

Dear Ms. Horowitz:

As we discussed by telephone on August 17, 2018, Verity Health System of California, Inc. ("Verity") is hereby requesting a modification to, and amendment of, certain of the terms and conditions imposed by the Attorney General in its December 3, 2015 conditional consent to the change in governance and control of the Daughters of Charity Health System. Specifically, Verity is requesting a modification to the transaction as approved, which included, inter alia, that certain Health System Management Agreement ("Management Agreement") with Integrity Healthcare, LLC.

As you are aware, in 2015, the Daughters of Charity Health System ("DCHS") completed a reorganization and was renamed Verity Health System of California, Inc. Concurrent with the reorganization, BlueMountain Capital Management, LLC ("BlueMountain") created Integrity Healthcare, LLC ("Integrity") to provide management services to Verity. DCHS, BlueMountain and Integrity executed a Restructuring and Support Agreement on or about July 17, 2015.

As part of the transaction, Verity and Integrity entered in to the Management Agreement, which has a 15-year term, commencing December 14, 2015 and running through December 13, 2030. The Management Agreement provides Integrity with very broad contractual authority to manage Verity. *See, e.g.*, Management Agreement Sections 1.1 through 1.6 (and particularly sections 1.4 and 1.5). Pursuant to the Management Agreement, as modified by an Amendment, Integrity provides Verity with a (i) Chief Executive Officer (ii) Chief Operations Officer and President (iii) Director of Medical and Clinical Affairs and (iv) Chief Financial Officer. Integrity does not employ any other officials for Verity, and apparently, provides no other specific personnel to support Verity. As I understand it, essentially all services provided by Integrity to Verity are provided through these four individuals.

In exchange for providing the management services, Verity is obligated to make substantial payments to Integrity through a complicated management fee formula. Since 2015, Verity has recorded total management fees of approximately $151.8 million through June 30, 2018, of which $85.9 million was deferred and unpaid.

The Management Agreement can be terminated as set forth in Section 5.4.1:

> "Absent Cause" under Section 5.2, Health System may terminate this Agreement at any time within 90 days' prior written notice to Manager . . . provided that Health System shall pay to Manager: (i) all Manager Compensation (including any interest accrued thereon) and other fees or reimbursable expenses accrued and payable to the Manager prior to the effective date of termination; and (ii) a termination fee equal to the present value of the Manager Compensation that, in the absence of termination of the Agreement will be payable to Manager from the day of the Notice of Termination through the remainder of the Initial Term exclusive of any Renewal Term (the "Termination Fee").

Following the Restructuring and Support Agreement and related transactions, NantWorks, LLC ("NantWorks"), acquired from BlueMountain the option to purchase certain former DHCS assets. NantWorks also acquired a 90% ownership interest in Integrity.

In connection with the approval of the DCHS reorganization, the Attorney General imposed conditions upon the transaction, as set forth in the Attorney General's letter dated December 3, 2015. Of note, and most critically for purposes of this request, the Management Agreement cannot be modified or rescinded without first providing the Attorney General 60 days' advanced notice of the proposed modification or rescission:

> 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:
>
> * * *
>
> b. Health System Management Agreement with Integrity Healthcare, LLC;
>
> * * *
>
> 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.

(*emphasis added*).

In addition, pursuant to the July 17, 2015 conditional approval, any transfer of control or management requires 60 days' notice to the Attorney General:

> For 15 years from the closing of the System Restructuring And Support Agreement, [each hospital] and all future owners, managers, lessees, licensees, or operators of [each hospital] shall be required to provide written notice to the attorney general 60 days prior to entering into any agreement or transaction to do any of the following:

* * *

> (b) transfer control, responsibility, management or governance of [each hospital]. The substitution or addition of a new corporate member or members of [each hospital] or Verity Health System of California, Inc., the transfers for control of, responsibility for or governance of [each hospital] shall be deemed a transfer for purposes of this Condition.

Since entry in to the Management Agreement and imposition of the Attorney General's condition, Verity has experienced an unprecedented change in circumstances, facing tremendous, unexpected economic difficulties. Despite its extensive efforts to curb expenses and operate efficiently, Verity is now in a position where continued operation under the existing Management Agreement is economically impossible. As described above, a substantial amount of the fees owed under the Management Agreement remain deferred and unpaid. Further, given the virtual elimination of the role of BlueMountain, the current management structure is unnecessary.

Verity has determined that the most efficient and effective solution for ongoing operations is for it to terminate the Management Agreement and directly retain and employ the individuals currently providing management services to it pursuant to the Management Agreement with Integrity, namely, the (i) Chief Executive Officer, (ii) Chief Operations Officer and President, (iii) Director of Medical and Clinical Affairs and (iv) Chief Financial Officer.[1] By bringing these positions in-house, with management services provided directly by Verity employees, Verity believes it can reduce the financial strain facing the health system, while ensuring the continuity in management for Verity, to the benefit of our non-profit hospitals, patients, employees and the communities we serve. Put another way, Verity can receive the benefit of maintaining an ongoing (employment) relationship with the current executive management team without detrimentally impacting hospital operations or access to care, while eliminating significant costs.

When the Attorney General imposed the condition related to the Management Agreement, it was unforeseen that (a) the economics of Verity's operations would make the Management Agreement economically infeasible, and (b) BlueMountain would sell its position, making the requirement of the Management Agreement unnecessary. As such, we believe this amendment should be approved by the Attorney General's office as a reasonable modification to the conditions given the significant change in circumstances experienced by Verity and the tremendous benefit it will offer the system by maintaining the management team but reducing substantially the associated cost.

For these reasons, Verity requests that the Attorney General approve Verity's request to terminate the Management Agreement and cease using any outside management company.

Very truly yours,

Elspeth D. Paul
General Counsel

[1] The Integrity CFO resigned on August 18, 2018. As an interim measure, Verity's Senior Vice President of Finance is providing services as the Acting CFO. Through this submission, Verity also requests that the Attorney General recognize and approve this interim measure.