

KAMALA D. HARRIS
Attorney General

State of California
DEPARTMENT OF JUSTICE



300 SOUTH SPRING STREET, SUITE 1702
LOS ANGELES, CA 90013

Public: (213) 897-2000
Telephone: (213) 897-2569
Facsimile: (213) 897-7605
E-Mail: Jami.Cantore@doj.ca.gov

May 18, 2015

By U.S. Mail and Email

James F. Owens, Esq.
Paul Hastings LLP
515 South Flower Street
Twenty-Fifth Floor
Los Angeles, CA 90071

RE: Proposed Change in Governance of Lodi Memorial Hospital Association, Inc.

Dear Mr. Owens:

Pursuant to Corporations Code section 5920 *et seq.*, the Attorney General hereby conditionally consents to the proposed change in governance and control of Lodi Memorial Hospital Association, Inc., pursuant to the terms of the Affiliation Agreement entered into by and between Lodi Memorial Hospital Association, Inc. d.b.a. Lodi Health, the Lodi Foundation, and Adventist Health System/West, d.b.a. Adventist Health.

Corporations Code section 5923, and California Code of Regulations, title 11, section 999.5, subdivision (f), set forth factors that the Attorney General shall consider in determining whether to consent to a proposed transaction between a nonprofit corporation and another nonprofit corporation or entity. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions that are incorporated by reference herein.

Thank you for your cooperation throughout the review process.

Sincerely,
[Original Signed]

JAMI L. CANTORE
Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

Conditions to Change in Control and Governance of Lodi Memorial Hospital Association, Inc. and Approval of the Affiliation Agreement between Lodi Memorial Hospital Association, Inc., Lodi Memorial Hospital Foundation, Inc., and Adventist Health System/West, d.b.a. Adventist Health

I.

These Conditions shall be legally binding on Lodi Memorial Hospital Association, Inc., a California nonprofit public benefit corporation, and any other subsidiary, parent, general partner, manager, member, affiliate, successor, or assignee of any of the above-listed entities (collectively Lodi Health), Lodi Memorial Hospital Foundation, Inc., a California nonprofit public benefit corporation, Adventist Health System/West, d.b.a. Adventist Health, a California nonprofit religious corporation, and any other subsidiary, parent, general partner, manager, member, affiliate, successor, or assignee of any of the above-listed entities (collectively Adventist Health), any entity succeeding thereto as a result of the Affiliation Agreement, consolidation, merger, or acquisition of all or substantially all of the assets of Lodi Health or the real property on which Lodi Memorial Hospital¹ is located, any and all current and future owners, managers, lessees, or operators of Lodi Memorial Hospital, and any and all current and future lessees and owners of the real property on which Lodi Memorial Hospital is located.

II.

The transaction approved by the Attorney General consists of the Affiliation Agreement dated December 31, 2014, between Lodi Memorial Hospital Association, Inc., Lodi Memorial Hospital Foundation, Inc., and Adventist Health System/West, d.b.a. Adventist Health, any agreements or documents referenced in or attached as an exhibit or schedule to the Affiliation Agreement, amendments to the Affiliation Agreement, and any agreements or documents referenced in or attached as an exhibit or schedule to any amendments to the Affiliation Agreement. All entities listed in Condition I shall fulfill the terms of the Affiliation Agreement, and any other documents referenced therein. All entities listed in Condition I shall notify the Attorney General in writing of any proposed modification or rescission of any of the terms of the Affiliation Agreement. Such notifications shall be provided at least thirty 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 5923.

¹ Throughout this document, the term "Lodi Memorial Hospital" shall mean the general acute-care hospital located at 975 S. Fairmont Avenue, Lodi, CA, 95240 and at 800 S. Lower Sacramento Rd., Lodi, CA, 95242, and any other clinics, laboratories, units, services, or beds included on the license issued by California Department of Public Health, effective May 1, 2014, unless otherwise stated.

III.

For five years from the closing date of the Affiliation Agreement, Lodi Health and Adventist Health, and all future owners, managers, lessees, or operators of Lodi Memorial Hospital shall be required to provide written notice to the Attorney General thirty days prior to entering into any agreement or transaction to do any of the following:

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

IV.

For five years from the closing date of the Affiliation Agreement, Lodi Memorial Hospital shall be operated and maintained as a licensed general acute-care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services at no less than current² licensure and designation with the same types and/or levels of services:

- a) Twenty-four hour emergency medical services, including a minimum of 28 treatment stations;
- b) Acute rehabilitation services, including a minimum of 8 rehabilitation beds;
- c) Cardiac services, including the cardiac catheterization lab;
- d) Critical care services, including a minimum of 10 intensive care beds;
- e) Obstetric services, including a minimum of 16 perinatal beds;
- f) Urgent care services;
- g) Adult day care services; and
- h) Women's reproductive health services.

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

² The term "current" or "currently" throughout this document means as of May 1, 2014.

For years six through nine following the closing date of the Affiliation Agreement, Lodi Health must provide 180-days' advance written notice to the San Joaquin County Health Care Services Agency, the California Department of Public Health, and the Attorney General if Lodi Health seeks to reduce or discontinue any emergency medical services identified above in category (a). For years six through nine following the closing date of the Affiliation Agreement, Lodi Health must provide 60-days' advance written notice to the San Joaquin County Health Care Services Agency, the California Department of Public Health, and the Attorney General if Lodi Health seeks to reduce or discontinue any of the services identified above in categories (b) through (h).

V.

For five years from the closing date of the Affiliation Agreement, Lodi Memorial Hospital shall:

- a) Be certified to participate in the Medi-Cal program;
- b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at Lodi Memorial Hospital to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:
 - i) Local Initiative: Health Plan of San Joaquin or its successor;
 - ii) Commercial Plan: Health Net Community Solutions or its successor; and
 - iii) Commercial Plan in Amador County, Calaveras County, and Sacramento County: Anthem Blue Cross Partnership Plan or its successor.
- c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Lodi Health to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

VI.

For five years from the closing date of the Affiliation Agreement, Lodi Health shall either (1) operate the 1206(d) clinics (listed below) with the same types and/or levels of services currently provided in the same location or within five miles of their current location; (2) operate the 1206(d) clinics (listed below) through the Adventist Health Physicians Network (AHPN) or similar alignment structure (e.g., 1206(l) Medical Foundation) with the same types and/or levels of services currently provided in the same location or within five miles of their current location; or (3) sell the 1206(d) clinics (listed below) and require the purchaser(s) to: (i) operate the clinic(s) with the same types and/or levels of services currently provided in the same location or within five miles of their current location, (ii) maintain such services for 5 years from the closing date of the Affiliation Agreement, and (iii) participate in the Medi-Cal and Medicare programs as required in Condition V:

- a) Ione Family Care, located at 305 Preston Avenue, in Ione;
- b) West Family Care, located at 2415 West Vine Street, Suite 105, in Lodi;
- c) West Pediatric Care, located at 2415 West Vine Street, Suite 100, in Lodi;
- d) West Prenatal Care, located at 2415 West Vine Street, Suite 103, in Lodi; and
- e) West Wound and Hyperbaric Care, located at 2415 West Vine Street, Suite 106, in Lodi.

VII.

For five years from the closing date of the Affiliation Agreement, Lodi Health shall either (1) operate the 1204(a) clinics (listed below) with the same types and/or levels of services currently provided in the same location or within five miles of their current location; (2) operate the 1204(a) clinics (listed below) through the Adventist Health Physicians Network (AHPN) or similar alignment structure (e.g., 1206(l) Medical Foundation) with the same types and/or levels of services currently provided in the same location or within five miles of their current location; or (3) sell the 1204(a) clinics (listed below) and require the purchaser(s) to: (i) operate the clinic(s) with the same types and/or levels of services currently provided in the same location or within five miles of their current location, (ii) maintain such services for 5 years from the closing date of the Affiliation Agreement, and (iii) participate in the Medi-Cal and Medicare programs as required in Condition V:

- a) Millsbridge Family Care, located at 1901 West Kettleman Lane, Suite 200, in Lodi;
- b) Plaza Surgical Care, located at 999 South Fairmont Avenue, Suite 100, in Lodi;
- c) Trinity Family and Specialty Care, located at 10200 Trinity Parkway, Suite 102, in Stockton; and
- d) Vine Specialty Care, located at 1235 West Vine Street, Suite 22, in Lodi.

VIII.

For five years from the closing date of the Affiliation Agreement, Lodi Health shall either (1) operate Galt Family and Prenatal Care, a rural health clinic, located at 387 Civic Drive in Galt, with the same types and/or levels of services currently provided in the same location or a location within five miles of its current location; (2) operate Galt Family and Prenatal Care, through the Adventist Health Physicians Network (AHPN) or similar alignment structure (e.g., 1206(l) Medical Foundation) with the same types and/or levels of services currently provided in the same location or a location within five miles of its current location; or (3) sell Galt Family and Prenatal Care, and require the purchaser(s) to: (i) operate the rural health clinic with the same types and/or levels of services currently provided in the same location or within five miles of their current location, (ii) maintain such services for 5 years from the closing date of the Affiliation Agreement; and (iii) participate in the Medi-Cal and Medicare programs as required in Condition V.

IX.

For six fiscal years from the closing date of the Affiliation Agreement, Lodi Health shall provide an annual amount of Charity Care (as defined below) at Lodi Memorial Hospital equal to or greater than \$2,982,979 (the Minimum Charity Care Amount). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Lodi Health in connection with the operations and provision of services at Lodi Memorial Hospital. The definition and methodology for calculating "Charity Care" and the methodology for calculating "costs" shall be the same as that used by the California Office of Statewide Planning and Development (OSHPD) for annual hospital reporting purposes.³ Lodi Health shall use and maintain a charity care policy that is no less favorable than Lodi Health's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Lodi Memorial Hospital shall be decided by Lodi Health's Board of Directors after consultation with the Governing Board as set forth in Condition XI.

Lodi Health's obligation under this Condition shall be prorated on a daily basis if the closing date of the Affiliation Agreement is a date other than the first day of Lodi Health's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Consumer Price Index for the West Region of the United States, All items 1982-84=100 (CPI-U, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of charity care provided at Lodi Memorial Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Lodi Health shall pay an amount equal to the deficiency to either: (1) one or more of the 1206(d) clinics identified in Condition VI, (2) one or more of the 1204(a) clinics identified in Condition VII, (3) Galt Family and Prenatal Care rural health clinic identified in Condition VIII, or (4) one or more tax-exempt entities that provide direct health care services to residents in Lodi Memorial Hospital's service area (24 ZIP codes), as defined on page 47 of the Health Care Impact Report, dated March 12, 2015, and attached hereto as Exhibit 2. Such payment shall be made within four months following the end of such fiscal year.

X.

For at least six fiscal years from the closing date of the Affiliation Agreement, Lodi Health shall provide an annual amount of Community Benefit Services at Lodi Memorial Hospital equal to or greater than \$801,365 (the "Minimum Community Benefit Services Amount"). For six fiscal

³ OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

years, the following community benefit programs shall be maintained with the same or greater level of financial support and in-kind services currently being provided:

- a) Camp Hutchins;
- b) Fitness Center; and
- c) Walter E. Reiss Outreach Clinic.

The planning of, and any subsequent changes to, the community benefit services provided at Lodi Memorial Hospital shall be decided by Lodi Health's Board of Directors after consultation with the Governing Board as set forth in Condition XI.

Lodi Health's obligation under this Condition shall be prorated on a daily basis if the effective date of the Affiliation Agreement is a date other than the first day of Lodi Health's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the in the Consumer Price Index for the West Region of the United States, All items 1982-84=100 (CPI-U, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at Lodi Health for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Lodi Health shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in Lodi Health's service area (24 ZIP codes), as defined on page 47 of the Health Care Impact Report, dated March 12, 2015, and attached hereto as Exhibit 2. Such payment shall be made within four months following the end of such fiscal year.

XI.

For six fiscal years from the closing date of the Affiliation Agreement, Lodi Health's Board of Directors shall consult with the Governing Board, referenced in section 3.7 in the Affiliation Agreement and attached hereto as Exhibit 1, prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 3.2 in the Affiliation Agreement, making changes to the charity care and collection policies, and making changes to the charity care services provided at Lodi Memorial Hospital. Such consultation shall occur at least thirty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Governing Board shall also approve all reports submitted to the Attorney General regarding compliance with these Conditions.

XII.

For at least five years from the closing date of the Affiliation Agreement, unless otherwise indicated or unless terminated for cause, Lodi Health shall maintain its contracts, and any amendments and exhibits thereto with the County of San Joaquin and the City of Lodi for services, including the following:

- a) General Surgery Resident Rotation Program Agreement between Lodi Memorial Hospital and San Joaquin General Hospital, or maintain a comparable residency rotation program at Lodi Memorial Hospital;
- b) Agreement for Provision of EMS System and Equipment between San Joaquin County and San Joaquin County Area Hospitals;
- c) Letter of Agreement between San Joaquin County Public Health Services and Lodi Memorial Hospital;
- d) Healthcare Coalition Participant Agreement between Lodi Memorial Hospital and San Joaquin Operational Area Healthcare Coalition Governance;
- e) Lease Agreement between the City of Lodi and Lodi Memorial Hospital Association, Inc., for the operation of Camp Hutchins at Hutchins Street Square, or operate Camp Hutchins at a comparable location within five miles of Hutchins Street Square;
- f) Lease Agreement between the City of Lodi and Lodi Memorial Hospital Association, Inc., for the operation of the Adult Day Care Program at Hutchins Street Square, or operate the Adult Day Care Program at a comparable location within five miles of Hutchins Street Square; and
- g) Office Space Lease Agreement between the County of San Joaquin and Lodi Memorial Hospital Community Health Clinics for the operation of the medical office building located at 300 Oak Street, Lodi, California, or operate the Community Health Clinics at a comparable location within five miles of 300 Oak Street, Lodi, California.

XIII.

Within two years of the closing date of the Affiliation Agreement, Adventist Health shall implement the Cerner Millennium electronic medical record system at Lodi Memorial Hospital and pay the costs for the implementation of the system as required under section 3.4 of the Affiliation Agreement (attached hereto as Exhibit 3).

XIV.

At the closing of the Affiliation Agreement, Adventist Health shall make the \$2,000,000 contribution to Lodi Memorial Hospital Foundation, Inc. as required under section 3.1 of the Affiliation Agreement (attached hereto as Exhibit 4).

XV.

Within thirteen years of the closing date of the Affiliation Agreement, Adventist Health shall make the \$98 million capital expenditures as required under section 3.2, entitled "Capital Investment," of the Affiliation Agreement (attached hereto as Exhibit 4).

XVI.

For six fiscal years from the closing date of the Affiliation Agreement, or until the fiscal year in which the \$98 million in capital expenditures is fulfilled, whichever occurs later, Lodi Health shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of Lodi Health and the Chief Executive Officer at Lodi Memorial Hospital shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the Lodi Health Board of Directors and the Governing Board, referenced in section 3.7 of the Affiliation Agreement and attached hereto as Exhibit 1.

XVII.

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

XVIII.

Once the Affiliation Agreement is closed, all parties listed in Condition I are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

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

Exhibits to Lodi Health Conditions

- (1) Section 3.7 of the Affiliation Agreement – Governance
- (2) Page 47 of the Health Care Impact Report – Service Area Definition
- (3) Section 3.4 of the Affiliation Agreement – Cerner Millennium EMR system
- (4) Sections 3.1 & 3.2 of the Affiliation Agreement – \$2 million Donation to Foundation; \$98 million Capital Investment Amount

EXHIBIT 1

guarantee Lodi's borrowing of funds from a third party. In either case, such loan or guarantee of funds, as well as the value of the guarantee and any costs related thereto, if any, shall not be considered a Capital Investment.

3.7 Lodi Governance. Except as otherwise allowed in this Agreement, AH shall ensure that Lodi maintains the New Organizational Documents in substantially the attached form during the Term, except that AH may revise the New Organizational Documents from time to time: (a) as necessary to maintain Lodi's tax-exempt status; (b) as necessary to obtain tax-exempt financing for Lodi; (c) consistent with any revision that is made to the bylaws of AH's other hospital subsidiaries (e.g., conflict of interest legal requirements); (d) to convert Lodi to a religious corporation; or (e) as required by State Law. The New Organizational Documents may also be amended pursuant to agreement between AH and Foundation. The New Organizational Documents shall include the following:

(a) Lodi shall have a legal board of directors (the "**Legal Board**") that is the board of directors ultimately responsible for the actions of Lodi under State Law. The members of the Legal Board shall be the same persons who serve on the AH board of directors (the "**AH Board**").

(b) Lodi shall have a Governing Board, to which specific powers are delegated as set forth in the New Organizational Documents.

(c) At or before Closing, (i) Lodi's existing board of directors shall designate thirteen (13) of its existing directors to serve on the Governing Board, and (ii) AH and the chairperson of the board of the Foundation shall mutually agree to designate either the Foundation executive director or one (1) Foundation director to serve on the Governing Board. Attachment 3.7(c) shall indicate the initial terms of each Lodi appointee so that the terms of those initial Lodi board members will be staggered. The Foundation shall have one (1) representative on the Governing Board for the duration of the Capital Investment Period. Such representative shall remain on the Governing Board until he or she is removed from the Governing Board by a majority vote of the Governing Board or resigns from either the Governing Board or his or her position at the Foundation, at which point AH and the chairperson of the board of the Foundation shall mutually select a replacement (either the Foundation executive director or a Foundation director) to serve as the representative of the Foundation on the Governing Board. On the Closing Date, Lodi shall appoint those thirteen (13) persons listed on Attachment 3.7(c) with their staggered terms, to serve on Lodi's Governing Board consistent with the New Organizational Documents. AH shall ensure that at least four (4) of these initial Lodi appointees will be reappointed so that they serve at least five (5) years on the Governing Board, if the Lodi appointees so choose to serve. On the Closing Date, Lodi shall also appoint the representative of the Foundation described above to serve on the Governing Board.

(d) AH shall appoint three (3) persons to serve on the initial Governing Board, at least one (1) of whom will be an AH executive.

(e) Lodi's existing board of directors shall designate one (1) of the thirteen (13) directors chosen to serve on the Governing Board as the chairperson of the Governing Board, and such individual shall serve as chairperson for at least the first three (3) years after the

Closing Date. Thereafter, the most senior AH corporate executive on the Governing Board shall serve as chairperson of the Governing Board.

(f) Except as set forth above, all operations and governance of the Governing Board shall be as set forth in the New Organizational Documents.

3.8 Limitations on Change of Control. During the Term, AH shall not sell, convey, or otherwise transfer all or substantially all of the Lodi Assets to a third party, or merge Lodi with or assign a membership interest in Lodi to a third party (whether in a single transaction or in a series of transactions) (collectively, a "*Change of Control*"); provided, however, that any change of membership or other control of AH shall not be prohibited by this Section and shall not constitute a Change of Control.

3.9 Lodi Community's Participation in AH Board. AH shall use reasonable efforts to identify qualified candidates who live in the Lodi Market to serve on the AH Board. The AH Board will consider with special interest any qualified candidates who are identified for filling any available vacancies on the AH Board.

3.10 CEO Employment Agreement. AH shall offer employment to and, if accepted, employ Lodi's chief executive officer ("*CEO*") who is serving as Lodi's CEO at the time of Closing to serve as Lodi's CEO for at least eighteen (18) months after the Closing Date, subject to AH's standard employment policies and the terms set forth in the Lodi CEO employment agreement, which shall be mutually agreeable to Lodi and AH.

3.11 Management Services. AH shall provide appropriate administrative and management services to Lodi in exchange for a management fee paid by Lodi pursuant to AH's policies. Management services currently available from AH include: financial, information technology, physician alignment, clinical, human resources, population health, operational, regulatory and strategic.

3.12 Maintain Clinical Services. AH shall ensure that Lodi continues to provide all material clinical services that Lodi provides as of Closing for five (5) years after the Closing Date; provided, however, that AH may significantly change or discontinue a material clinical service at Lodi if there is a change in Law, regulation or government reimbursement policy requiring the change. In addition, AH may significantly change or discontinue a material clinical service at Lodi if: (a) the change or discontinuation has been recommended by Lodi's CEO and by a majority vote of the Governing Board present at a duly held meeting; and (b) there is a bona fide concern about the volume of patients and/or the quality of the service provided at Lodi and AH decides in good faith that the service should be discontinued, there are insufficient physicians practicing on the Hospital's medical staff to provide the service in a safe and high-quality manner, or AH determines in good faith to discontinue the service because material financial losses from providing the service during two (2) consecutive years are projected to continue into the following year and such material losses are not reasonable under the circumstances.

3.13 Quality and Patient Satisfaction. AH shall operate Lodi with a commitment to quality, patient safety and patient satisfaction, including maintaining the appropriate

EXHIBIT 2

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of 24 ZIP Codes, from which approximately 91% of its discharges originated in FY 2013. Approximately 61% of the Hospital's discharges came from the top three ZIP Codes, located in Lodi and Galt. In FY 2013, the Hospital's market share in the service area was nearly 20% based on inpatient discharges.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: FY 2013						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95240	Lodi	2,499	37.1%	37.1%	4,475	55.8%
95242	Lodi	1,002	14.9%	52.0%	2,131	47.0%
95632	Galt	617	9.2%	61.2%	2,495	24.7%
95220	Acampo	284	4.2%	65.4%	597	47.6%
95258	Woodbridge	228	3.4%	68.8%	447	51.0%
95209	Stockton	210	3.1%	71.9%	3,411	6.2%
95212	Stockton	179	2.7%	74.5%	1,977	9.1%
95210	Stockton	175	2.6%	77.1%	3,907	4.5%
95237	Lockeford	167	2.5%	79.6%	351	47.6%
95219	Stockton	103	1.5%	81.1%	1,882	5.5%
95207	Stockton	97	1.4%	82.6%	4,892	2.0%
95252	Valley Springs	95	1.4%	84.0%	1,153	8.2%
95641	Isleton	89	1.3%	85.3%	245	36.3%
94571	Rio Vista	63	0.9%	86.2%	1,036	6.1%
95690	Walnut Grove	47	0.7%	86.9%	193	24.4%
95241	Lodi	40	0.6%	87.5%	98	40.8%
95686	Thornton	37	0.5%	88.1%	80	46.3%
95227	Clements	36	0.5%	88.6%	99	36.4%
95236	Linden	30	0.4%	89.1%	336	8.9%
95640	Ione	30	0.4%	89.5%	1,071	2.8%
95253	Victor	23	0.3%	89.9%	48	47.9%
95638	Herald	21	0.3%	90.2%	180	11.7%
95254	Wallace	19	0.3%	90.5%	81	23.5%
95225	Burson	9	0.1%	90.6%	89	10.1%
Service Area Sub Total		6,100	90.6%	90.6%	31,274	19.5%
Other ZIPs		634	9.4%	9.4%		
Total		6,734	100%			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

EXHIBIT 3

(ii) Expenditures identified below as not being Capital Investments for purposes of Section 3.2 under the caption EMR System Implementation;

(iii) Expenditures identified below as not being Capital Investments for purposes of Section 3.2 under the caption Seismic Retrofitting; and

(iv) Expenditures identified below as not being Capital Investments for purposes of Section 3.2 under the caption Debt Guaranty.

3.3 No Limitation to Capital Investment. AH, pursuant to AH's internal capital allocation process, may invest more capital into the Lodi Market than the Capital Investment Amount. The Capital Investment Amount is intended to be the minimum amount of investment in the Lodi Market during the Capital Investment Period, but certain business and strategic considerations could result in AH deciding, in its sole discretion, to invest more than the Capital Investment Amount in the Lodi Market. Factors that may affect AH's decision include Lodi's surplus revenues during the Capital Investment Period exceeding the Capital Investment Amount and AH determining that investments exceeding the Capital Investment Amount meet AH's criteria for strategic funding.

3.4 EMR System Implementation. Within two (2) years after the Closing Date, AH shall implement its standard Cerner Millennium electronic medical record ("*EMR*") system at Lodi (the "*EMR System Implementation*"). AH shall pay the costs to implement the EMR System Implementation, such as the acquisition and implementation of software and employee training, and those costs shall not be treated as a Capital Investment for purposes of Section 3.2. Notwithstanding the foregoing, the costs incurred in connection with rewiring for the EMR System Implementation and/or acquisition of new computers in connection with the EMR System Implementation shall be treated as a Capital Investment for purposes of Section 3.2.

3.5 Seismic Retrofitting. AH shall replace or retrofit the central/east wing and west wing buildings of the Hospital (each a "*Seismically Non-Compliant Hospital Section*") in a manner that keeps them compliant with Federal and State regulations regarding hospital seismic retrofitting; provided, however, that if AH determines that any Seismically Non-Compliant Hospital Section is no longer needed for patient care in the Lodi Market, or is not reasonably expected to be needed in the near future, then AH shall have no duty under this Agreement to replace, retrofit or expend funds on that Seismically Non-Compliant Hospital Section. Costs incurred by AH solely to fulfill its duty to replace or retrofit shall not be treated as a Capital Investment for purposes of Section 3.2, but any costs incurred by AH to improve any part of the Hospital for reasons other than legally mandated seismic compliance and costs expended beyond the minimum requirements of any Federal or State seismic regulations, shall be treated as a Capital Investment for purposes of Section 3.2.

3.6 Debt Guaranty. Effective on the Closing Date, AH shall guarantee or otherwise satisfy lender approval requirements for all of Lodi's existing long-term debt that is identified in Attachment 3.6. The Parties intend for Lodi to join AH's Obligated Group when AH determines that it is advantageous for Lodi to do so (the "*Obligated Group Entry Date*"). If AH determines that Lodi needs to borrow or otherwise obtain additional funds prior to the Obligated Group Entry Date, AH shall in its discretion either: (a) loan Lodi such necessary funds directly or (b)

EXHIBIT 4

ARTICLE III
AH DUTIES

3.1 Donation to Foundation. At Closing, AH shall donate Two Million Dollars (\$2,000,000) to Foundation with a restriction that the funds be used to support the Lodi Entities during the Term (the "*Donation*"). Foundation shall use the Donation to support the Lodi Entities and Lodi's mission. Foundation's Board shall determine how the Donation shall be used, subject to the requirements that the Donation be used to support Lodi and its mission and be spent in its entirety prior to the end of the Term. AH shall remit the Donation by wire transfer into an account number designated by Foundation prior to Closing.

3.2 Future Capital Investments. During the thirteen (13) years immediately following the Closing Date (the "*Capital Investment Period*"), AH shall cause at least Ninety-Eight Million Dollars (\$98,000,000) (the "*Capital Investment Amount*") of capital expenditures to be spent by the Lodi Entities in the Lodi Market in furtherance of Lodi's mission and the health care needs of the Lodi Market (each such capital expenditure is a "*Capital Investment*"). The source of AH's Capital Investments may include: (i) the surplus revenues of Lodi, (ii) returns on AH or Lodi investments, and (iii) AH's surplus capital and/or any other source within AH's control. Notwithstanding the foregoing, capital expenditures shall not be considered Capital Investments if such capital expenditures are funded by donations raised by Foundation on behalf of the Lodi Entities, including the Donation, so long as Foundation is not controlled by AH. The amount, use and timeframe of each Capital Investment shall be determined by AH pursuant to AH's standard capital investment process, which shall include consultation and collaboration with the senior management of Lodi at the time of the investment, and with Lodi's local governing board (the "*Governing Board*"). The determination of what qualifies as a Capital Investment shall be accounted for in accordance with (i) Generally Accepted Accounting Principles and (ii) AH's capital expenditure definition and authorization policy, each consistently applied, except that:

(a) The following capital expenditures shall specifically be considered Capital Investments for purposes of Section 3.2:

(i) All capital expenditures to acquire assets for the purpose of recruiting and retaining physicians in the Lodi Market;

(ii) All capital expenditures used to upgrade and modernize the Hospital's existing space that is used for the Hospital's intensive care unit ("ICU"), obstetrics and/or surgery services; and

(iii) All capital expenditures identified as Capital Investments for purposes of Section 3.2 in this Article.

(b) The following expenditures shall specifically not be considered Capital Investments for purposes of Section 3.2:

(i) Expenditures to defray operating expenses for the purpose of recruiting and retaining physicians in the Lodi Market;

(ii) Expenditures identified below as not being Capital Investments for purposes of Section 3.2 under the caption EMR System Implementation;

(iii) Expenditures identified below as not being Capital Investments for purposes of Section 3.2 under the caption Seismic Retrofitting; and

(iv) Expenditures identified below as not being Capital Investments for purposes of Section 3.2 under the caption Debt Guaranty.

3.3 No Limitation to Capital Investment. AH, pursuant to AH's internal capital allocation process, may invest more capital into the Lodi Market than the Capital Investment Amount. The Capital Investment Amount is intended to be the minimum amount of investment in the Lodi Market during the Capital Investment Period, but certain business and strategic considerations could result in AH deciding, in its sole discretion, to invest more than the Capital Investment Amount in the Lodi Market. Factors that may affect AH's decision include Lodi's surplus revenues during the Capital Investment Period exceeding the Capital Investment Amount and AH determining that investments exceeding the Capital Investment Amount meet AH's criteria for strategic funding.

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3.6 Debt Guaranty. Effective on the Closing Date, AH shall guarantee or otherwise satisfy lender approval requirements for all of Lodi's existing long-term debt that is identified in Attachment 3.6. The Parties intend for Lodi to join AH's Obligated Group when AH determines that it is advantageous for Lodi to do so (the "*Obligated Group Entry Date*"). If AH determines that Lodi needs to borrow or otherwise obtain additional funds prior to the Obligated Group Entry Date, AH shall in its discretion either: (a) loan Lodi such necessary funds directly or (b)