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State of California
DEPARTMENT OF JUSTICE



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U.S. Mail

Robert Schuchard, Esq.
Davis Wright Tremaine LLP
865 South Figueroa Street, Suite 2400
Los Angeles, CA 90017
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RE: Proposed sale of Verdugo Hills Hospital

Dear Mr. Schuchard:

Pursuant to Corporations Code section 5920 *et seq.*, the Attorney General hereby conditionally consents to the sale of Verdugo Hills Hospital by and among Sellers Verdugo Hills Hospital, a California nonprofit public benefit corporation, Verdugo Hills Health Services, a California nonprofit public benefit corporation, Verdugo Hills Support Services, a California for-profit corporation; and Buyers USC Verdugo Hills Hospital LLC, a California limited liability company and wholly-owned subsidiary of the University of Southern California, and the University of Southern California, a California nonprofit public benefit corporation, as set forth in the Notice filed on March 22, 2013.

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

Thank you for your cooperation and that of your client throughout the review process.

Sincerely,

Handwritten signature of Scott Chan in black ink.

SCOTT CHAN
Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

cc: Stacy Bratcher, Esq.

Conditions to Sale of Verdugo Hills Hospital, Verdugo Hills Health Services, and Verdugo Hills Support Services to USC Verdugo Hills Hospital LLC, a wholly-owned subsidiary of University of Southern California

I.

For the purposes of these conditions, and unless the context indicates otherwise, the term “Buyers” shall mean USC Verdugo Hills Hospital LLC, a California limited liability company, and University of Southern California, a California nonprofit public benefit corporation, the proposed acquirers of Verdugo Hills Hospital¹, and any other subsidiary, parent, general partner, manager, member, affiliate, successor, or assignee of Buyers, any entity succeeding thereto as a result of consolidation, merger or acquisition of all or substantially all of the assets of Sellers or the real property on which Verdugo Hills Hospital is located, any entity owned by Buyers that subsequently becomes the owner, manager, or licensed operator of Verdugo Hills Hospital or owner of the real property on which Verdugo Hills Hospital is located, any entity that owns Buyers that subsequently becomes the owner, manager, or licensed operator of Verdugo Hills Hospital or owner of the real property on which Verdugo Hills Hospital is located, any future entity that purchases Verdugo Hills Hospital or the real property on which Verdugo Hills Hospital is located, and any entity owned by a future purchaser that subsequently becomes the owner, manager, or licensed operator of Verdugo Hills Hospital or owner of the real property on which Verdugo Hills Hospital is located. These conditions shall be legally binding on any and all current and future owners, managers, lessees, and operators of Verdugo Hills Hospital and owners of the real property on which Verdugo Hills Hospital is located. The term “Sellers” shall mean Verdugo Hills Hospital (Hospital Corporation), a California nonprofit public benefit corporation, Verdugo Hills Health Services, a California nonprofit public benefit corporation, and Verdugo Hills Support Services, a California for-profit corporation.

II.

The transaction approved by the Attorney General between Buyers and Sellers consists of, but is not limited to, the Asset Purchase Agreement dated March 11, 2013, and any other documents referenced in the Asset Purchase Agreement, including, but not limited to, the Guaranty dated March 11, 2013 and the Transition Services Agreement, and the First Amendment to the Asset Purchase Agreement and any other documents referenced in the First Amendment to the Asset Purchase Agreement. Buyers and Sellers shall notify the Attorney General in writing of any proposed modification of the transaction, including, but not limited to, a proposed modification or rescission of any of the terms in the Asset Purchase Agreement. Such notification shall be provided at least thirty (30) days prior to the effective date of such modification in order to allow

¹ Unless otherwise specified the term “Verdugo Hills Hospital” shall mean the general acute care hospital, located at 1812 Verdugo Boulevard, Glendale, CA 91208, and any other clinics, laboratories, units, services, or beds included on the license issued to Verdugo Hills Hospital by the California Department of Public Health to operate Verdugo Hills Hospital, effective January 1, 2013.

the Attorney General to consider whether the proposed modification or rescission affects the factors set forth in Corporations Code section 5923.

III.

For five years from the closing date of the transaction, Buyers and all future owners, managers, lessees, or operators of Verdugo Hills Hospital shall be required to provide written notice to the Attorney General and obtain the Attorney General's approval at least sixty (60) 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 Verdugo Hills Hospital;

(B) Transfer control, responsibility, management, or governance of Verdugo Hills Hospital. The substitution or addition of a new corporate member or members of Buyers, and all future owners, managers, lessees, or operators of Verdugo Hills Hospital, that transfers the control of, responsibility for or governance of Buyers, and all future owners, managers, lessees, or operators of Verdugo Hills 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 Buyers, and all future owners, managers, lessees, or operators of Verdugo Hills Hospital or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Buyers, and all future owners, managers, lessees, or operators of Verdugo Hills Hospital, shall also be deemed a transfer for purposes of this Condition.

IV.

For five years from the closing date of the transaction, Verdugo Hills 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:

- a) Twenty-four hour emergency medical services as currently licensed (minimum of 12 Emergency beds/stations) with the same types and levels of services as currently provided²;
- b) Intensive Care services as currently licensed (minimum of 6 beds) with the same types and levels of services as currently provided;
- c) Coronary Care services as currently licensed (minimum of 6 beds) with the same types and levels of services as currently provided; and

² The term "currently provided" means types and levels of services provided as of January 1, 2013.

d) Acute inpatient geropsychiatric services as currently licensed (minimum of 24 beds) with the same types and level of services as currently provided and maintain certification as an "LPS" (Lanterman-Petris-Short) facility so that Verdugo Hills Hospital can continue to admit patients with acute psychiatric needs on an involuntary basis under Welfare and Institutions Code section 5150.

Buyers shall not place all or any portion of its above-listed licensed-bed capacity in voluntary suspension or surrender its license for any of the above-listed licensed-beds.

V.

For ten years from the closing date of the transaction, Verdugo Hills Hospital shall maintain and provide women's health and reproductive services with the same types of services currently provided at Verdugo Hills Hospital including, but not limited to, the services provided at the Breast Healthcare Center, and shall develop new, or enhance existing, women's health programs at Verdugo Hills Hospital.

VI.

For five years from the closing date of the transaction Buyers shall:

- a) Be certified to participate in the Medi-Cal program.
- b) Maintain a contract between Verdugo Hills Hospital and the Los Angeles County Department of Mental Health, under which the County would continue to reimburse Hospital for psychiatric services 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.
- b) Have a Medicare Provider Number to provide the same types and levels of services as currently provided at Verdugo Hills Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

VII.

For five years from the closing date of the transaction, Buyers shall provide an annual amount of Charity Care (as defined below) at Verdugo Hills Hospital equal to or greater than \$1,978,848 (the "Minimum Charity Care Amount"). For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by Buyers in connection with the operation and provision of services at Verdugo Hills Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development (OSHPD) for annual hospital reporting purposes. Buyers shall use charity care and collection policies that comply with Federal and California law.

Buyers' obligation under this condition shall be prorated on a daily basis if the closing date of the transaction is a date other than the first day of Buyers' fiscal year.

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

If the actual amount of Charity Care provided by Buyers at Verdugo Hills 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, Buyers shall pay an amount equal to the deficiency to a tax-exempt entity for direct medical care to residents in the Verdugo Hills Hospital service area, as defined on page 24 of the Health Care Impact Statement and attached as Exhibit 2. Such payment shall be made within nine (9) months following the end of such fiscal year.

VIII.

For five years from the closing date of the transaction, Buyers shall provide community benefit services at Verdugo Hills Hospital at an annual cost of not less than \$407,498 (hereafter "the Minimum Community Benefit Services Amount"). The Minimum Community Benefit Services Amount shall be annually increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided by Buyers at Verdugo Hills Hospital for any year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) for such year, Buyers shall pay an amount equal to the deficiency to a tax-exempt entity for community benefit services for residents in the Verdugo Hills Hospital service area, as defined on page 24 of the Health Care Impact Statement and attached as Exhibit 2. Such payment shall be made within nine (9) months following the end of such fiscal year.

IX.

For five years from the closing date of the transaction, Buyers shall spend no less than \$30,000,000 (Capital Commitment Amount) as set forth in section 11.14 of the Asset Purchase Agreement and attached as Exhibit 3.

X.

For five years from the closing date of the transaction the Post-Closing Governing Body (defined in section 11.18(a) of the Asset Purchase Agreement and attached as Exhibit 1) shall consult with the Community Advisory Board (defined in section 11.18(b) of the Asset Purchase Agreement and attached as Exhibit 1) prior to eliminating or changing any medical services, making any changes to community benefit programs, spending the Capital Commitment Amounts, and making any changes to the charity care and collection policies and services at Verdugo Hills Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes or expenditures. The Community Advisory Board shall approve any reports submitted to the Attorney General regarding compliance with these Conditions.

XI.

Within 30 days of the closing date of the transaction, any and all charitable assets held by Sellers shall be transferred to the USC Verdugo Hills Hospital Foundation.

XII.

For six fiscal years from the closing date of the transaction, Buyers shall submit to the Attorney General, no later than four (4) months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein, including, but not limited to, an itemization of the actual costs of the Capital Commitment Amount. Buyers shall certify that the report is true and correct.

XIII.

At the request of the Attorney General, Buyers shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions 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.

XIV.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. 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.

Exhibit 1

incremental costs of additional administrative services, if any, required for the Hospital's operations.

11.16 Commitment to the Acute Care Status. During the ten (10) years following the Closing Date (the "Transition Period"), in order to meet the healthcare needs of the Hospital's community, the Buyer will be committed to maintaining and operating a general acute care hospital with 158 licensed beds located at 1812 Verdugo Road, Glendale, California. During the Transition Period, the Buyer will not take any action that would cause the Hospital to cease to be licensed as a general acute care hospital or reduce the number of licensed beds; provided, however, that the Buyer may reduce the number of licensed beds (but to not less than 100 licensed beds) in the event that such reduction is required to reconfigure hospital space to either (i) accommodate a new service or (ii) enhance or improve acute care services.

11.17 Commitment to Services. Unless changes to the services are approved by the California Attorney General, the Buyer will cause the Hospital to, for a period of at least five years following the Closing Date, (a) maintain emergency medicine, inpatient and outpatient surgery and obstetrics at the Hospital and (b) make available and provide at the Hospital the following services at the Hospital: laboratory, pathology, x-ray, physical therapy and occupational therapy. In addition, during the five years following the Closing Date, the Buyer expects that it will develop new, or enhance existing, programs at the Hospital to meet unmet community needs, which may include: colorectal surgery, women's health, cardiac, and neurosurgery.

11.18 Governance/Local Control.

(a) Effective as of the Closing, the Buyer will appoint a continuing body for the Hospital of 15 members (the "Post-Closing Governing Body"), which will be initially composed of: (i) three representatives of the current board of VHH (VHH's CEO, Chair of the Board of VHHS, and Chief of Staff) who will serve on an ex officio basis, (ii) three additional representatives appointed by VHHS and (iii) nine other members appointed by the Buyer, which shall include representatives of the community currently served by the Hospital. The Parties shall inform each other in writing at least ten (10) days prior to Closing of names of their respective appointees to the Post-Closing Governing Body. The successors to such initial members of the Post-Closing Governing Body will be selected in accordance with resolutions in the form of Exhibit 11.18(a) to be adopted by the sole member of the Company prior to Closing. Until the fifth anniversary of the Closing Date the Foundation shall have the right to appoint, remove and replace three members of the Post-Closing Governing Body originally appointed by VHHS and the Chair of the Board of VHHS if VHHS has been dissolved. In making the nominations the Foundation shall consider suggestions from the Community Advisory Board. Should one of the three representatives nominated by the Foundation not include a member selected by the Hospital's medical staff, the VHH medical staff may appoint another medical staff officer who will have a standing invitation to attend meetings of the Post-Closing Governing Body, who may attend without vote on all matters not pertaining specifically and directly to such medical staff officer or his hospital privileges. Each member of the Post-Closing Governing Body (including ex officio members) will have equal voting rights. The resolution of Buyer describing the functioning and renewal of the Post-Closing Governing Body is attached as Exhibit 11.18(a). The Post-Closing Governing Body will meet on a regular basis and will be

charged with performing such functions as are required of hospital governing bodies by state and federal Law and regulatory authorities with respect to, but not limited to, the following: (A) adopting a vision, mission and values statement; (B) approving the written scope of services for the Hospital; (C) development and review of operating and capital budgets and facility planning; (D) participating in the selection and evaluation of the Hospital's Chief Executive Officer; (E) reviewing any significant change in clinical services; (F) overseeing quality and patient-safety matters; (G) granting medical staff membership and privileges and, when necessary, taking disciplinary action consistent with the medical staff bylaws (with the advice of counsel); (H) approving amendments to the medical staff bylaws, rules, regulations and policies; and (I) reviewing and commenting upon the Hospital's operating and capital budgets.

(b) Effective as of the Closing, the Buyer and VHH will jointly appoint an initial Community Advisory Board for the Hospital anticipated to be composed of 15 members (the "Community Advisory Board"). The Community Advisory Board will operate in a manner consistent with the charter attached hereto as Exhibit 11.18(b). VHH will appoint two-thirds of the initial Community Advisory Board and the Buyer will appoint one-third of the initial Community Advisory Board. At least two (2) members of the Community Advisory Board appointed by VHH shall be active members of the Hospital's medical staff. The Community Advisory Board will be an advisory committee to the Post-Closing Governing Body. The Community Advisory Board also will be consulted with respect to community relations, strategic growth initiatives and the development of new programs. It will oversee conduct of the Hospital's community health care needs and community benefits assessments. Additionally, the Community Advisory Board will be charged with recommending new members for the Post-Closing Governing Body and fostering community relations.

11.19 Verdugo Identity/Culture. The Buyer will endeavor to maintain the current Hospital identity and culture through the Community Advisory Board and relationships with Foundation and medical staff as set forth in Sections 11.13, 11.18 and 11.20.

11.20 Foundation.

(a) As of the Closing, the Company shall become the sole corporate member of Foundation with all rights and duties afforded under applicable Law. For so long as the Company is the sole member of Foundation, the Foundation's corporate purposes shall remain to raise funds and make grants to support the inpatient, outpatient and other hospital or community-based activities and projects of the Hospital. Funds raised by Foundation will be dedicated for the benefit of the Hospital as may be directed by the donor.

(b) The existing members of Foundation's board (the "Community Trustees") will remain in office immediately after the Closing and, effective as of the Closing, Foundation's board will be expanded to include at least three representatives appointed by the Buyer. The Buyer shall inform the Sellers in writing at least ten (10) days prior to Closing of the Buyer's representatives to the Foundation's board. To the extent any Buyer-appointee member of Foundation's board is a Buyer staff member, such appointee will not be required to make any financial contribution to Foundation by virtue of such appointee serving on Foundation's board. Any Buyer-appointee member who is not a Buyer staff member will be required to make the same financial commitment as the other members of Foundation's board.

Exhibit 2

Analysis of Hospital's Service Area

Definition of Hospital's Service Area

Hospital's service area is comprised of eleven ZIP codes that accounted for approximately 75% of Hospital's 2011 discharges. As shown in the following table, 60.5% of Hospital's discharges were from the top six service area ZIP codes, located in La Crescenta, Tujunga, Sunland, La Cañada Flintridge, Montrose, and Glendale.

Inpatient Discharges by ZIP Code, 2011

ZIP Code	Community	Discharges		VHH Market Share	Percent of VHH Discharges
		VHH	All Hospitals		
91214	La Crescenta	757	2,605	29.1%	14.6%
91042	Tujunga	687	3,034	22.6%	13.3%
91040	Sunland	544	2,547	21.4%	10.5%
91011	La Cañada Flintridge	422	1,537	27.5%	8.2%
91020	Montrose	368	1,253	29.4%	7.1%
91208	Glendale	353	1,597	22.1%	6.8%
91342	Sylmar	234	10,354	2.3%	4.5%
91206	Glendale	173	4,351	4.0%	3.3%
91001	Altadena	165	4,121	4.0%	3.2%
91103	Pasadena	96	4,796	2.0%	1.9%
91207	Glendale	89	1,065	8.4%	1.7%
Subtotal		3,888	37,260	10.4%	75.1%
Other		1,285	N/A	N/A	24.9%
Total		5,173	N/A	N/A	100.0%

Source: OSHPD Patient Discharge Database, 2011.

Although the top six ZIP codes account for 60.5% of all Hospital inpatient discharges, they account for only 20% of discharges for Hospital's geropsychiatric program. One ZIP code that is not included in the above table, Studio City (91604), is among the top three ZIP codes for geropsychiatric inpatients. This reflects the impact of referrals from nursing facilities located in Studio City to the geropsychiatric unit at Hospital.

Service Area Map

Hospital's service area is portrayed on the following map:

Exhibit 3

SCHEDULE 11.14(a)

CAPITAL PROJECTS

- (1) Emergency Room Upgrades (includes parking, NPC-3 upgrades, ADA and cosmetic upgrades) these upgrades will include the relocation of some GI lab functions to expand available space adjacent to the ED for expansion. The scope of this approach includes:
- a. cosmetic upgrades to existing nurses' station which includes: new casework, countertops, flooring, equipment, furniture, etc.;
 - b. creation of a satellite nurse station;
 - c. addition of new treatment bays;
 - d. NPC-3 and ADA upgrades;
 - e. conversion of portions of the GI Lab to accommodate additional treatment spaces; and
 - f. improved parking to support creation of a bay station.

The proposed schedule is as follows: design (8 months), OSHPD (6 months), and phased construction (12 months).

- (2) The Women's Services Upgrades. (Remodel of Post-Partum Rooms). The existing layout includes 18 very small rooms without private showers. These upgrades will transform the small post-partum rooms into larger single patient rooms each with a toilet room that includes a shower. The new larger rooms will feature a "high-end" look with upgraded finishes i.e. new flooring, acrovyn, paint, artwork, furniture, equipment and etc. Included as part of the furniture package is a sleeper sofa and additional seating to accommodate spouse and family members. Upgrades will include:
- a. certain postpartum rooms with private showers and toilets;
 - b. cosmetic upgrades to L&D nurses' station;
 - c. a remodeled post-partum corridor; and
 - d. an updated interior décor.

The proposed schedule is as follows, design (7 months), OSHPD (6 months), and phased construction (8 months)

SCHEDULE 11.14(b)

CAPITAL PROJECTS

- (1) Neonatal Intensive Care Unit
- (2) Catheterization Laboratory for cardiology diagnostic testing and procedures